

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

中原銀行股份有限公司*
ZHONGYUAN BANK CO., LTD.*

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

(Stock Code of H Shares: 1216)

(Stock Code of Preference Shares: 4617)

**ANNOUNCEMENT OF ANNUAL RESULTS FOR
THE YEAR ENDED DECEMBER 31, 2020**

The board of directors (the “**Board**”) of Zhongyuan Bank Co., Ltd. (the “**Bank**”) is pleased to announce the audited consolidated annual results (the “**Annual Results**”) of the Bank and its subsidiaries for the year ended December 31, 2020 (the “**Reporting Period**”) which were prepared in accordance with the International Financial Reporting Standards (“**IFRSs**”). The Board and the audit committee of the Board have reviewed and confirmed the Annual Results.

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Bank (www.zybank.com.cn). The annual report for the year ended December 31, 2020 will be despatched to the shareholders of the Bank and will be available on the above websites in due course.

On behalf of the Board
ZHONGYUAN BANK CO., LTD.*
DOU Rongxing
Chairman

Zhengzhou, the People's Republic of China
March 29, 2021

As at the date of this announcement, the Board comprises Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie as executive directors; Ms. ZHANG Qiuyun, Mr. LI Xipeng and Mr. MI Hongjun as non-executive directors; Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny as independent non-executive directors.

* *Zhongyuan Bank Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry out banking and/or deposit-taking business in Hong Kong.*



Corporate Information	2
Financial Summary	8
Chairman's Statement	11
President's Statement	14
Management Discussion and Analysis	17
Changes in Share Capital and Information on Shareholders	75
Directors, Supervisors, Senior Management, Employees and Institutions	82
Corporate Governance Report	100
Report of the Board of Directors	131
Report of the Board of Supervisors	140
Important Events	145
Independent Auditor's Report	148
Unaudited Supplementary Financial Information	281
Definitions	284

Chapter 1 Corporate Information

1. Basic Corporate Profile

Legal Name of the Company

中原銀行股份有限公司¹ (abbreviated as 中原銀行)

English Name of the Company

ZHONGYUAN BANK CO., LTD.¹ (abbreviated as ZYBANK)

Registered Office

Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province, the PRC

Headquarters in China

Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province, the PRC

Principal Business Place in Hong Kong

40/F, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong

Board of Directors

Executive Directors:

Mr. DOU Rongxing (Chairman)
Mr. WANG Jiong
Mr. LI Yulin
Mr. WEI Jie

Non-Executive Directors²:

Ms. ZHANG Qiuyun
Mr. LI Xipeng
Mr. MI Hongjun

¹ Zhongyuan Bank Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking/deposit-taking business in Hong Kong

² Mr. LI Qiaocheng, a non-executive Director to the Board of the Bank, tendered his resignation to the Board on October 20, 2020, and resigned as a non-executive Director and a member of the Strategy and Development Committee due to the change of equity and the adjustment in work arrangement. Please refer to the Bank's announcements dated June 29, 2020 and October 21, 2020 for details.

On November 11, 2020, the Bank convened the 24th meeting of the second session of the Board and proposed to appoint Ms. ZHANG Qiuyun as a non-executive Director of the second session of the Board. On November 30, 2020, the Bank convened the 2020 first extraordinary general meeting, at which Ms. ZHANG Qiuyun was elected as a non-executive Director of the second session of the Board of the Bank. The directorship qualification of Ms. ZHANG Qiuyun was approved by the China Banking and Insurance regulatory authority on January 21, 2021. Please refer to the Bank's announcements dated November 11, 2020, November 30, 2020 and January 25, 2021 and the circular dated November 13, 2020 for details.



Chapter 1 Corporate Information

Independent non-executive Directors:

Ms. PANG Hong
Mr. LI Hongchang
Mr. JIA Tingyu
Mr. CHAN Ngai Sang Kenny

Legal Representative

Mr. DOU Rongxing

Authorized Representatives

Mr. JIA Tingyu
Mr. ZHANG Ke

Joint Company Secretaries

Mr. ZHANG Ke
Ms. LEUNG Wing Han Sharon

Unified Social Credit Code

9141000031741675X6

Financial Licence Institution Number

B0615H241010001

Auditors

PRC Auditors

KPMG Huazhen LLP
8/F, KPMG Tower E2, Oriental Plaza, 1 East Chang'an Avenue,
Dongcheng District, Beijing, PRC

International Auditors

KPMG (Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance)
8/F, Prince's Building, 10 Chater Road, Central, Hong Kong



Chapter 1 Corporate Information

Legal Advisors as to PRC Laws

King & Wood Mallesons
17-18/F, East Tower, World Financial Center,
1 Dongsanhuan Zhonglu, Chaoyang District,
Beijing, PRC

Legal Advisors as to Hong Kong Laws

Paul Hastings
21-22/F, Bank of China Tower, 1 Garden Road, Hong Kong

H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Domestic Shares Trustee Agency

China Securities Depository and Clearing Corporation Limited
Western Hall, 2/F, Shenzhen Stock Exchange Building, 2012 Shennan Avenue, Futian District,
Shenzhen

H Share Stock Code

1216

Preference Share Stock Code

4617

Investor's Enquiry

Website Address:

<http://www.zybank.com.cn>

Contact Telephone No.:

(86) 0371-85517898

Fax:

(86) 0371-85519888

Email:

Dongjianban@zybank.com.cn

2. Company Profile

Zhongyuan Bank Co., Ltd., the first provincial local corporate bank in Henan Province with its headquarters located in Zhengzhou City, Henan Province. Zhongyuan Bank was officially established on December 23, 2014, which opened a new page in the development history of Henan financial industry. Zhongyuan Bank was listed on the Main Board of the Hong Kong Stock Exchange on July 19, 2017. Since its commencement of business, Zhongyuan Bank has been advancing towards the development goal of “developing Zhongyuan Bank into a leading commercial bank” advocated by Henan Provincial Committee and the provincial government implementing the three development strategies of “offering featured products in traditional banking business, accomplishing break-through by innovation and taking first-mover advantage in developing future banking” (傳統業務做特色、創新業務找突破、未來銀行求領先), it actively conducted “Internetization and Ruralization of Banking Services (上網下鄉)” with every endeavor to support local economic construction and serve the society, thus achieving good results in both operations and development. As of the end of December 2020, the Bank had total assets of RMB757,483 million, operated 18 branches and 2 direct sub-branches with a total of 494 outlets. As a major promoter, it established 9 county banks and 1 consumer finance company in Henan Province, and controlled AB Leasing Co., Ltd..

Zhongyuan Bank always adheres to the principle of “technology cultivation, technology prosperity (科技立行、科技興行)” since its establishment. Following the concepts of “stability, innovation, motivation and efficiency”, Zhongyuan Bank vigorously developed mobile finance and online finance to enhance the overall capability in financial services. It gained a leading position among domestic city commercial banks in terms of the application of financial technology. Zhongyuan Bank initiated digitalized transformation from early 2018 and strengthened the construction of technology and data capability with the target of building an agile and future bank. Good transformation results were obtained. The Bank’s case of digital transformation was successfully selected into “10 major events of financial informationization in 2019 (2019年金融信息化10件大事)” by the Financial Electronic Magazine, becoming the selected case of the first small and medium-sized bank in the nationwide on the list since the selection.

Upon six years since our establishment, the brand influence and social reputation of Zhongyuan Bank continuously improved. Zhongyuan Bank was recognized as “Ten Best City Commercial Banks of the Year (年度十佳城市商業銀行)” for six consecutive years by Financial Times and was awarded “Top Ten Iron-horse Banks (鐵馬十佳銀行)”, “Best Listed Company (最佳上市公司)” and “Outstanding City Commercial Bank of the Year (年度卓越城商行)” and other honors. Zhongyuan Bank was selected into the twenty listed banks in China of the Best Bank Worldwide of 2020 published by the Forbes. Zhongyuan Bank ranked 186th amongst the top 1,000 banks in the world by The Banker (UK) in 2020 and the 31st among PRC banks on this list. Zhongyuan Bank was on Fortune’s list of China’s top 500 enterprises in 2020, ranking the 23rd amongst the commercial banks on the list.

Zhongyuan Bank embraces the changes and develops with diligence. Zhongyuan Bank will actively explore the development paths of modern banks under the new normal of economy, adhere to the principles of technology cultivation, reformation and innovation and people orientation, forge ahead for the purpose of developing itself into a technical-winning and innovation-leading excellent commercial bank with distinctive characteristics and client orientation.

Chapter 1 Corporate Information

3. Major Awards in 2020

- (1) On January 6, 2020, the Bank was awarded the “Prize for Best Star Product” granted by Mastercard (萬事達最佳明星產品獎).
- (2) On January 10, 2020, the Bank was awarded the “Prize for Top Ten Retail Banks of City Commercial Banks (十佳城商行零售銀行獎)” and the “Prize for Top 10 Private Banks of Local Banks (十佳地方銀行私人銀行獎)” of 2019 China Retail Finance Innovation-Practice Award.
- (3) On January 13, 2020, the Bank was awarded the “Charity Contribution Unit (公益慈善貢獻單位)”, “Most-Liked Bank Card (網友最喜愛的銀行卡)”, “Prize for Banks with Best Services (最佳服務銀行獎項)” of 2019 “Golden Penguin” Henan Financial Industry Annual General Rating List.
- (4) On January 15, 2020, the Bank was awarded the “Prize for Outstanding Contribution to UnionPay Business in 2019 (2019年度銀聯信用卡業務突出貢獻獎)”.
- (5) On January 19, 2020, the digitalized transformation of the Bank was selected into “10 major events of financial informationization in 2019 (2019年金融信息化10件大事)”.
- (6) On June 9, 2020, the Bank was listed on the Best Bank Worldwide by Forbes and ranked the third in the twenty listed banks selected from China.
- (7) On July 3, 2020, Zhongyuan Bank ranked the 186th amongst the top 1,000 banks in the world by The Banker (UK) in 2020 and the 31st among PRC banks on this list.
- (8) On July 27, 2020, the Bank was on Fortune’s list of China’s top 500 enterprises, ranking the 23rd amongst the commercial banks on the list.
- (9) On August 6, 2020, the Bank was selected into and ranked the 94th in the “TOP200 Best Employers in 2020 (2020最佳僱主TOP200)” jointly issued by China Internet Weekly, Deben Consultation and eNet.
- (10) On August 12, 2020, the Bank was awarded the “Prize for Best Supply Chain Financial Products (最佳供應鏈金融產品獎)”.
- (11) On August 27, 2020, the City Image credit card of the Bank was awarded the Popularity Star Award in the “Star Card (明星信用卡)” of China.org.cn in 2020.
- (12) On August 29, 2020, the Bank was awarded the “Prize for Growth in Golden Ox Wealth Management Banks (金牛理財銀行成長獎) in 2019”.
- (13) On September 6, 2020, the Bank was awarded the “Prize for Top Ten Financial Technology Innovation (十佳金融科技創新獎)”.
- (14) On October 21, 2020, the Bank quickly launched the epidemic registration and community access management system of “One District One Code” (一區一碼疫情登記及社區進出管理系統) against the epidemic and was awarded the “Advanced Collective Prize of Fighting the Epidemic in Henan Province (河南省抗擊新冠肺炎疫情先進集體獎)” granted by the Henan Provincial Party Committee and the Provincial Government.
- (15) On October 23, 2020, the Bank was awarded the “Tianji Prize for Financial Technology (金融科技天璣獎) in 2020”.



Chapter 1 Corporate Information

- (16) In November 2020, the Bank was awarded the “Prize for Top Ten Banking Cases of Internet Influence (十大網絡影響力銀行案例)” and “Prize for Excellent Cases of Operation Management Innovation (運營管理創新優秀案例獎)” in the “first city commercial bank digital finance and payment outstanding case selection”.
- (17) On November 10, 2020, the Bank was awarded the prize of “2020 Brand Construction Bank (2020年度品牌建設銀行)”.
- (18) On November 10, 2020, the Bank was awarded the prize of “2020 Excellent City Commercial Bank (2020年度亞洲卓越城市商業銀行)”.
- (19) On November 23, 2020, the Bank was awarded the prize of “Inclusive Financial Bank with Excellent Competitiveness in 2020 (2020卓越競爭力普惠金融銀行)” granted by the China Business and China Business Future.
- (20) On November 26, 2020, net-worth wealth management products of the Bank was awarded the “Golden Finance” Excellent Prize for Fixed-income Wealth Management Products for the Year(“金理財”年度固定收益類理財產品卓越獎).
- (21) On November 27, 2020, the Bank was awarded the Prize for Best Ten Small and Medium Banks for “Iron-horse Banks” in 2020 issued by the Modern Bankers.
- (22) On December 9, 2020, the Bank was awarded the Prize of “Ten Best City Commercial Banks of the Year (年度十佳城市商業銀行)” of Chinese Financial Institution Gold Medal List-Golden Dragon Prize (中國金融機構金牌榜•金龍獎) for six consecutive years.

Chapter 2 Financial Summary

For the year ended December 31,						
	2020	2019	2020 vs 2019	2018	2017	2016
<i>(in millions of RMB, except percentages, unless otherwise stated)</i>						
Operating results			Rate of change (%)			
Net interest income ⁽¹⁾	16,565.0	15,707.7	5.5	13,744.2	12,201.3	11,203.3
Net fee and commission income ⁽¹⁾	1,786.4	1,767.5	1.1	1,280.2	769.6	449.1
Operating income	19,427.8	19,021.8	2.1	16,783.6	12,815.5	11,803.7
Operating expenses	(7,118.6)	(7,486.3)	(4.9)	(6,957.5)	(5,759.0)	(5,136.3)
Impairment losses on assets	(7,848.6)	(7,148.3)	9.8	(6,851.5)	(2,028.1)	(2,246.8)
Profit before taxation	4,449.0	4,360.6	2.0	2,974.6	5,028.4	4,420.6
Net profit	3,354.7	3,206.0	4.6	2,365.3	3,905.7	3,360.1
Net profit attributable to equity shareholders of the Bank	3,300.8	3,163.8	4.3	2,414.6	3,838.7	3,359.1
Calculated on a per share basis (RMB)			Rate of change (%)			
Net assets per share attributable to equity shareholders of the Bank ⁽²⁾	2.42	2.35	3.0	2.25	2.25	2.09
Earnings per share ⁽³⁾	0.14	0.13	7.7	0.12	0.21	0.20
Profitability indicators (%)			Change			
Return on average total assets ⁽⁴⁾	0.46	0.48	(0.02)	0.41	0.82	0.91
Return on average equity ⁽⁵⁾	5.70	5.52	0.18	5.43	9.57	9.75
Net interest spread ⁽⁶⁾	2.36	2.58	(0.22)	2.81	2.57	3.07
Net interest margin ⁽⁷⁾	2.48	2.67	(0.19)	2.83	2.76	3.26
Net fee and commission income to operating income	9.20	9.29	(0.09)	7.63	6.01	3.80
Cost-to-income ratio ⁽⁸⁾	35.61	38.45	(2.84)	40.59	44.00	41.21

Chapter 2 Financial Summary

	December 31, 2020	December 31, 2019	2020 vs 2019	December 31, 2018	December 31, 2017	December 31, 2016
<i>(in millions of RMB, except percentages, unless otherwise stated)</i>						
Capital adequacy ratio indicators⁽⁹⁾ (%)			Change			
Calculated based on the Administrative Measures for the Capital of Commercial Banks						
Core Tier-one capital adequacy ratio	8.59	8.51	0.08	9.44	12.15	11.24
Tier-one capital adequacy ratio	10.35	10.31	0.04	11.49	12.16	11.25
Capital adequacy ratio	13.20	13.02	0.18	14.37	13.15	12.37
Total equity to total assets	7.84	8.15	(0.31)	8.97	8.83	8.20
Asset quality indicators (%)			Change			
Non-performing loans to total loans ⁽¹⁰⁾	2.21	2.23	(0.02)	2.44	1.83	1.86
Allowance for loan impairment losses to non-performing loans ⁽¹¹⁾	153.31	151.77	1.54	156.11	197.50	207.09
Allowance for loan impairment losses to total loans ⁽¹²⁾	3.39	3.39	–	3.81	3.62	3.85
Other indicator (%)						
Loan-to-deposit ratio	84.01	77.71	6.30	73.48	64.85	67.20
Scale indicators			Rate of change (%)			
Total assets	757,482.5	709,885.0	6.7	620,444.3	521,989.8	433,071.4
Of which: net loans and advances to customers	347,656.8	291,230.1	19.4	246,551.7	191,708.8	158,547.3
Total liabilities	698,127.2	652,054.0	7.1	564,766.5	475,899.2	397,572.8
Of which: deposits from customers	431,341.4	389,731.5	10.7	349,387.0	306,708.3	245,352.8
Share capital	20,075.0	20,075.0	–	20,075.0	20,075.0	16,625.0
Equity attributable to equity shareholders of the Bank	58,261.5	56,744.7	2.7	54,857.5	45,268.9	34,719.3
Non-controlling interests	1,093.8	1,086.3	0.7	820.3	821.7	779.3
Total equity	59,355.3	57,831.0	2.6	55,677.8	46,090.6	35,498.6

Chapter 2 Financial Summary

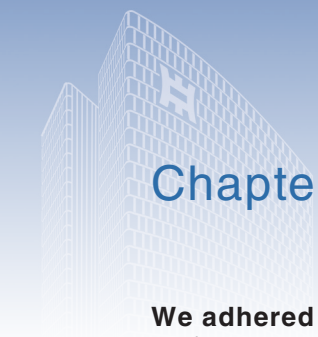
Notes:

- (1) In accordance with the requirements of the Notice of the Ministry of Finance, State-owned Assets Supervision and Administration Commission, CBIRC and CSRC on Strict Enforcement of Accounting Standards for Enterprises to Effectively Enhance the 2020 Annual Report Work of Enterprises (Cai Kuai [2021] No. 2), the Bank's fee income from instalment payment of credit card was included in interest income and the comparative figures for 2019 were restated.
- (2) Calculated by dividing equity attributable to ordinary shareholders of the parent company after deduction of other equity instruments at the end of the Reporting Period by the total number of ordinary shares at the end of the Reporting Period.
- (3) The ratio of net profit (net of dividends of preference shares distributed during the year) attributable to shareholders of the Bank to weighted average number of ordinary shares.
- (4) Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.
- (5) Calculated based on the Rules on the Preparation and Submission of Information Disclosed by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings Per Share (Revision 2010) issued by China Securities Regulatory Commission. Represents net profit attributable to ordinary shareholders of the Bank for the period as a percentage of weighted average balance of equity attributable to ordinary shareholders of the Bank for the period.
- (6) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, calculated based on daily average of the interest-earning assets and the interest-bearing liabilities.
- (7) Calculated by dividing net interest income by the daily average balance of total interest-earning assets.
- (8) Calculated by dividing operating expenses after deduction of taxes and surcharges by operating income.
- (9) The Administrative Measures for the Capital of Commercial Banks was issued on June 7, 2012 and came into effect on January 1, 2013 by replacing the Administrative Measures for Capital Adequacy Ratio of Commercial Banks.
- (10) Calculated by dividing total non-performing loans and advances to customers by gross loans and advances to customers. Gross loans and advances to customers are exclusive of accrued interest.
- (11) Calculated by dividing allowance for impairment losses on loans and advances to customers by total non-performing loans and advances to customers. Total allowance for impairment losses on loans and advances to customers included allowance for impairment losses on loans at amortized cost and allowance for impairment losses on loans at fair value through other comprehensive income.
- (12) Calculated by dividing allowance for impairment losses on loans and advances to customers by gross loans and advances to customers.

Chapter 3 Chairman's Statement



2020 is the year to complete building a moderately prosperous society in all respects and the “13th Five-year Plan”. It is also the onset of the second five-year development plan of Zhongyuan Bank. The world was not only undergoing major changes unseen in a century, but also severely affected by the worldwide spread of COVID-19. Under such context, global political, economic and cultural situation undergone profound adjustment, and international environment was increasingly complicated with significantly increasing uncertainties and instabilities, therefore, domestic and foreign economic development were facing severe challenges. Given the complex and fast-changing internal and external situations, under the wise leadership of the Provincial Party Committee and provincial government and with the care and support from all walks of life, Zhongyuan Bank made concerted efforts, returned to its origins, focused on main responsibilities and businesses, strengthened the transformation driver, resolved risks and hazards, and made efforts to promote “stability on the six fronts (namely, employment, financial sector, foreign trade, foreign and domestic investments, and market expectations)” and “security in the six areas (namely, employment, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments)”. As a result, it satisfactorily completed various tasks, achieved a good business performance, marking a good start of the second five-year development plan.



Chapter 3 Chairman's Statement

We adhered to the guidance of Party building and ignite the red engine. A great vision, simple and pure, requires credible actions. In 2020, under the guidance of Xi Jinping Thought of Socialism with Chinese Characteristics for a New Era, we constantly had a close eye on the general trend, exercised overall governance, sought for new opportunities and created new vistas. By giving full play to the leading role of Party building and releasing the surging power of “red engine”, we strived to achieve new breakthroughs in innovation and transformation and lean management, and wrote a new chapter of high-quality development in the new era. By the end of 2020, we have achieved total assets of RMB757,483 million, operating income of RMB19,428 million and net profit of RMB3,355 million. The Bank was recognized as “Ten Best City Commercial Banks” for six consecutive years by Financial Times; and was ranked No. 3 in the 20 Chinese banks included in the “World’s Best Banks” of Forbes.

We focused on the main business, performed our responsibilities of this era. In 2020, as the pandemic was emerging, we upheld to provide financial services, actively fulfilled our social responsibilities, and worked together with all sectors of society. We actively integrated our works into the overall layout of local economic and social development, implemented measures about “stability on the six fronts (namely, employment, financial sector, foreign trade, foreign and domestic investments, and market expectations)” and “security in the six areas (namely, employment, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments)”, and solidly served the real economy. Through the sound interaction between endogenous forces and external advantages, we have realized the coordination of our own operation and management with the development of the regional economy. We actively participated in the implementation of major national strategies such as the “Ecological protection and High-quality Development of the Yellow River Basin” and “Rise of the Central Region”, provided comprehensive and customized service programs. We vigorously support the development of emerging industries, enhanced the support for strategic emerging industries and advanced manufacturing industries such as digital economy, intelligent manufacturing, life and health, and new materials, to boost the transformation and upgrading of industries in the province and gather new momentum for development. We took every effort to support small and micro businesses, deepened the “five-professional” model of small and micro businesses, enhanced the online service capacities of small and micro businesses, made good use of various national and provincial support policies for micro, small and medium-sized enterprises, to make joint efforts to solve difficulties of small and micro businesses by banks and enterprises.

We gathered the strength of Zhongyuan Bank for serving rural revitalization. In 2020, we continued to promote the layout of “Internetization and Ruralization of Banking Services”, built an efficiently empowered, mutually complementary and symbiotic and inclusive the pan-beneficial agricultural ecology, and devoted ourselves to the great cause of rural revitalization with patriotism of benefiting the people. We put the farmers-benefiting services in an important position of business development, intensified support for grain production, grain processing and circulation, and modern agricultural infrastructure construction, introduced the financial water to moisten the fertile soil of “agriculture, rural areas and farmers”. We actively provided services for the rural grassroots governance, built a rural digital service and management platform integrating such as grassroots Party building, village social affairs, life services and health management, and assisted in exploring new ways of digital grassroots governance. We innovated financial poverty alleviation methods, gave full play to the functions of empowering and capacity-building, vigorously supported the development of county-level and rural characteristic industries, and strived to be a pioneer of financial services in poverty alleviation.

Chapter 3 Chairman's Statement

We maintained compliance and built the foundation of risk control. In 2020, we focused on the risk prevention and control, which was the eternal theme in the operation and management, built up the “three lines of defense” and strived to build an online and digital comprehensive risk management system. We took every effort to overcome the adverse effects of the pandemic on our business development, gave full play to the role of “baton” in assessment, and solidly promoted to “reduce old and control new(降舊控新)” in non-performing assets, resolutely curbed the deterioration momentum of new loans due to the pandemic and other factors, and ensured the stability of asset quality. We strengthened scientific and technological support, optimized risk management systems and platforms, accelerated the construction and management of risk control models, so as to continuously improve online, digital and intelligent risk control capabilities. In addition, we solidly strengthened the management foundation, enhanced the construction of internal control system, strengthened the behavior management of employees to further improve active compliance awareness and ability across the Bank, thereby building up a solid barrier for high-quality development.

We adhered to integrity and innovation, and opened up the future with science and technology.

We firmly believed that in the development process of the banking industry, one who focused on reform could own the advantages for self-development, who strived to innovation could be stronger, and who devoted to both reform and innovation could win out over time. In 2020, we remained true to our original aspiration, strived for innovation, and unswervingly took the road of digital transformation which is revolutionary and advanced. We strengthened science and technology empowerment to build our strength in online finance, and made further efforts in product innovation, data application, and the establishment of a joint marketing system between headquarters and branches, so that the digital transformation became the “power source” for the high-quality development of the entire bank. On the basis of completion of the goal for the second stage of digital transformation, we comprehensively promoted the agile transformation of the corporate and risk lines, as well as the mid-ground and back-ground management departments, so as to achieve the transformation results throughout the Bank. We continued to lay a solid foundation for science and technology, and vigorously promoted system research and development, and obtained a number of patents and copyrights for more than 40 self-developed systems and platforms. Meanwhile, we also accelerated open banking construction, promoted digital transformation of traditional banks and innovation of future banks in parallel, vigorously advanced joint innovation, and made every effort to build a technological and digital bank.

The year 2021 witnesses the centenary of the Communist Party of China and is also the onset of the “14th Five-Year Plan”. Standing at a new historical starting point, Zhongyuan Bank will promote the spirit of the ox in serving the people, driving innovative development and working tirelessly, improve the effectiveness of financial services and create advantages for innovative development based on the economic and social development of Henan under the guideline of the “14th Five- Year Plan” of the state and Henan Province and according to the second five-year strategic development plan, so as to make greater contributions to better development of Zhongyuan in the new era and celebrate the centenary of the Communist Party of China with outstanding achievements.



DOU Rongxing
Chairman

Chapter 4 President's Statement



The year 2020 is an extraordinary year destined to go down in history. When the whole country was striving to achieve the great ideal of building a moderately prosperous society in all aspects and bring a successful conclusion to the “13th Five-Year Plan”, the sudden outbreak of the COVID-19 Pandemic caused a once-in-a-century health crisis. In response to the severe and complicated situation of the once-in-a-century pandemic and the major change, Zhongyuan Bank took Party building as the guidance. Under the firm leadership of the party committee of the Bank, our management team insisted on seeking progress in a steady manner and grasped the opportunity to improve quality and efficiency, make innovations and intensify transformation based on the main theme of promoting high-quality development and centered on the “Three Major Strategies (三大戰略)” and digital transformation. Our business operations continued to fare well amid stability, and we successfully completed the business objectives and tasks set by the Board of Directors.

This year, we helped each other to overcome difficulties together and consolidate the “Zhongyuan Defense”. In the face of the sudden outbreak of the COVID-19 Pandemic, the Bank developed and launched the epidemic registration and community access management system “One Code for One District” in less than 72 hours, providing epidemic prevention and control technical services for 102,000 units and 3.8 million users in the province. The Bank therefore won the title of “Advanced Group in Fighting against the COVID-19 Pandemic in Henan Province” and was the only financial institution among the 300 winners in the province. The Bank’s employees donated RMB11.5789 million, launched the province’s first epidemic prevention and control loan and the province’s first “special reloan for epidemic prevention and control”, underwriting the first epidemic prevention and control bond in Henan Province. The Bank gave quick and strong support to respond to the epidemic prevention and control and fully demonstrated its responsibility of the provincial legal person bank.



Chapter 4 President's Statement

This year, we made progress while maintaining stability and took opportunities in crisis to maintain a steady development trend. As of the end of December 2020, the total assets of the Bank amounted to RMB757.483 billion, representing an increase of RMB47.598 billion or 6.7% as compared with the beginning of the year. The deposit and loan business grew well. The balance of deposits (excluding accrued interest) amounted to RMB424.982 billion, representing an increase of RMB39.936 billion or 10.4% as compared to the beginning of the year; the total amount of loans (excluding accrued interest) was RMB357.026 billion, representing an increase of RMB57.821 billion or 19.3%; the Bank recorded operating income of RMB19.428 billion; the Bank implemented the policy of fee reduction and profit sharing, and net profit was RMB3.355 billion; the cost-to-income ratio was 35.61%, representing a decrease of 2.84 percentage points as compared to the beginning of the year. Customer operations achieved positive results, and the Bank's major regulatory indicators such as small-micro loans and two increasing and macro prudence have fully met the standards.

This year, we bravely shouldered heavy responsibilities and took the initiative to support the real economy with finance. The Bank maintained serving the real economy as its responsibilities, closely followed the national strategies on "the ecological protection and high-quality development in the Yellow River basin" and "promoting the rise of the Central Region", focused on the overall development plan of Henan Province and key areas of real economy development, and intensified support for key projects and key industries. Loan release hit a record high to create a strong engine for the high-quality development of the regional economy. As of the end of December 2020, the Bank released 305 new major projects with new loans of RMB48.4 billion. It effectively reduced the burden on market entities, and reduced fees and shared profits of RMB679 million for customers throughout the year. The Bank strengthened supporting policies such as stabilizing enterprises and guaranteeing employment, and implemented phased deferred repayment of principal and interest for eligible loans to help stabilize the economic and social operations. As of the end of December 2020, a total of 2,165 related enterprises have been assisted with an amount of RMB25.3 billion.

This year, we steadily promoted transformation and developed technology to create distinctive core competitiveness. The Bank deepened the digital transformation, optimized and improved the agile organizational structure, accelerated the implementation of digital marketing models and agile development of products to steadily improve customer service capabilities and product creation capabilities. By adhering to customer stratified operation and online operation, the number of online customers amounted to 8.168 million, accounting for 50.5% of the total number of customers of the entire Bank as compared to 44.1% at the beginning of the year. The Bank focused on financial technology construction and invested RMB550 million in technology in 2020. The system platform construction was more solid. More than 40 systems and platforms independently researched and developed have won a number of patents and copyrights. Specifically, the DevOps platform has passed the evaluation of CAICT and won the "certification of excellence", and it became the first batch of certified tool platforms in the industry. The technological talent team has continued to expand. The head office has 623 technical staff. The technical team has nearly 2,200 members including employees from partner manufacturers. The Bank expanded the new space for joint innovation and promoted the business transformation of partners through the joint innovation model of technical cooperation and risk-bearing. This year, seven joint innovation cooperation banks have been added, and the total number has reached 21. At present, the loan of cooperative banks has reached nearly RMB9 billion.

Chapter 4 President's Statement

This year, we kept our mission firmly in mind, practised financial inclusion, and contributed to poverty alleviation and rural revitalization. We continued to promote the strategy of “ruralization of banking services (下鄉)” and improved the “three-in-one” service system covering “county, township and village”. As of the end of December 2020, the Bank established 126 county-level sub-branches, 71 township sub-branches and nearly 5,000 farmers-benefiting services points. Agriculture-related personal loan totalled RMB2.38 billion throughout the year, serving approximately 1.62 million rural populations. The Bank made an innovation in inclusive financial products to launch a “village online” APP that covers rural party building, village affairs, social network, e-commerce, finance and other functions. The number of registered users has exceeded 200,000 after launch for six months, providing digital momentum for rural revitalization. Financial poverty alleviation has achieved positive results. Through the development of consumer poverty alleviation, industrial poverty alleviation and targeted poverty alleviation in villages, we vigorously supported the development of characteristic rural industries and resolutely won the battle against poverty. As of the end of December 2020, the balance of bank-wide agriculture-related loans amounted to RMB66.7 billion, including the balance of financial targeted poverty alleviation loans of RMB5 billion.

This year, we operated in compliance with regulations, strengthened risk prevention and control, and provided strong guarantees for the Bank's high-quality development and constant shareholder value growth. The Bank improved comprehensive risk management and control capabilities, specifically market risk, credit risk, and liquidity risk management and control, strictly prevented cross-transmission of external risks, and effectively prevented abnormal market fluctuations and resonance risks. The Bank solidly promoted the “reducing old and controlling new (降舊控新)” and clarified the management requirements of the “two-stage and five-category”, by which all loans overdue for more than 60 days were classified into non-performing loans month by month, and resolutely curbed the deterioration of new loans due to the epidemic and other factors to ensure stable asset quality. As of the end of December 2020, the Bank's non-performing loan ratio was 2.21%. It intensified compliance management, deeply carried out “the actions of making up for deficiencies and prevention and control of risk rectification”; the Bank conducted in-depth investigation of various risks, strengthened problem rectification and accountability; deepened the construction of the anti-money laundering compliance system, and improved the construction of anti-money laundering system platforms and tools; we have successfully reviewed the governance of market chaos and consolidated compliance operations.

Although there are many difficulties ahead, as long as you persevere, you will succeed. The year of 2021 is approaching us with the grand blueprint of the “14th Five-Year Plan”. Standing at the starting point of a new journey to build a new development pattern, Zhongyuan Bank will fully implement the new development concept based on the new development stage, continue to consolidate and improve the results of reform and development, constantly seize opportunities, overcome difficulties, adapt to the situation, work hard, and strive to promote the goal of building a first-class commercial bank and make new breakthroughs.



WANG Jiong
President



Chapter 5 Management Discussion and Analysis

1. Past Economic and Financial Environment and Future Prospects

During the Reporting Period, COVID-19 plunged global economy into worst recession since World War II. Nonetheless, the economy has recovered somewhat since the second half of the year thanks to extremely loose monetary policies and massive fiscal stimulus programs by developed economies. COVID-19 has increased fiscal sustainability risks and potential financial risks. The world economic recovery remains unstable and unbalanced, and still faces arduous risk challenges with respect to medium- and long-term growth. The International Monetary Fund (IMF), the World Bank, and the Organisation for Economic Co-operation and Development forecast the global economy to shrink by 3.5%, 4.3%, and 4.2% in 2020 and rebound by 5.5%, 4.0%, and 4.2% in 2021 before the global economy largely returns to pre-pandemic output level by the fourth quarter of 2021.

During the Reporting Period, China's economy recovered steadily, employment and living standards were ensured forcefully, and the main goals and tasks of economic and social development were accomplished better than expectation. The GDP increased by 2.3% year-on-year to a record high of RMB101,598.6 billion. Rapid recovery was shown in market sales. The total retail sales of consumer goods amounted to RMB39,198,100 million, representing a decrease of 3.9% over last year. Fixed asset investment saw steady rise. The fixed asset investment (excluding farmers) was RMB51,890,700 million, representing an increase of 2.9% over last year. The rate of increase in consumer prices dropped, with consumer prices rising by 2.5%, lower than the 2.9% increase last year. The growth in resident income was generally simultaneous with the economic growth, with RMB32,189 of per capita disposable income of residents, an actual increase of 2.1%. Foreign trade achieved positive growth, with the total import and export volume of goods amounting to RMB32,155,700 million, up by 1.9% over last year. China has achieved significant results in arrangement of epidemic prevention and control and economic and social development, becoming the sole major economy in the world to achieve positive economic growth.

During the Reporting Period, the economy of Henan Province showed sustained and stable recovery and an upward trend, with continuous improvement in production and supply, steady increase in market demand, continuous enhancement in emerging drivers, and general stability in people's livelihood. The GDP was RMB5,499,707 million, representing an increase of 1.3% over last year. Fixed asset investment saw steady growth. The fixed asset investment (excluding farmers) increased 4.3%, which was 1.4 percentage points higher than the national average level. Consumer demand witnessed a gradual increase. The total retail sales of consumer goods reached RMB2,250,277 million, representing a year-on-year decrease of 4.1%. The rate of increase in consumer prices dropped, with consumer prices rising by 2.8% year on year. Resident income kept growing and the per capita disposal resident income was RMB24,810.10, representing an increase of 3.8%.



Chapter 5 Management Discussion and Analysis

During the Reporting Period, the Central Bank intensified efforts in macro policy responses, maintained prudent monetary policies in a more flexible, appropriate and precisely oriented manner, flexibly grasped the intensity, rhythm and focus of monetary policy control, did a good job of “stability on the six fronts (namely, employment, financial sector, foreign trade, foreign and domestic investments, and market expectations)” and implemented the task of “security in the six areas (namely, employment, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments)”, creating a suitable monetary and financial environment for securing a decisive victory in building a moderately prosperous society in all aspects. The liquidity remained reasonably abundant with the balance of broad money supply (M2) amounting to RMB218.7 trillion, representing a year-on-year increase of 10.1%. Loans recorded reasonable growth with the balance of RMB and foreign currency loans of financial institutions reaching RMB178.4 trillion, representing a year-on-year increase of 12.5%. Public financing saw a reasonable growth with the scale of existing public financing amounting to RMB284.8 trillion, representing a year-on-year increase of 13.3%. Based on market supply and demand, the RMB exchange rate fluctuated in both directions with increased elasticity and remained basically stable at an appropriate and balanced level, giving effective play to the role as an automatic stabilizer in regulating macroeconomics and international payments. In the next step, the prudent monetary policies will be flexible, precise, reasonable and appropriate so as to maintain reasonably abundant liquidity, handle the relationship between economic recovery and risk prevention and speed up the formation of a new development pattern in which large domestic cycle is the main body and domestic and international dual cycles promote each other.

2. Overall Operation Overview

During the Reporting Period, facing difficult challenges brought by economic downward pressure and COVID-19, the Bank actively implemented national strategic deployment and regulatory requirements, steadily conducted financial services centering on “stability on the six fronts (namely, employment, financial sector, foreign trade, foreign and domestic investments, and market expectations)” and “security in the six areas (namely, employment, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments)”, strengthened the “customer-centric” business philosophy, actively practiced the core value of “stability, innovation, motivation and efficiency (穩健、創新、進取、高效)”, promoted the “Three Major Strategies” as a whole, steadily promoted digital transformation, took root in Central China with a focus on main responsibilities for practice, and maintained a steady development trend. The Bank was recognized as “Ten Best City Commercial Banks (年度十佳城市商業銀行)” for six consecutive years by Financial Times, and was listed as the “World’s Best Banks” in China in 2020 by Forbes, ranking No. 3 among 20 banks in China on the list.



Chapter 5 Management Discussion and Analysis

Business scale grew steadily with overall stable economic benefit. The Bank continued to implement the concept of high-quality development, insisted on seeking progress amid stability, continued to do a good job of “fighting the epidemic” and “stabilizing operation”, and comprehensively enhanced the efficiency of serving the real economy, with steady growth in business scale and stable and good operating results. Firstly, steady growth was seen in business scale and continuous improvement was made in structure of assets and liabilities. As of December 31, 2020, the Bank’s total assets increased by RMB47,598 million or 6.7% to RMB757,483 million from the beginning of the year. The total loans (excluding accrued interest) amounted to RMB357,026 million, representing an increase of RMB57,821 million, or 19.3% as compared to the beginning of the year. The balance of deposits (excluding accrued interest) amounted to RMB424,982 million, representing an increase of RMB39,936 million or 10.4% as compared to the beginning of the year. The market share of deposits and loans was further expanded and the market competitiveness was continuously enhanced. Adhering to the “capital-light and cost-light” orientation, the Bank actively promoted the optimization of the structure of assets and liabilities. The total loans with high yield (excluding accrued interest) accounted for 47.1% of the total assets, representing an increase of 5.0 percentage points as compared with the beginning of the year. Specifically, personal loans accounted for 22.5% of the total assets, representing an increase of 4.0 percentage points as compared with the beginning of the year. Low-cost general deposits (excluding accrued interest) accounted for 60.9% of the total liabilities, representing an increase of 1.8 percentage points as compared with the beginning of the year. The high-cost interbank liabilities (including interbank deposits issued) accounted for 24.9% of the total liabilities, representing a decrease of 4.9 percentage points as compared with the beginning of the year. The risk-weighted assets (RWA) factor was 72.6%, representing a decrease of 3.2 percentage points as compared with the beginning of the year, and the “capital-light and cost-light” operation model is beginning to show results. Secondly, business operations remained stable, with the operating quality and efficiency improving amid stability. During the Reporting Period, the Bank recorded operating income of RMB19,428 million, representing a year-on-year increase of RMB406 million or 2.1%, and net profit of RMB3,355 million, representing a year-on-year increase of RMB149 million or 4.6%. The Bank continued to strengthen management on pricing and duration to control the cost of liabilities. The net interest margin and net interest spread were 2.48% and 2.36%, respectively, maintaining the leading level in industry. The Bank proactively adopted the cost-light operation model, continuously promoted the transformation of business development model and marketing driven model, and made intensified efforts to promote income increase and reduce expenditures. Therefore, the cost-to-income ratio decreased to 35.61% from 38.45% in 2019, representing a decrease of 2.84 percentage points as compared with the same period last year.

Chapter 5 Management Discussion and Analysis

We reduced costs and surrendered benefits to support the real economy, and practised inclusive finance through “Internetization and Ruralization of Banking Services”.

The Bank proactively assumed social responsibility and made every effort to provide financial guarantee for pandemic prevention and control, and helped enterprises resume work and production in an orderly manner, so as to serve the stable and healthy development of the real economy. Firstly, the Bank took the initiative to provide safe and efficient financial services. The Bank made an immediate response and opened up a green channel for financial services for pandemic prevention and control, in order to ensure emergency financial services for key medical institutions, government agencies and other relevant entities in pandemic prevention and control. The Bank gave full play to its technical strength and developed and put into operation the pandemic registration and community access management system “One Community, One Code” in less than 72 hours, which provided technical services in relation to pandemic prevention and control to 102,000 entities and 3.8 million users in the province. Thus, the Bank was awarded by the CPC Henan Provincial Committee and Henan Provincial People’s Government as the “Advanced Group in Fighting the COVID-19 Pandemic in Henan Province”, becoming the sole financial institution among 300 award-winning groups in Henan Province. The Bank actively sought financial support granted by relevant policies and applied for a special refinancing related to epidemic prevention of RMB2.7 billion, a refinancing of RMB7,098 million for supporting small businesses, a rediscount of RMB20,075 million, and a medium-term loan facility (MLF) of RMB25.8 billion, focusing on helping epidemic-related enterprises and small and micro private enterprises resume work and production, and strengthening its capacity to support real economy. The Bank fulfilled its social responsibility by making donations amounting to RMB11,578,900, which fully demonstrated its position as a provincial corporate bank. Second, the Bank effectively reduced the burden of market players by reducing fees and offering benefits. In response to the policy of ensuring the stable operation of enterprises and employment, the Bank, insisting on not drawing out loans and continuously lending, provided full support to those enterprises that were experiencing temporary difficulties due to the epidemic through such means as credit restructuring and exemption and reduction of overdue interest, benefiting 2,165 enterprises. At the same time, the comprehensive financing costs of enterprises were reduced to relieve the pressure of production and operation. Fees related to intermediary services were lowered or cancelled and service charge discounts were offered to small and micro customers; prices of internal transfer were lowered for several times and the weighted average interest rate of new loans dropped by 52 BPs compared with the previous year. Third, the Bank increased its product variety to support the healthy development of small and micro enterprises. The Bank accelerated the upgrading and optimization of mature standardized products such as ZY e-New Customer Marketing, government procurement loans and perpetual loans for small and micro enterprises, and at the same time, developed such credit loan products as the commercial super-V loans and Jushang Loan (聚商快貸) to meet both market and customer needs. Fourth, the Bank implemented the initiative of inclusive finance and made another step ahead in serving rural revitalization. The Bank continued to promote the strategy of “Ruralization of Banking Services” and improved the “three-in-one” financial services system in counties and villages, with 126 county sub-branches, 71 rural township sub-branches, and nearly 5,000 farmers-benefiting payment services points and farmers-benefiting financial service stations, directly serving a rural population of more than 10 million. At the same time, the Bank actively resolved the difficulty of “Ruralization of Banking Services” through “Internetization”, and innovatively launched the “Village Online” (鄉村在線) APP, which integrates rural party building, rural affairs, social networking, e-commerce and financial services, with 220,000 registered users; the APP well suits the increasing needs of rural governance and villagers for diversification, internetization and intelligence and provides villagers with more convenient inclusive financial services. Fifth, the Bank innovated ways of financial poverty alleviation to strengthen its efforts in the fight against poverty. The Bank actively implemented the “mode of inclusive finance in Lankao County”, the “mode of financial poverty alleviation in Lushi County” and the “Mall Mode” of targeted poverty alleviation featuring “banking + insurance”, vigorously supporting the development of distinctive industries in counties and villages and making its contribution to the fight against poverty.



Chapter 5 Management Discussion and Analysis

Digital transformation was carried out in depth, accompanied by business innovation.

First, the second stage of digital transformation was completed. The Bank established a product lifecycle management mechanism, built a four-tier agile coach system, and regularized the use of big data use cases, “one-page” and other transformation tools, continuously improving the agility of the whole bank. The Bank completed the organizational transformation of the credit card center, created the retail risk bazaar and credit factory mode, deepened OKR and performance dialogue management mechanism, and launched the digital academy online to enhance staff’s digital quotient, achieving phased results in terms of transformation. Second, the Bank actively worked on business mode innovation. The Bank accelerated the construction of open bank and newly established a financial innovation department to promote the digital transformation of traditional banks and the innovation of future banks in parallel. The Bank also vigorously promoted joint innovative business and entered into joint innovation cooperation with seven new banks, reaching a total of 21. Third, continuous headway was made in agility construction. More than 40 self-developed systems and platforms have been registered copyright, among which the DevOps platform passed the evaluation of China Academy of Information and Communication Technology and became the first batch of tool platforms in the industry to pass the “excellent level certification”. With agile maturity as the standard, members of the agile team saw a continuous improvement in agile mindset and iterative efficiency, and the agile working methods and capacity building were increasingly improved. Fourthly, the Bank conducted business innovation to build up featured competitive advantages. In respect of retail banking business, the Bank achieved online whole-process processing of “perpetual loan” and continued to iterate smart renewal products; the Bank kept improving the scenario ecosystem of credit card business, and deepened the channel operation, with 2,450,400 cards issued on a cumulative basis. The number of retail customers was 17,105,300, representing an increase of 2,159,100 or 14.4%, with continuously consolidated customer base. Total personal loans (excluding accrued interest) amounted to RMB170,501 million, representing an increase of RMB39,076 million or 29.7% as compared to the beginning of the year. The personal deposit balances (excluding accrued interest) amounted to RMB200,492 million, representing an increase of RMB26,485 million or 15.2% as compared to the beginning of the year. The increase in deposits and loans of the retail banking business exceeded the corporate business, with further optimized business structure. In respect of corporate business, the Bank put into operation a new version of corporate online banking to realize the customized services of corporate online banking and created digital tools such as “one-page” and “ZY Bank e-Manager”; in transaction banking segment, based on the strategy of “data-based bank and technology bank (數據銀行、科技銀行)”, the Bank launched the online factoring ZY Bank e Linkage and the online whole-process electronic guarantee, realizing the fully automatic release of asset pool, electronic guarantee and prepayment. As settlement Huicun pass and circle mutual benefit achieved online whole-process operation, the Bank has more perfect product system; the Bank continued to take the lead in innovating the investment banking business. Focusing on customer needs, the Bank built a four-in-one work system of “regulation + industry + customers + operating agencies” to improve the quality and efficiency of serving the customers. The number of corporate customers reached 230,000, representing an increase of 25,000 or 12.2%, with continuously enhanced competitive advantages. In respect of treasury business, the Bank was among the first batch of members to carry out foreign currency repurchase transactions with domestic bonds, steadily ranking top 5 in the market of series products, successfully obtained the qualifications of X-Repo pre-market quotation, and X-Swap and X-Lending businesses, and entered the list of “X-Lending Active Institutions” for four consecutive months; the Bank launched “Y e-discount (原e貼)” version 3.0, forming an online model with integrated processing of customer access, function opening and account whitelist management, etc.; the Bank led the industry in its CFETS interbank deposits and won the award of “Excellent Institution Participating in CFETS Interbank Deposits”; the Bank continued to improve the net-worth product system, with steadily growing scale. The net-worth wealth management products accounted for 77.83%, representing an increase of 25.73 percentage points as compared to the beginning of the year, leading the industry in the rapid of product transition.



Chapter 5 Management Discussion and Analysis

Asset quality remained stable with continuously improved intelligent risk control capability. Firstly, the Bank steadily intensified efforts to “reduce old and control new (降舊控新)”. The Bank vigorously disposed of non-performing loans and high-risk assets, strengthened early warning management, and strongly curbed the deterioration of loans to ensure stable asset quality. The Bank insisted on classifying all loans overdue more than 60 days into non-performing loans, with a non-performing loan ratio of 2.21%, down by 0.02 percentage point from the beginning of the year, maintaining an excellent non-performing loan ratio of less than 1% for newly issued loans since its establishment. Secondly, the Bank continued to empower risk management during digital and intelligent construction. The Bank actively promoted the construction of an intelligent risk control system and successfully launched such key projects as a new generation of credit system, a non-zero big data-assisted decision-making system, a risk management data mart, a limited credit for retail customers, and an enterprise-level anti-fraud platform to support business development. In particular, thanks to the successful launch of the new generation of credit system, the Bank achieved the three major system construction goals of optimizing the digital user journey, promoting intelligent credit transformation, and helping agile transformation and rapid innovation, enhancing the online and data-based credit approval and post-loan management and promoting effective improvement of customer experience. Meanwhile, the Bank conducted model risk management such as independent model verification and regular model testing in an orderly manner to promote the construction of one-stop model management platform and post-loan management system and continuously improve the quality and efficiency of risk control.

Chapter 5 Management Discussion and Analysis

3. Analysis on Income Statement

For the year ended December 31, 2020, the Bank recorded profit before provision of RMB12,298 million, representing a year-on-year increase of 6.9%; and recorded net profit of RMB3,355 million, representing a year-on-year increase of 4.6%.

	For the year ended December 31,			
	2020	2019	Change	Rate of change
(in millions of RMB, except percentages)				
Interest income ⁽¹⁾	30,946.0	29,352.4	1,593.6	5.4%
Interest expense	(14,381.0)	(13,644.7)	(736.3)	5.4%
Net interest income	16,565.0	15,707.7	857.3	5.5%
Fee and commission income ⁽¹⁾	2,247.2	2,109.6	137.6	6.5%
Fee and commission expense	(460.8)	(342.1)	(118.7)	34.7%
Net fee and commission income	1,786.4	1,767.5	18.9	1.1%
Net trading (losses)/gains	(184.5)	283.6	(468.1)	(165.1%)
Net gains arising from investment securities	1,135.2	1,111.6	23.6	2.1%
Other operating income ⁽²⁾	125.7	151.4	(25.7)	(17.0%)
Operating income	19,427.8	19,021.8	406.0	2.1%
Operating expenses	(7,118.6)	(7,486.3)	367.7	(4.9%)
Impairment losses on assets	(7,848.6)	(7,148.3)	(700.3)	9.8%
Share of losses of joint ventures	(11.6)	(26.6)	15.0	(56.4%)
Operating profit	4,449.0	4,360.6	88.4	2.0%
Profit before taxation	4,449.0	4,360.6	88.4	2.0%
Income tax	(1,094.3)	(1,154.6)	60.3	(5.2%)
Net profit	3,354.7	3,206.0	148.7	4.6%
Net profit attributable to Equity shareholders of the Bank	3,300.8	3,163.8	137.0	4.3%
Non-controlling interests	53.9	42.2	11.7	27.7%

Notes:

- (1) According to the requirements of the Notice of the MOF, SASAC, CBRC and CSRC on Strictly Implementing Accounting Standards for Enterprises and Effectively Strengthening the Work of Enterprises' 2020 Annual Reports (Cai Kuai [2021] No. 2), the Bank has included the credit card installment fee income in the accounting for interest income and restated the comparative figures for 2019.
- (2) Other operating income includes government subsidies, rental income, net gains arising from disposal of property and equipment and others.

Chapter 5 Management Discussion and Analysis

3.1 Net interest income, net interest spread and net interest margin

For the year ended December 31, 2020, the Bank recorded net interest income of RMB16,565 million, representing an increase of RMB857 million or 5.5% as compared to last year. Particularly, a growth of net interest income of RMB3,187 million as compared to last year was attributable to the expansion of the Bank's business scale, and a decrease in net interest income of RMB2,330 million was attributable to the changes in yield or cost rate.

The following table sets forth the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income or expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost rate of these interest-bearing liabilities for the years ended December 31, 2019 and 2020.

	For the year ended December 31,					
	2020			2019		
	Average balance	Interest income/expense	Average yield/cost ⁽¹⁾	Average balance	Interest income/expense	Average yield/cost ⁽¹⁾
(in millions of RMB, except percentages)						
Interest-earning assets						
Loans and advances to customers	328,175.2	18,211.8	5.55%	293,262.7	17,679.0	6.03%
Investment securities and other financial assets ⁽²⁾	213,261.0	8,588.2	4.03%	197,141.0	9,257.9	4.70%
Finance lease receivables	30,597.0	2,316.7	7.57%	4,870.3	364.4	7.48%
Deposits with the Central Bank	37,056.7	517.5	1.40%	42,721.5	643.8	1.51%
Deposits with banks and other financial institutions	12,449.0	172.0	1.38%	15,390.2	218.8	1.42%
Financial assets held under resale agreements	19,383.8	371.2	1.92%	19,870.6	482.6	2.43%
Placements with banks and other financial institutions	26,754.2	768.6	2.87%	14,978.9	705.9	4.71%
Total interest-earning assets	667,676.9	30,946.0	4.63%	588,235.2	29,352.4	4.99%
Interest-bearing liabilities						
Deposits from customers	408,663.2	8,091.1	1.98%	381,939.7	7,354.7	1.93%
Financial assets sold under repurchase agreements	34,319.1	725.3	2.11%	31,048.1	920.7	2.97%
Placements from banks and other financial institutions	31,664.6	890.7	2.81%	14,496.2	724.0	4.99%
Borrowings from the Central Bank	25,667.8	758.5	2.96%	10,168.7	304.1	2.99%
Deposits from banks and other financial institutions	53,016.7	1,420.3	2.68%	43,670.7	1,278.9	2.93%
Debt securities issued ⁽³⁾	79,100.2	2,495.1	3.15%	84,360.4	3,062.3	3.63%
Total interest-bearing liabilities	632,431.6	14,381.0	2.27%	565,683.8	13,644.7	2.41%
Net interest income		16,565.0			15,707.7	
Net interest spread⁽⁴⁾			2.36%			2.58%
Net interest margin⁽⁵⁾			2.48%			2.67%

Chapter 5 Management Discussion and Analysis

Notes:

- (1) Calculated by dividing interest income/expense by average balance.
- (2) Such interest-earning assets consist of financial assets at amortized cost and financial assets at fair value through other comprehensive income.
- (3) Mainly consists of interbank deposits issued, financial bonds and tier-two capital bonds.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, and based on daily average interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the average balance of total interest-earning assets, and based on daily average interest-earning assets.

The following table sets forth the changes in the Bank's interest income and interest expense due to changes in volume and rate for the periods indicated. Changes in volume are measured by changes in the average balances of the Bank's interest-earning assets and interest-bearing liabilities and changes in rate are measured by changes in the average rates of the Bank's interest-earning assets and interest-bearing liabilities. Effects of changes caused by both volume and rate have been allocated to changes in interest.

For the year ended December 31, 2020 vs 2019			
Reasons for increase/(decrease)			
	Volume ⁽¹⁾	Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
(in millions of RMB)			
Interest-earning assets			
Loans and advances to customers	2,104.7	(1,571.9)	532.8
Investment securities and other financial assets	757.0	(1,426.7)	(669.7)
Finance lease receivables	1,924.9	27.4	1,952.3
Deposits with the Central Bank	(85.4)	(40.9)	(126.3)
Deposits with banks and other financial institutions	(41.8)	(5.0)	(46.8)
Financial assets held under resale agreements	(11.8)	(99.6)	(111.4)
Placements with banks and other financial institutions	554.9	(492.2)	62.7
Changes in interest income	5,202.5	(3,608.9)	1,593.6
Interest-bearing liabilities			
Deposits from customers	514.6	221.8	736.4
Financial assets sold under repurchase agreements	97.0	(292.4)	(195.4)
Placements from banks and other financial institutions	857.5	(690.8)	166.7
Borrowings from the Central Bank	463.5	(9.1)	454.4
Deposits from banks and other financial institutions	273.7	(132.3)	141.4
Debt securities issued	(190.9)	(376.3)	(567.2)
Changes in interest expense	2,015.4	(1,279.1)	736.3

Notes:

- (1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for the previous year.
- (2) Represents the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the average balance for the year.
- (3) Represents interest income/expense for the year minus interest income/expense for the previous year.

Chapter 5 Management Discussion and Analysis

3.2 Interest Income

For the year ended December 31, 2020, the Bank recorded an interest income of RMB30,946 million, representing an increase of RMB1,594 million or 5.4% as compared with the same period of last year, primarily attributable to the increase in the volume of loans and advances to customers.

3.2.1 Interest income from loans and advances to customers

For the year ended December 31, 2020, the Bank's interest income from loans and advances to customers recorded RMB18,212 million, representing an increase of RMB533 million or 3.0% as compared with the same period of last year, primarily attributable to the Bank's overall increase in the granting of loans as a result of actively efforts in the prevention and control of the epidemic and the resumption of work and production and in promoting product innovation and optimization to continuously enhance support for the real economy. The average balance of loans increased from RMB293,263 million to RMB328,175 million.

The following table sets out, for the periods indicated, the average balance, interest income and average yield for each component of the Bank's loans and advances to customers.

	For the year ended December 31,					
	Average balance	2020 interest income	Average yield	Average balance	2019 interest income	Average yield
	(in millions of RMB, except percentages)					
Corporate loans	144,568.6	8,238.8	5.70%	142,020.1	8,317.8	5.86%
Discounted bills	30,226.3	976.8	3.23%	26,767.4	1,020.0	3.81%
Personal loans	153,380.3	8,996.2	5.87%	124,475.2	8,341.2	6.70%
Total	328,175.2	18,211.8	5.55%	293,262.7	17,679.0	6.03%

3.2.2 Interest income from investment securities and other financial assets

For the year ended December 31, 2020, the Bank's interest income from investment securities and other financial assets decreased by RMB670 million or 7.2% to RMB8,588 million as compared with the same period of last year, primarily attributable to a decline in the average yield of investment securities and other financial assets by 0.67 percentage point. The decline in the average yield was mainly due to a lower yield of new investment securities and other financial assets as compared to that in the previous year as a result of market factors.



Chapter 5 Management Discussion and Analysis

3.2.3 Interest income from finance lease receivables

For the year ended December 31, 2020, the Bank's interest income from finance lease receivables was RMB2,317 million, which mainly represented the income generated by the Bank's subsidiary, AB Leasing Co., Ltd..

3.2.4 Interest income from deposits with the Central Bank

For the year ended December 31, 2020, the Bank's interest income from deposits with the Central Bank decreased by RMB126 million or 19.6% to RMB518 million as compared with the same period of last year, primarily attributable to the decrease in the average balance of deposits with the Central Bank. The decrease in the average balance of deposits with the Central Bank was primarily attributable to the Central Bank's frequent cuts in the reserve requirement ratio.

3.2.5 Interest income from deposits with banks and other financial institutions

For the year ended December 31, 2020, the Bank's interest income from deposits with banks and other financial institutions decreased by RMB47 million or 21.4% to RMB172 million as compared with the same period of last year, primarily attributable to a decrease in the average balance of deposits with banks and other financial institutions.

3.2.6 Interest income from financial assets held under resale agreements

For the year ended December 31, 2020, interest income from financial assets held under resale agreements decreased by RMB111 million or 23.1% to RMB371 million as compared with the same period of last year, primarily due to a decrease in the average yield of financial assets held under resale agreements as a result of changes in market price.

3.2.7 Interest income from placements with banks and other financial institutions

For the year ended December 31, 2020, interest income from placements with banks and other financial institutions increased by RMB63 million or 8.9% to RMB769 million as compared with the same period of last year, primarily due to an increase in the average balance of placements with banks and other financial institutions.

Chapter 5 Management Discussion and Analysis

3.3 Interest Expense

For the year ended December 31, 2020, the Bank's interest expense increased by RMB736 million or 5.4% to RMB14,381 million as compared with the same period of last year, primarily attributable to the increase in the volume of deposits from customers and the average cost.

3.3.1 Interest expense on deposits from customers

For the year ended December 31, 2020, the Bank's interest expense on deposits from customers increased by RMB736 million or 10.0% to RMB8,091 million as compared to the same period last year, primarily attributable to the increase in the average balance of deposits from customers of the Bank and the average cost. The increase in the average balance of deposits from customers of the Bank was primarily due to our efforts to continue to diversify the application scenarios, expand the scope of customer acquisition and business linkage, enrich the product system, improve the service quality, widen the service channels and effectively drive the growth of deposits. The increase in the average cost of deposits from customers was primarily due to the increase in market interest rates driven by the intensified competition in the deposit market.

	For the year ended December 31,					
	Average balance	2020 interest income	Average yield	Average balance	2019 interest income	Average yield
(in millions of RMB, except percentages)						
Corporate deposits						
Demand	126,717.2	923.6	0.73%	126,053.5	859.0	0.68%
Time	91,477.6	2,114.5	2.31%	78,655.2	1,952.5	2.48%
Sub-total	218,194.8	3,038.1	1.39%	204,708.7	2,811.5	1.37%
Personal deposits						
Demand	47,687.2	202.4	0.42%	40,932.2	200.7	0.49%
Time	142,781.2	4,850.6	3.40%	136,298.8	4,342.5	3.19%
Sub-total	190,468.4	5,053.0	2.65%	177,231.0	4,543.2	2.56%
Total deposits from customers	408,663.2	8,091.1	1.98%	381,939.7	7,354.7	1.93%

3.3.2 Interest expense on deposits from banks and other financial institutions

For the year ended December 31, 2020, the Bank's interest expense on deposits from banks and other financial institutions increased by RMB141 million or 11.1% to RMB1,420 million as compared to the same period last year. The increase in the interest expense on deposits from banks and other financial institutions was primarily attributable to the increase in the size of deposits from banks and other financial institutions.

3.3.3 Interest expense on debt securities issued

For the year ended December 31, 2020, the Bank's interest expense on debt securities issued decreased by RMB567 million or 18.5% to RMB2,495 million as compared to the same period last year, primarily attributable to the lower average interest rates and size of interbank deposits issued as compared to the previous year as a result of the decrease in market interest rates.

Chapter 5 Management Discussion and Analysis

3.3.4 Net interest spread and net interest margin

The Bank's net interest spread decreased from 2.58% in last year to 2.36% in this year, while the Bank's net interest margin decreased from 2.67% for last year to 2.48% for the current year. The decreases in net interest spread and net interest margin were primarily attributable to (i) the increase in the average cost of deposits affected by the market competition and other factors; (ii) the decrease in the yield of investment and financing businesses as a result of the overall decline in market interest rates under the guide of more flexible and appropriate monetary policies; and (iii) the decline in loan yield due to the decline in the loan prime rate (LPR) and the implementation of the national profit-concession policies by the Bank.

3.4 Non-interest income

3.4.1 Net fee and commission income

For the year ended December 31, 2020, the Bank's net fee and commission income increased by RMB19 million or 1.1% to RMB1,786 million as compared to the same period last year. The Bank insisted on operational transformation and implementation of fee reduction and profit-concession policies under the impact of the pandemic, proactively and continuously expanded its intermediate businesses, service channel and the business volume based on its concept of serving the real economy and meeting the financial needs of consumers.

	For the year ended December 31,			
	2020	2019	Change	Rate of change
	(in millions of RMB, except percentages)			
Fee and commission income				
Bank card service fees	429.7	278.5	151.2	54.3%
Settlement and clearing service fees	234.7	385.4	(150.7)	(39.1%)
Agency service income	118.1	108.6	9.5	8.7%
Underwriting service income	530.7	299.7	231.0	77.1%
Acceptance and guarantee service fees	110.8	98.5	12.3	12.5%
Advisory and consulting fees	162.2	123.9	38.3	30.9%
Custodial service fees	218.6	449.0	(230.4)	(51.3%)
Wealth management business fees	442.4	366.0	76.4	20.9%
Sub-total	2,247.2	2,109.6	137.6	6.5%
Fee and commission expenses	(460.8)	(342.1)	(118.7)	34.7%
Net fee and commission income	1,786.4	1,767.5	18.9	1.1%

For the year ended December 31, 2020, the Bank realized bank card service fees income of RMB430 million, representing an increase of RMB151 million as compared to the same period last year, primarily because the Bank continued to develop its credit card business and constantly enriched its product system, leading to the rapid growth of the volume of consumption transaction and driving the growth of card issuers' fee income.

For the year ended December 31, 2020, the Bank realized wealth management business fees of RMB442 million, representing an increase of RMB76 million as compared to the same period last year, primarily attributable to the Bank's continued improvement of product systems and customer service ability and increase in the size of issuance of wealth management products.

Chapter 5 Management Discussion and Analysis

For the year ended December 31, 2020, the Bank realized underwriting service income of RMB531 million, representing an increase of RMB231 million as compared to the same period last year, primarily due to the rapid development of the bond underwriting business after the Bank gave full play to the qualification advantages of B-Class lead underwriter.

3.4.2 Net trading (losses)/gains

For the year ended December 31, 2020, the Bank's net trading losses were RMB185 million, representing a decrease of RMB468 million as compared to the same period last year, primarily attributable to the exchange rate fluctuations under the influence of global economy.

3.4.3 Net gains arising from investment securities

For the year ended December 31, 2020, the Bank's net gains arising from investment securities amounted to RMB1,135 million, representing an increase of RMB24 million as compared to the same period last year, primarily attributable to the increase in the profits from financial investments at fair value through other comprehensive income for the current period.

3.5 Operating expenses

For the year ended December 31, 2020, the Bank's operating expenses decreased by RMB368 million or 4.9% to RMB7,119 million as compared to the same period last year. The Bank actively practised the light cost operation model, continuously promoted the change of business development model and marketing-driven model, kept strengthening the fine cost management and effectively controlled the cost and expenditure.

	For the year ended December 31,			
	2020	2019	Change	Rate of change
	(in millions of RMB, except percentages)			
Staff costs				
Salaries, bonuses and allowances	2,995.1	3,055.1	(60.0)	(2.0%)
Staff welfare	296.3	299.2	(2.9)	(1.0%)
Social insurance and annuity	233.2	510.7	(277.5)	(54.3%)
Housing fund	211.6	191.5	20.1	10.5%
Employee education expenses and labor union expenses	104.9	108.8	(3.9)	(3.6%)
Others ⁽¹⁾	47.4	48.1	(0.7)	(1.5%)
Sub-total of staff costs	3,888.5	4,213.4	(324.9)	(7.7%)
Taxes and surcharges	199.8	171.7	28.1	16.4%
Depreciation and amortisation	1,053.0	1,136.0	(83.0)	(7.3%)
Other general and administrative expenses	1,977.3	1,965.2	12.1	0.6%
Total	7,118.6	7,486.3	(367.7)	(4.9%)

Note:

(1) Primarily included expenses relating to dispatched staff.

Chapter 5 Management Discussion and Analysis

For the year ended December 31, 2020, staff costs decreased by RMB325 million or 7.7% to RMB3,889 million as compared to the same period last year, primarily attributable to the decrease in social insurance premiums for staff due to the implementation of the policies on temporary reduction and exemption of social insurance premiums by the Bank. Staff costs represented the largest component of the Bank's operating expenses, and accounted for 54.6% and 56.3% of the total operating expenses for the year ended December 31, 2020 and for the year ended December 31, 2019, respectively.

For the year ended December 31, 2020, depreciation and amortization expenses decreased by RMB83 million or 7.3% to RMB1,053 million as compared to the same period last year, primarily because the Bank continued to reduce the proportion of non-interest-bearing assets.

For the year ended December 31, 2020, tax and surcharges amounted to RMB200 million, representing an increase of RMB28 million or 16.4% as compared to the same period last year, which was primarily due to the increase in the Bank's operating income.

For the year ended December 31, 2020, other general and administrative expenses increased by RMB12 million or 0.6% to RMB1,977 million as compared to the same period last year. Other general and administrative expenses primarily include interest expenses on lease liabilities, property management fees, office expenses, business marketing expenses and others.

3.6 Impairment losses

For the year ended December 31, 2020, the Bank's impairment losses increased by RMB700 million or 9.8% to RMB7,849 million as compared to the same period last year, primarily because the Bank continued to make more provisions for asset impairment based on full consideration of the continuous and lagging effect of the pandemic, in order to lay a solid foundation for provision and improve the initiative and prospective to offset risks.

	For the year ended December 31,			
	2020	2019	Change	Rate of change
(in millions of RMB, except percentages)				
Loans and advances to customers	4,885.0	3,714.3	1,170.7	31.5%
Investment securities and other financial assets ⁽¹⁾	1,835.2	2,631.1	(795.9)	(30.2%)
Finance lease receivables	617.9	193.9	424.0	218.7%
Other assets ⁽²⁾	510.5	609.0	(98.5)	(16.2%)
Total impairment losses	7,848.6	7,148.3	700.3	9.8%

Notes:

- (1) The impairment losses on such assets include impairment losses on financial investments at amortized cost and financial investments at fair value through other comprehensive income.
- (2) The impairment losses on such assets mainly include impairment losses on deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, off-balance sheet credit asset, repossessed assets, fixed assets, interest receivables and other receivables.

Chapter 5 Management Discussion and Analysis

3.7 Income tax expense

For the year ended December 31, 2020, the Bank's income tax decreased by RMB60 million to RMB1,094 million as compared to the same period last year, primarily attributable to the increase in the Bank's interest incomes from treasury bonds and other tax-free incomes.

	For the year ended December 31,			
	2020	2019	Change	Rate of change
(in millions of RMB, except percentages)				
Current income tax	2,148.0	1,267.0	881.0	69.5%
Deferred income tax	(1,053.7)	(112.4)	(941.3)	837.5%
Total income tax expenses	1,094.3	1,154.6	(60.3)	(5.2%)

4. Analysis on Key Items of Assets and Liabilities

4.1 Assets

As of December 31, 2020, the Bank's total assets increased by RMB47,598 million or 6.7% to RMB757,483 million as compared to the end of last year. The principal components of the Bank's assets consist of (i) loans and advances to customers (net); and (ii) investment securities and other financial assets (net), representing 45.9% and 31.6% of the Bank's total assets as of December 31, 2020, respectively.

The following table sets forth the components of the Bank's total assets as of the dates indicated.

	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Gross loans and advances to customers	359,375.8	47.4%	301,001.5	42.4%
Allowance for impairment losses	(11,719.0)	(1.5%)	(9,771.4)	(1.4%)
Net Loans and advances to customers	347,656.8	45.9%	291,230.1	41.0%
Finance lease receivables	30,805.5	4.1%	27,859.0	3.9%
Investment securities and other financial assets	239,397.5	31.6%	252,067.8	35.5%
Financial assets held under resale agreements	15,819.5	2.1%	16,838.6	2.4%
Cash and deposits with Central Bank	65,336.3	8.6%	72,118.6	10.2%
Deposits with banks and other financial institutions	13,493.5	1.8%	10,873.9	1.5%
Placements with banks and other financial institutions	25,280.5	3.3%	20,039.0	2.8%
Derivative financial assets	31.0	0.0%	15.1	0.0%
Interest in joint venture	1,084.0	0.1%	1,095.6	0.2%
Other assets ⁽¹⁾	18,577.9	2.5%	17,747.3	2.5%
Total assets	757,482.5	100.0%	709,885.0	100.0%

Note: (1) Primarily consist of properties and equipment, deferred income tax assets, goodwill and other assets.

Chapter 5 Management Discussion and Analysis

4.1.1 Loans and advances to customers

As of December 31, 2020, the Bank's gross loans and advances to customers (excluding accrued interest) increased by RMB57,821 million or 19.3% to RMB357,026 million as compared to the end of last year. The Bank's loans and advances to customers consist of corporate loans, personal loans and discounted bills.

The following table sets forth the distribution of the Bank's loans by business line as of the dates indicated.

	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate loans	150,371.0	41.8%	141,808.7	47.1%
Personal loans	170,501.3	47.4%	131,424.7	43.7%
Discounted bills	36,153.6	10.1%	25,971.3	8.6%
Sub-total	357,025.9	99.3%	299,204.7	99.4%
Accrued interest	2,349.9	0.7%	1,796.8	0.6%
Total loans and advances to customers	359,375.8	100.0%	301,001.5	100.0%

(1) Corporate loans

As of December 31, 2020, the Bank's corporate loans increased by RMB8,562 million or 6.0% to RMB150,371 million as compared to the end of last year, representing 42.1% of the Bank's gross loans and advances to customers (excluding accrued interests), primarily attributable to the Bank's increased supports to real economy.

The following table sets forth a breakdown of the Bank's corporate loans by collateral as of the dates indicated.

	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Unsecured loans	17,978.6	11.9%	10,551.0	7.4%
Guaranteed loans	61,475.5	40.9%	64,210.8	45.3%
Collateralized loans	39,392.1	26.2%	40,541.9	28.6%
Pledged loans	31,524.8	21.0%	26,505.0	18.7%
Total corporate loans	150,371.0	100.0%	141,808.7	100.0%

Chapter 5 Management Discussion and Analysis

(2) Personal loans

As of December 31, 2020, the Bank's personal loans increased by RMB39,076 million or 29.7% to RMB170,501 million as compared to the end of last year, primarily attributable to the Bank's increased support for growth of social consumption.

The following table sets forth a breakdown of the Bank's personal loans by product type as of the dates indicated.

	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Personal residential mortgage loans	85,418.4	50.1%	69,705.2	53.0%
Personal business loans	42,535.7	24.9%	27,311.7	20.8%
Personal consumption loans	29,359.2	17.2%	25,209.9	19.2%
Credit card loans	13,188.0	7.8%	9,197.9	7.0%
Total personal loans	170,501.3	100.0%	131,424.7	100.0%

(3) Discounted bills

As of December 31, 2020, the Bank's discounted bills increased by RMB10,182 million or 39.2% to RMB36,154 million as compared to the end of last year, which was primarily due to the Bank's support for the real economy and continuously satisfying customers' demand for short-term financing.

4.1.2 Investment securities and other financial assets

As of December 31, 2020, the Bank's net investment securities and other financial assets decreased by RMB12,670 million or 5.0% to RMB239,398 million as compared to the end of last year, primarily attributable to a deduction in our investments in interbank deposits, trust plans, asset management plans and wealth management products.

The following table sets forth the composition of the Bank's investment securities and other financial assets as of the dates indicated.

	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Financial investments at fair value through profit or loss	21,480.4	8.9%	42,185.5	16.8%
Financial investments at fair value through other comprehensive income	46,579.7	19.4%	52,672.3	20.9%
Financial investments at amortised cost	172,373.9	71.7%	156,651.5	62.3%
Total investment securities and other financial assets	240,434.0	100.0%	251,509.3	100.0%
Add: accrued interest	2,909.8		2,519.5	
Less: impairment loss	(3,946.3)		(1,961.0)	
Net investment securities and other financial assets	239,397.5		252,067.8	

Chapter 5 Management Discussion and Analysis

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

	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Debt Securities				
Debt securities issued by PRC government	65,628.6	27.4%	46,654.5	18.5%
Debt securities issued by PRC policy banks and other financial institutions	57,425.1	24.0%	70,441.7	27.9%
Debt securities issued by PRC corporate issuers	13,350.5	5.6%	13,391.8	5.3%
Sub-total	136,404.2	57.0%	130,488.0	51.7%
Other financial assets				
Wealth management products issued by other PRC commercial banks	203.4	0.1%	11,147.7	4.4%
Asset management plans	2,447.0	1.0%	8,283.7	3.3%
Trust plans	47,876.0	20.0%	56,859.1	22.6%
Others	49,557.1	20.7%	42,769.8	17.0%
Sub-total	100,083.5	41.8%	119,060.3	47.3%
Accrued interest	2,909.8	1.2%	2,519.5	1.0%
Net investment securities and other financial assets	239,397.5	100.0%	252,067.8	100.0%

4.1.3 Other components of the Bank's assets

Other components of the Bank's assets consist primarily of (i) financial assets held under resale agreements; (ii) cash and deposits with the Central Bank; (iii) deposits with banks and other financial institutions; (iv) placements with banks and other financial institutions; (v) finance lease receivables; and (vi) other assets.

As of December 31, 2020, the financial assets held under resale agreements decreased by RMB1,019 million or 6.1% to RMB15,820 million as compared to the end of last year, primarily attributable to the Bank's adjustment of the size of the financial assets held under resale agreements at the end of the Reporting Period after taking comprehensive consideration of market price and the allocation demand of assets and liabilities.

As of December 31, 2020, the total cash and deposits with the Central Bank decreased by RMB6,782 million or 9.4% to RMB65,336 million as compared to the end of last year, primarily attributable to a decrease in the Central Bank's adjustment of the required reserve ratio.

As of December 31, 2020, the total deposits with banks and other financial institutions increased by RMB2,620 million or 24.1% to RMB13,494 million as compared to the end of last year, primarily attributable to the Bank's adjustment of the size of the deposits with banks and other financial institutions at the end of the Reporting Period after consideration of market price.

As of December 31, 2020, the total placements with banks and other financial institutions increased by RMB5,242 million or 26.2% to RMB25,281 million as compared to the end of last year, primarily attributable to the Bank's adjustment of the size of the placements with banks and other financial institutions at the end of the Reporting Period according to market demands.

As of December 31, 2020, the balance of finance lease receivables increased by RMB2,947 million or 10.6% to RMB30,806 million as compared to the end of last year, primarily attributable to the expansion of business scale due to the continuously increased support of AB Leasing Co., Ltd. for the real economy.

Chapter 5 Management Discussion and Analysis

4.2 Liabilities

As of December 31, 2020, the Bank's total liabilities increased by RMB46,073 million or 7.1% to RMB698,127 million as compared to the end of last year.

	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Deposits from customers	431,341.4	61.8%	389,731.5	59.8%
Deposits from banks and other financial institutions	59,388.7	8.5%	61,578.1	9.4%
Debt securities issued	76,054.6	10.9%	79,720.4	12.2%
Financial assets sold under repurchase agreements	46,141.1	6.6%	66,544.9	10.2%
Placements from banks and other financial institutions	31,214.3	4.5%	28,058.7	4.3%
Borrowings from the Central Bank	44,066.9	6.3%	16,644.8	2.6%
Income tax payable	785.8	0.1%	799.9	0.1%
Derivative financial liabilities	17.0	0.0%	295.7	0.0%
Financial liabilities held for trading	—	—	20.4	0.0%
Other liabilities ⁽¹⁾	9,117.4	1.3%	8,659.6	1.4%
Total liabilities	698,127.2	100.0%	652,054.0	100.0%

Note:

- (1) Primarily consist of payment and collection clearance accounts, staff salaries payable, finance lease deposits payable, lease liabilities, other tax payable, dividends payable, provisions, continuing involvement liabilities and other payables.

4.2.1 Deposits

As of December 31, 2020, the Bank's total deposits from customers (excluding accrued interest) increased by RMB39,936 million or 10.4% to RMB424,982 million as compared to the end of last year, primarily attributable to the Bank's continued efforts to improve quality of financial services, which effectively derived an increase in deposits.

Chapter 5 Management Discussion and Analysis

The following table sets forth the Bank's deposits from customers by product type and maturity profile of deposits as of the dates indicated.

	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate deposits				
Demand	136,046.5	31.5%	134,913.0	34.6%
Time	88,443.2	20.5%	76,125.3	19.5%
Sub-total	224,489.7	52.0%	211,038.3	54.1%
Personal deposits				
Demand	58,665.7	13.6%	49,483.3	12.7%
Time	141,826.4	32.9%	124,523.9	32.0%
Sub-total	200,492.1	46.5%	174,007.2	44.7%
Accrued interest	6,359.6	1.5%	4,686.0	1.2%
Total deposits from customers	431,341.4	100.0%	389,731.5	100.0%

4.2.2 Deposits from banks and other financial institutions

As of December 31, 2020, the Bank's balance of deposits from banks and other financial institutions decreased by RMB2,189 million or 3.6% to RMB59,389 million as compared to the end of last year, primarily because the Bank adjusted the size of deposits from banks and other financial institutions according to market liquidity and the Bank's capital demands at the end of the Reporting Period.

4.2.3 Placements from banks and other financial institutions

As of December 31, 2020, the Bank's balance of placements from banks and other financial institutions increased by RMB3,156 million or 11.2% to RMB31,214 million as compared to the end of last year, primarily because the Bank adjusted the size of the placements from banks and other financial institutions according to market liquidity and the Bank's capital demands at the end of the Reporting Period.

4.2.4 Debt securities issued

As of December 31, 2020, the Bank's balance of debt securities issued decreased by RMB3,666 million or 4.6% to RMB76,055 million as compared to the end of last year, primarily because the Bank adjusted the size of interbank deposits according to market liquidity and the Bank's capital demands at the end of the Reporting Period.

4.2.5 Financial assets sold under repurchase agreements

As of December 31, 2020, the Bank's balance of financial assets sold under repurchase agreements decreased by RMB20,404 million or 30.7% to RMB46,141 million as compared to the end of last year, primarily due to the decrease in the Bank's securities and bills sold under repurchase agreements at the end of the Reporting Period.

Chapter 5 Management Discussion and Analysis

4.3 Shareholders' Equity

As of December 31, 2020, the Bank's total shareholders' equity increased by RMB1,524 million or 2.6% to RMB59,355 million as compared to the end of last year; the total equity attributable to shareholders of the Bank increased by RMB1,517 million or 2.7% to RMB58,262 million as compared to the end of last year. The increase in shareholders' equity was primarily attributable to an increase in the profits of the Bank during the Reporting Period.

	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Share capital	20,075.0	33.8%	20,075.0	34.7%
Other equity instrument	9,632.8	16.2%	9,632.8	16.7%
Capital reserve	14,315.3	24.1%	14,317.3	24.8%
Surplus reserve	2,115.5	3.6%	1,818.3	3.1%
General reserve	9,660.3	16.3%	8,934.9	15.5%
Re-evaluation and impairment reserve	400.0	0.7%	705.1	1.1%
Retained earnings	2,062.6	3.5%	1,261.3	2.2%
Equity attributable to shareholders of the Bank	58,261.5	98.2%	56,744.7	98.1%
Non-controlling interests	1,093.8	1.8%	1,086.3	1.9%
Total shareholders' equity	59,355.3	100.0%	57,831.0	100.0%

5. OFF-BALANCE SHEET COMMITMENTS

The following table sets forth the contractual amounts of the Bank's off-balance sheet credit commitments as of the dated indicated.

	As of December 31, 2020	As of December 31, 2019
(in millions of RMB)		
Credit commitments		
Loan commitments	8,339.9	20,392.3
Bank acceptance	46,445.8	45,126.6
Letters of credit	9,238.0	13,298.0
Letters of guarantees	4,400.3	3,983.3
Total	68,424.0	82,800.2

Chapter 5 Management Discussion and Analysis

6. ANALYSIS ON LOAN QUALITY

In 2020, in face of great influence brought by the pandemic and complex macro-economic situations at home and abroad, the Bank further deepened the adjustment of credit structure, continued to strengthen credit risk management, optimized credit procedures and strengthened post-loan management measures to step up the efforts on collection and disposal of non-performing loans, so as to keep the loan quality at a generally manageable level. As of December 31, 2020, the balance of non-performing loans of the Bank amounted to RMB7,883 million, representing an increase of RMB1,204 million as compared with the end of last year. The non-performing loan ratio was 2.21%, representing a decrease of 0.02 percentage point as compared with the end of last year; the ratio of loan in special mention category was 2.63%, representing a decrease of 0.88 percentage point as compared with the end of last year.

6.1 Distribution of Loans by Five-Category Loan Classification

The following table sets forth, as of the dates indicated, the Bank's loans by its five-category loan classification. According to the five-category loan classification system, the Bank classified its non-performing loans into substandard, doubtful and loss categories.

	As of December 31, 2020		As of December 31, 2019	
	Amount (%)	% of total	Amount (%)	% of total
(in millions of RMB, except percentages)				
Normal	339,745.1	95.16%	282,015.0	94.25%
Special mention	9,397.9	2.63%	10,511.0	3.51%
Substandard	3,134.2	0.88%	2,873.2	0.96%
Doubtful	3,146.4	0.88%	2,604.5	0.88%
Loss	1,602.3	0.45%	1,201.0	0.40%
Total loans and advances to customers	357,025.9	100.00%	299,204.7	100.00%
Non-performing loans and non-performing loan ratio	7,882.9	2.21%	6,678.7	2.23%

Note: Non-performing loan ratio is calculated by dividing non-performing loans by total loans to customers.

Chapter 5 Management Discussion and Analysis

6.2 Distribution of Loans and Non-Performing Loans by Product Type

The following table sets forth, as of the dates indicated, the Bank's loans and non-performing loans by product types.

	As of December 31, 2020				As of December 31, 2019			
	Loan amount	% of total	NPL Amount	NPL ratio ⁽⁴⁾	Loan amount	% of total	NPL Amount	NPL ratio ⁽⁴⁾
(in millions of RMB, except percentages)								
Corporate loans								
Short-term loans ⁽¹⁾	76,530.4	21.4%	3,041.5	3.97%	85,292.7	28.5%	4,650.8	5.45%
Medium-to-long-term loans ⁽²⁾	73,840.6	20.7%	2,661.7	3.60%	56,516.0	18.9%	455.3	0.81%
Sub-total	150,371.0	42.1%	5,703.2	3.79%	141,808.7	47.4%	5,106.1	3.60%
Personal loans								
Personal residential mortgage loans	85,418.4	24.0%	193.7	0.23%	69,705.2	23.3%	64.9	0.09%
Personal consumption loans	29,359.2	8.2%	384.7	1.31%	25,209.9	8.4%	193.6	0.77%
Personal business loans	42,535.7	11.9%	887.9	2.09%	27,311.7	9.1%	770.5	2.82%
Others ⁽³⁾	13,188.0	3.7%	239.4	1.82%	9,197.9	3.1%	69.6	0.76%
Sub-total	170,501.3	47.8%	1,705.7	1.00%	131,424.7	43.9%	1,098.6	0.84%
Discounted bills	36,153.6	10.1%	474.0	1.31%	25,971.3	8.7%	474.0	1.83%
Total	357,025.9	100.0%	7,882.9	2.21%	299,204.7	100.0%	6,678.7	2.23%

Notes:

- (1) Short-term loans include loans with maturity of one year or less and advances.
- (2) Medium-to-long-term loans include loans with maturity of more than one year.
- (3) Others mainly include credit cards.
- (4) NPL ratio is calculated by dividing non-performing loans in each product type by gross loans in that product type.

As of December 31, 2020, the balance of corporate non-performing loans of the Bank amounted to RMB5,703 million, representing an increase of RMB597 million as compared with the end of last year. The non-performing loan ratio was 3.79%, representing an increase of 0.19 percentage point as compared with the end of last year. The increase in corporate non-performing loans of the Bank was primarily due to the fact that the Bank implemented more prudent five-category loan classification system in this year and categorized all the loans overdue for more than 60 days as non-performing loans month by month. In addition, the corporate customers who obtained loans from the Bank were mainly small and medium corporate clients with weak risk-resistance capacity, their repayment abilities were deteriorated by the operation difficulties as a result of pandemic and economic downside.

The balance of personal non-performing loans of the Bank amounted to RMB1,706 million, representing an increase of RMB607 million as compared with the end of last year. The non-performing loan ratio was 1.00%, representing an increase of 0.16 percentage point as compared with the end of last year. The increase in personal non-performing loans of the Bank was mainly because the Bank implemented more prudent five-category loan

Chapter 5 Management Discussion and Analysis

classification system in this year and categorized all loans overdue for more than 60 days as non-performing loans month by month; in addition, repayment abilities of certain clients for personal loans of the Bank were deteriorated as a result of decrease in income caused by pandemic. Meanwhile, the Bank took proactive measures to prevent and control risk, including (i) the Bank continued to promote the digital transformation of retail business from focusing on the network service to services both online and offline. We attached great importance to customer experience, and strengthened customer acquisition through methods including mass acquisition, acquisition through scenario and online channel, and achieved desired results in the retail business transformation; (ii) the Bank proactively resolved personal non-performing loans through verification, cash collection, restructuring and other means, and strictly prevented addition of new non-performing loans by strengthening the control over the whole process of risk management.

6.3 Distribution of Loans and Non-Performing Loans by Industry

	As of December 31, 2020				As of December 31, 2019			
	Loan amount	% of total	NPL Amount	NPL ratio	Loan amount	% of total	NPL Amount	NPL ratio
(in millions of RMB, except percentages)								
Manufacturing ⁽ⁱ⁾	27,547.5	7.7%	2,460.9	8.93%	26,562.4	8.9%	2,137.5	8.05%
Leasing and business Services	38,382.3	10.8%	55.8	0.15%	33,808.0	11.3%	92.6	0.27%
Wholesale and retail ⁽ⁱⁱ⁾	14,876.3	4.2%	1,676.8	11.27%	16,748.1	5.6%	1,437.0	8.58%
Real estate	18,276.6	5.1%	382.2	2.09%	20,485.4	6.8%	412.0	2.01%
Construction	12,834.8	3.6%	186.2	1.45%	11,638.6	3.9%	147.8	1.27%
Water, environment and public facility management	11,145.9	3.1%	—	0.00%	7,672.3	2.6%	55.4	0.72%
Electricity, gas and water production and supply	5,326.2	1.5%	59.9	1.12%	4,537.7	1.5%	53.7	1.18%
Agriculture, forestry, animal husbandry and fishery ⁽ⁱⁱⁱ⁾	3,149.8	0.9%	462.9	14.70%	3,765.1	1.3%	489.4	13.00%
Accommodation and catering	2,829.8	0.8%	162.4	5.74%	3,081.2	1.0%	65.5	2.13%
Education	3,272.2	0.9%	48.3	1.48%	3,186.4	1.1%	15.5	0.49%
Health, social security and social welfare	3,783.7	1.1%	—	0.00%	3,570.9	1.2%	—	0.00%
Mining	2,159.2	0.6%	15.5	0.72%	2,178.5	0.7%	43.8	2.01%
Transportation, storage and postal services	3,554.8	1.0%	139.2	3.92%	2,602.9	0.9%	112.2	4.31%
Others	3,231.9	0.8%	53.1	1.64%	1,971.2	0.6%	43.7	2.22%
Total corporate loans	150,371.0	42.1%	5,703.2	3.79%	141,808.7	47.4%	5,106.1	3.60%
Total personal loans	170,501.3	47.8%	1,705.7	1.00%	131,424.7	43.9%	1,098.6	0.84%
Discounted bills	36,153.6	10.1%	474.0	1.31%	25,971.3	8.7%	474.0	1.83%
Total	357,025.9	100.0%	7,882.9	2.21%	299,204.7	100.0%	6,678.7	2.23%

Note: Non-performing loan ratio of an industry is calculated by dividing the balance of non-performing loans of the industry by the balance of loans granted to the industry.

Chapter 5 Management Discussion and Analysis

As of December 31, 2020, the non-performing corporate loans of the Bank mainly concentrated in the manufacturing industry, wholesale and retail industry and agriculture, forestry, animal husbandry and fishery industry, with non-performing loan ratio of 8.93%, 11.27% and 14.70%, respectively, of which:

- (i) the balance of non-performing loans in the manufacturing industry increased by RMB323 million as compared with the end of last year, with an increase of 0.88 percentage point in non-performing loan ratio, mainly because the Bank implemented more prudent five-category loan classification system in this year and categorized all the loans overdue for more than 60 days as non-performing loans month by month; and repayment abilities of credit clients in manufacturing industry were deteriorated by the operation difficulties as a result of pandemic and economic downside.
- (ii) the balance of non-performing loans in the wholesale and retail industry increased by RMB240 million as compared with the end of last year, with an increase of 2.69 percentage points in non-performing loan ratio, which was mainly because the Bank implemented more prudent five-category loan classification system in this year and categorized all loans overdue for more than 60 days as non-performing loans month by month; and operation situation of credit clients in wholesale and retail industry were deteriorated greatly by the pandemic and economic downside, which resulted in the increase of non-performing loan ratio in the industry.
- (iii) the balance of non-performing loans in the agriculture, forestry, animal husbandry and fishery industry decreased by RMB27 million as compared with the end of last year, with an increase of 1.70 percentage points in non-performing loan ratio, which was mainly because the Bank proactively resolved non-performing loans through verification, cash collection, restructuring and other means, and strictly prevented addition of new non-performing loans by strengthening the control over the whole process of risk management, loans to each of agriculture, forestry, animal husbandry and fishery decreased as compared with the end of last year.

6.4 Distribution of Loans and Non-Performing Loans by Collateral

The following table sets forth, as of the dates indicated, the Bank's loans and non-performing loans by collateral.

	As of December 31, 2020				As of December 31, 2019			
	Loan amount	% of total	NPL Amount	NPL ratio	Loan amount	% of total	NPL Amount	NPL ratio
(in millions of RMB, except percentages)								
Unsecured loans	39,026.3	10.9%	796.8	2.04%	22,520.3	7.5%	88.3	0.39%
Guaranteed loans	71,041.7	19.9%	3,681.6	5.18%	74,808.3	25.0%	3,189.8	4.26%
Collateralised loans	182,358.0	51.1%	3,149.2	1.73%	151,601.1	50.7%	2,646.0	1.75%
Pledged loans	64,599.9	18.1%	255.3	0.40%	50,275.0	16.8%	754.6	1.50%
Total	357,025.9	100.00%	7,882.9	2.21%	299,204.7	100.0%	6,678.7	2.23%

Note: Non-performing loan ratio is calculated by dividing non-performing loans in each product type secured by each type of collateral by gross loans in that type of collateral.

Chapter 5 Management Discussion and Analysis

As of December 31, 2020, the balance of our guaranteed non-performing loans increased by RMB492 million as compared with the end of last year, representing an increase in non-performing loan ratio of 0.92 percentage point, mainly because: (i) the Bank implemented more prudent five-category loan classification system in this year and categorized all the loans overdue for more than 60 days as non-performing loans month by month; (ii) repayment abilities of certain customers of the Bank were deteriorated by the operation difficulties as a result of the current pandemic and economic downside.

As of December 31, 2020, the balance of our collateralised non-performing loans increased by RMB503 million as compared with the end of last year, representing a decrease in non-performing loan ratio of 0.02 percentage point, primarily because (i) repayment abilities of certain customers of the Bank were deteriorated by the operation difficulties as a result of the current pandemic and economic downside; (ii) collateralised loans of the Bank increased in this year as compared with the end of last year.

6.5 Borrowers Concentration

As of December 31, 2020, the balance of loans to any single borrower of the Bank did not exceed 10% of the Bank's net capital.

The following table sets forth, as of December 31, 2020, the loan balance of the top ten single borrowers (excluding group borrowers) of the Bank.

As of December 31, 2020				
Industry		Balance	% of total loans	% of net capital
(in millions of RMB, except percentages)				
Borrower A	C—Manufacturing	3,726.6	1.0%	5.1%
Borrower B	K—Real estate	1,649.8	0.5%	2.3%
Borrower C	G—Transportation, storage and postal services	1,500.0	0.4%	2.1%
Borrower D	L—Leasing and commercial services	1,442.0	0.4%	2.0%
Borrower E	H—Accommodation and catering	1,185.5	0.3%	1.6%
Borrower F	I—information transmission, software and information technology services	1,144.1	0.3%	1.6%
Borrower G	L—Leasing and commercial services	1,077.5	0.3%	1.5%
Borrower H	L—Leasing and commercial services	998.8	0.3%	1.4%
Borrower I	C—Manufacturing	998.0	0.3%	1.4%
Borrower J	N—Water, environment and public facilities management	900.0	0.3%	1.1%
Total		14,622.3	4.1%	20.1%

As of December 31, 2020, the loan balance of the largest single borrower of the Bank was RMB3,727 million, accounting for 1.0% of the total amount of loans of the Bank, and the total amount of loans to the top ten single borrowers was RMB14,622 million, accounting for 4.1% of the total amount of loans of the Bank.

Chapter 5 Management Discussion and Analysis

6.6 Overdue loans

The following table sets forth, as of the dates indicated, the distribution of the Bank's loans to customers by maturity.

	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Current loans	345,816.7	96.86%	289,262.4	96.68%
Overdue loans				
Up to 3 months	4,056.6	1.14%	4,134.3	1.38%
Over 3 months up to 1 year	3,410.3	0.95%	2,841.3	0.95%
Over 1 years up to 3 years	2,714.5	0.76%	2,047.6	0.68%
Over 3 years	1,027.8	0.29%	919.1	0.31%
Sub-total	11,209.2	3.14%	9,942.3	3.32%
Total loans	357,025.9	100.00%	299,204.7	100.00%

Note: Overdue loans represent the principal amount of the loans on which principal or interest is overdue.

As of December 31, 2020, the amount of overdue loans totaled RMB11,209 million, representing an increase of RMB1,267 million as compared with the end of last year. Overdue loans accounted for 3.14% of the total loans, representing a decrease of 0.18 percentage point as compared with the end of last year.

7. BUSINESS OPERATION SEGMENT REPORT

The table below sets forth the Bank's total operating income by business segments for the periods as indicated.

	For the year ended December 31, 2020		For the year ended December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate banking business	10,322.0	53.1%	10,298.6	54.1%
Retail banking business	6,436.7	33.1%	6,339.4	33.3%
Treasury business	2,596.2	13.4%	2,282.7	12.0%
Other businesses	72.9	0.4%	101.1	0.6%
Total operating income	19,427.8	100.0%	19,021.8	100.0%

Chapter 5 Management Discussion and Analysis

8. ANALYSIS ON CAPITAL ADEQUACY RATIO

The Bank continued to optimize its business structure and strengthen its capital management. As of December 31, 2020, the core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of the Bank were 8.59%, 10.35% and 13.20% respectively, representing an increase of 0.08 percentage point, 0.04 percentage point and 0.18 percentage point respectively, as compared to the numbers at the end of the last year. The Bank proactively implemented a capital-light development model, continued to optimize the risk-weighted assets structure to keep a stable capital adequacy ratio, which fulfilled the requirements provided in the Administrative Measures for the Capital of Commercial Banks (Provisional) issued by CBIRC.

In accordance with the Administrative Measures for the Capital of Commercial Banks (Provisional) issued by CBIRC, the capital adequacy ratio of the Bank was calculated as follows:

	As of December 31, 2020	As of December 31, 2019
(in millions of RMB, except percentages)		
Share capital	20,075.0	20,075.0
Valid portion of capital reserve	14,348.7	14,657.9
Surplus reserve	2,115.5	1,818.3
General reserve	9,660.3	8,934.9
Retained earnings	2,062.6	1,261.3
Valid portion of minority interests	575.6	523.1
Total Core tier-one capital	48,837.7	47,270.5
Core tier-one capital deductions	(1,611.3)	(1,444.8)
Net core tier-one capital	47,226.4	45,825.7
Other tier-one capital	9,709.5	9,702.5
Net tier-one capital	56,935.9	55,528.2
Net tier-two capital	15,672.2	14,592.1
Net capital base	72,608.1	70,120.3
Total risk-weighted assets	549,877.8	538,420.8
Core tier-one capital adequacy ratio	8.59%	8.51%
Tier-one capital adequacy ratio	10.35%	10.31%
Capital adequacy ratio	13.20%	13.02%

Chapter 5 Management Discussion and Analysis

9. BUSINESS REVIEW

9.1 Corporate Banking Business

During the Reporting Period, under the impact of the COVID-19 and other external events, the Bank proactively implemented the CPC Central Committee's various policies for "stability on the six fronts (namely, employment, financial sector, foreign trade, foreign and domestic investments, and market expectations) and security in the six areas (namely, employment, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments)", the fight against the pandemic, and helping enterprises to resume work and production. Meanwhile, under the guidance of the "Three Major Strategies", with its proactive implementation of "Internetization and Ruralization of Banking Services" and "Digital Transformation" and its adherence to the principle of serving real economy as a financial institution, the Bank has promoted the development of inclusive finance by supporting private small and micro enterprises. By laying equal emphasis to strengthening business foundation and innovative transformation, the Bank united as one, and seized opportunities to work hard to maintain healthy, rapid, and high-quality development of its business.

9.1.1 Corporate deposits

Under the impact of the COVID-19, the Bank immediately shifted its thinking pattern and clarified its position, with a focus on building an endogenous growth mechanism for corporate deposits and optimizing the business structure of corporate deposits. The Bank continuously deepened bank-government-enterprise cooperation, strengthened the building of basic customer base, optimized basic settlement services, provided corporate customers with trade financing, trading settlement convenience and other products and services, seized opportunities presented by the introduction of local special debt policy and capital commitments, and continuously improved the competitiveness of the corporate deposit business.

As of December 31, 2020, the Bank's corporate deposit balance was RMB224,490 million, with an increase of RMB13,452 million as compared to the beginning of the year. The corporate deposits grew by 6.37% in terms of time-point increment, ranking the 1st among Henan in terms of new market share. Daily average balance of the corporate deposit of the Bank was RMB218,195 million, with an increase of RMB13,486 million or 6.59% as compared to the last year.

9.1.2 Corporate loans

The Bank regarded serving the local economy and society as its foundation, adapted to the economic transformation and upgrading, seized the market opportunity in high-quality assets, and improved quality and efficiency to dig into key industries, create unique solutions, and explore the construction of the industry ecosystem. The Bank once served its customers through managing traditional assets, now it has transformed to create value and improve comprehensive service capabilities.

As of December 31, 2020, the Bank's corporate loan balance was RMB150,371 million, with an increase of RMB8,562 million or 6.04% as compared to the end of last year.



Chapter 5 Management Discussion and Analysis

9.1.3 Corporate customers

During the Reporting Period, the Bank followed the national and regional strategies closely, maintained serving the real economy as its responsibilities and facilitated the high-quality social and economic development of Henan Province. In particular, since the epidemic prevention and control, the Bank has taken up its responsibility to quickly respond to the capital needs of enterprises in the epidemic prevention and control, actively progressed the resumption of work and production for the enterprises, and fully served the overall situation of the epidemic prevention and control. The Bank adhered to being customer-oriented, reinforced the infrastructure of the customer base, carried out category-based operations and classified policies targeting at strategic customers, institutional customers, and small and micro enterprise customers. Customized service models and business strategies were adopted to continuously transform to in-depth operation and professional creation of value, enhance our comprehensive service capability, and achieve comprehensive and coordinated development of the business benefits, quality and scale of the Bank.

As of December 31, 2020, the number of corporate customers across the Bank reached 230,000, representing an increase of 25,000 as compared to the end of last year.

9.1.3.1 Strategic customers

During the Reporting Period, adhering to being customer-oriented, the Bank actively implemented category-based operations for corporate customers, established a new strategic customer department under the corporate banking department of the head office, transformed the business operation ideas of strategic customers, enhanced the ability to provide refined and customized service for strategic customers, and realized the integrated services of “merchant banking + investment banking + transaction banking” for strategic customers, so as to create an ecosystem of strategic customers. Firstly, we analyzed the value contribution of strategic customers through digitalized tools such as specialized data governance and one-stop analysis platform to enhance the market share and comprehensive contribution of strategic customers. Secondly, we improved refined management level of strategic customers through one-stop service mechanisms such as dynamic circulation of conglomerate customer commitments, risk consultation mechanism and agile action team. Thirdly, we improved customers’ financing service capabilities through investment banking business such as ABS, syndicated and matching business. Fourthly, we realized the chain operations for strategic customers through transaction banking business such as online commitments, commercial bills credit and ZY e-chain, and we promoted the active bulk development of upstream and downstream customers through the vertical operation of core customers along the industrial chain.

As of December 31, 2020, the strategic customers’ coverage at the Bank’s head office-level was 84%. The balance of credit assets increased by RMB3,400 million or 5.0% as compared with the end of last year, and the daily average corporate deposit of strategic customers increased by RMB1,900 million or 4.9% as compared with the end of last year.



Chapter 5 Management Discussion and Analysis

9.1.3.2 Institutional customers

During the Reporting Period, the Bank continued to capitalize on its strengths, deepened cooperation with governments at all levels in the province to seize policy development opportunities and foster new growth points of the institutional business. The Bank successfully obtained the qualification of agent for provincial financial centralized payroll and provincial financial official cards, which laid a solid foundation for the Bank's business cooperation with provincial budget units and expanding quality retail customers from provincial budget units in batch. The Bank also successfully reached strategic co-operation with the provincial Administration for Market Regulation and the provincial Social Security Center, and the two parties will carry out in-depth cooperation in inter-connection of data to facilitate the development of Bank's retail and small and micro credit business.

The Bank seized the opportunity of the reform of rural collective economic organizations and developed an electronic system for the E-supervision platform for funds from basic-level government to rapidly capture the market of rural collective economic organizations. The Bank continued to deepen the cooperation between banks and governments through special bonds services, and conducted a total of 86 training sessions on local government bonds during the Reporting Period. The professional and high-efficiency local government bond services of the Bank were highly praised and commended by multiple cities. The institutional business services of the Bank have made a positive impact on improving the management and operation efficiency of government fund, promoting the smart construction of the government and facilitating the daily work of the government, building a good reputation of being based on actual local situation and serving local development, and establishing a good relationship of mutual benefit and win-win and sustainable development with governments at all levels. As of December 31, 2020, the daily average balance of institutional deposits of the Bank was RMB91,267 million, representing a decrease of RMB36,503 million as compared to the end of last year.

Chapter 5 Management Discussion and Analysis

9.1.3.3 Small and micro customers

During the Reporting Period, the Bank focused on making financing for private enterprises and small and micro enterprises easier and affordable with the goal of “increment of customer base, expansion of customer coverage, quality improvement, and cost reduction” to continuously enhance our financial service efficiency for small and micro enterprises, contributing to the development and innovation in private enterprises and small and micro enterprises of Henan. According to the conditions in different cities and counties, the Bank has set up special teams with dedicated customer relationship managers for small and micro enterprises in the 16 branches under our jurisdiction. As of December 31, 2020, the Bank has served more than 65,000 small and micro enterprises, with a balance of loans of RMB122,273 million. The weighted average rate of the inclusive small and micro loans newly issued for the year was 4.80%. The small and micro customers at the end of 2020 amounted to 63,912, representing an increase of 27,370 as compared to the beginning of the year. The balance of the Bank’s small and micro loans reached RMB50,813 million, representing an increase of RMB8,785 million as compared to the end of last year. The Bank proactively responded to national policies by supporting our enterprise customers with flexible measures such as adjusting frequencies of repaying interests, changing the installment plan, loan extension and loan renewal before making repayment of principals, without drawing out or suspending loans to enterprises that were experiencing temporary difficulties due to the severe impact of the pandemic. As of December 31, 2020, the Bank has assisted inclusive small and micro customers for 2,422 times, which involves loans of RMB2,963 million.

Adhering to “technology-based banking” strategy, the Bank has innovated commercial super-V loans, its fully online credit product, targeting tobacco merchants and made full use of online channels to provide private small and micro enterprises with efficient and convenient financial services. The Bank strengthened the integration of finance with “Internet +” and utilized big data tools to fully identify and define small and micro customers, so as to provide small and micro enterprises with more accurate, accessible, efficient and convenient loan support. The Bank strengthened government-bank-enterprise cooperation, implemented the concept of open bank and actively participated in the construction and promotion of a shared platform for financial services. As of December 31, 2020, the Bank has made 5,061 loans in total to 3,366 enterprises, amounting to RMB15,693 million.



Chapter 5 Management Discussion and Analysis

9.1.4 Bank's products

During the Reporting Period, with a comprehensive concept of product management, the Bank continued to improve our product structure, carried out a full life cycle management for product line and products, optimized and upgraded our product process and equipped us with competitive product strategy to accelerate the transfer of our products to online channels. The Bank improved the product line regarding different layers of channels, products, services and solutions and launched product line display at customer portals such as our WeChat official account named "Zhongyuan Bank Corporate Finance" and ZY Bank e-manager, realizing customers' access to our products online, which has strongly backed our corporate business.

In terms of debt products, the Bank responded to market changes in a timely manner and continued to accelerate the upgrade and development as well as function optimizing of debt products, launching services such as transfer of deposit of large units and optimized payment of interest, so as to improve the market competitiveness of products. In terms of customer settlement services, the Bank, by providing customers with settlement conveniences, cultivated settlement practices, formulating packaging scheme for settlement products portfolio, reached customers with "packaged services" to promote the increase in settlement deposits and the conversion of credit-granting customers. The Bank, focusing on four dimensions of "customers, accounts, channels and products", made its efforts in the acquisition of new customers, accounts opening, the back flow of customer transaction funds and the operation of transaction banking products to promote the increase in settlement deposits.

In terms of investment banking products, the Bank vigorously promoted its transformation from traditional investment banks to investment banks with integrated service, continued to enrich investment banking products, and actively expanded innovative business products such as underwriting debt financing instruments of non-financial enterprises, asset securitization and cross-border financing.

In terms of transaction banking products, the Bank leveraged financial technology and focused on digital transformation to vigorously develop transaction banking businesses such as cash management, Supply Chain Financing, international business and electronic channels, formed "ZY Bank e (原銀e)" series of product brands, completed the innovative design of products such as "ZY e-chains (原銀e鏈)", "electronic guarantees" and "Liudong Fengli (流動豐利)", and continuously improved the transaction banking products system.

With regard to optimization of customers experience, as for common pain points in accounts opening, such as slow accounts opening and time-consuming bi-recording on the spot, the Bank actively promoted cloud open corporate account via Wechat Banking, and optimizing accounts-opening experience. It successfully connected with "Government online-offline" online service platform of Zhengzhou City, achieving real-time data sharing, which promoted all-way online accounts opening for enterprises, and realized large group of customers obtained through digitalization and settlement fund marketing at low cost.

While the product system continued to be enriched, the Bank, guided by its strategy of building a "data bank and tech bank", has carried out digital transformation to accelerate the onlineization and scenarioization of the Bank's products and services, built a brand new customer manager mobile operating platform, provided a standardized toolkit, empowered the improvement of marketing ability and results, and formed a support of internal channels to enhance the Bank's digitalization ability of all business lines.



Chapter 5 Management Discussion and Analysis

9.1.5 Investment banking

During the Reporting Period, the Bank exerted lots of efforts in promoting its transformation from traditional investment banks to investment banks with integrated service on the basis of the stable development of investment banking services such as structural financing and equity financing, continued to enrich investment banking business products, actively expanded innovative business products such as underwriting debt financing instruments of non-financial enterprises, asset securitization and cross-border financing.

On February 22, 2019, the Bank obtained the qualification of a Type B lead underwriter for non-financial corporate debt financing instruments of the China Interbank Market Dealers Association. As of December 31, 2020, 19 non-financial corporate debt financing instruments of the China Interbank Market Dealers Association were successfully issued in the year, with a total amount of RMB11.86 billion. Among the 12 new Type B lead underwriters, the Bank rank the first in a number of indicators such as the number of customers served, the size and number of medium-term notes issued, and the number of high-quality private enterprise bonds issued customers. Meanwhile, the Bank issued the first debentures (for COVID-19 prevention and control) in Henan Province. As of December 31, 2020, the Bank has achieved Beijing Financial Assets Exchange's debt financing plans, to issue an accumulative amount of RMB2.88 billion in the year.

The Bank actively revitalized the resources of its peers, established a cooperation circle with other banking, insurance, trust, and leasing financial institutions, and provided comprehensive and multi-channel integration financial services for large and medium-sized customers within the province through syndicated loans, joint investment, and fund matching.

The Bank continued to innovate equity financing products and services, leverage the role of the capital market in boosting the real economy. During the Reporting Period, the Bank met diversified demands of listed companies in Henan Province through comprehensive capital market services, including mergers and acquisitions financing, stock pledge financing, convertible bonds and exchangeable bonds; enriched ecosystem resources, provided all-round and multi-form financing services, and helped high-quality reserve enterprises in Henan Province to get listed successfully; promoted industrial merger and integration within the region, and supported leading enterprises in the industry and state-owned enterprises under local governments to grow bigger and stronger.

The Bank actively expanded the asset securitization business to provide a full range of securitization service solutions, including asset-backed notes, asset-backed securities and accounts receivable debt financing plans for enterprises inside and outside the province to meet their personalized financing needs of high-quality enterprises. During the Reporting Period, the Bank landed several "first orders" successively, led the development of innovative businesses in the province through innovative products, achieved the full coverage of assets of securitized products, and in turn continued to increase its market influence.

The Bank continued to promote the construction of a cross-border investment and financing cooperation platform, leveraged intra-bank linkages and out-of-bank resource advantages, and took multiple measures to provide comprehensive financial services for overseas debt issuance and listing in Hong Kong by enterprises in the province, and to open up overseas financing channels.

Chapter 5 Management Discussion and Analysis

9.1.6 Transaction banking

During the Reporting Period, the Bank's transaction banking business stuck to its "Future Bank" layout, actively promoted the digital strategic transformation, intensified the construction of online system, conducted in-depth industry research, and promoted the implementation of key businesses. The Bank leveraged financial technology and focused on digital transformation to vigorously develop transaction banking businesses such as cash management, supply chain financing, international business and electronic channels, and continuously improved the product system of transaction banking. Further, the Bank formed five major brands, namely "ZY Bank e Housekeeper(原銀e管家)", "ZY Bank e Facilities(原銀e融通)", "ZY Bank e Linkage(原銀e鏈通)", "ZY Bank e Cross-border(原銀e跨境)" and "ZY Bank e Pipeline(原銀e渠道)", and over 30 products categories.

9.1.6.1 Cash management

Through independent research and development and product innovation, the Bank has established a relatively complete cash management product system, which can provide standardized and personalized cash management service solutions for enterprises, governments and public institutions. As of December 31, 2020, there were 7,433 cash management accounts; the daily average balance of deposits was RMB53,375 million, representing an increase of 4.66% as compared with the end of last year. Meanwhile, with the increasing improvement in onlineization of products, some products have realized online the entire process of business approval, products agreement signing and terminating agreement with customers; launched a new mixed cash management product – Liudong Fengli(流動豐利), which organically combined customer settlement and investment to provide customers with payment convenience and investment dividend; in order to assist community-level governments to achieve account penetration supervision, the "E-supervision platform for community-level governments funds" was launched. As of December 31, 2020, the Bank had 3,790 cash management accounts within the province, with daily average deposits of RMB102 million. Zhongyuan Bank has become a major cooperative bank for more customers in light of its comprehensive and all-around product system and service capabilities in cash management.

9.1.6.2 Supply chain financing and trade financing

The Bank insisted on the customer-centric principle and actively promoted the online, digital and scenario-based development of supply chain finance business. In terms of product construction, the Bank adhered to the scientific philosophy of promoting development in an agile manner and striving for excellence, kept improving and committed to providing customized, professional and online supply chain finance services to customers in different industries and fields in the process of building an industrial financial ecosystem. During the Reporting Period, the accumulated financing amount of the Bank's transaction banking business amounted to RMB120.3 billion. The Bank researched, developed and launched supply chain financial product "ZY Bank e Linkage", which targeted at large key enterprises to solve problems such as receivables of medium and small enterprises on the industry chain staying at a high level and frequent fund occupancy. To reduce the cost of enterprises transactions and improve transaction efficiency, the Bank researched, developed and launched separated electronic guarantees, providing direct access to 19 public resource trading centers within the province. As of December 31, 2020, the Bank had issued 1,476 guarantees to 787 customers and save deposit of more than RMB500 million for medium and small enterprises through electronic guarantees.

Chapter 5 Management Discussion and Analysis

9.1.6.3 International business

During the Reporting Period, the Bank was awarded as A class (Top class) again by the SAFE, meaning the professional ability of the Bank was recognized by the regulatory institutions. The Bank have gained such honour for successive four years. At the same year, the Bank introduced external strategic consulting to conduct a comprehensive review on governance and strategy of international business, internal control, training communication and record retention, which had significantly improved the level of compliance in respect of internal control in international business of the Bank. As of December 31, 2020, the international settlement of international business of the transaction banking reached US\$5.064 billion; international financing amounted to RMB17.059 billion, with a year-on-year increase of 25.9%.

During the Reporting Period, the Bank actively supported the new business trend, promoted the integration between enterprises providing comprehensive service to foreign trade and the direct connection system for the Bank's enterprise customers and agreement signing with the "Yihutong" (一户通) products of the Bank. The Bank had made breakthrough to enable the receipt of foreign exchange by enterprises providing comprehensive service to foreign trade as agents of medium and small size importing enterprises and enhance credit of foreign bonds through standby letter of credit and successfully completed the first credit enhancement of foreign bonds through standby letter of credit in city commercial banks in Henan Province.

9.1.6.4 Corporate electronic channels

The Bank constantly innovated the application scenarios of corporate electronic channels. With online corporate service, agile product construction and excellent customer experience as well as creating the best omni-channel service ecosystem as the vision, the Bank has always been committed to build its product systems to achieve rapid response to customer needs through accelerating product development with agile iteration. As of December 31, 2020, the aggregated number of the Bank's corporate online banking customers was 144,023, representing an increase of 14,685 customers as compared to the end of the previous year. The accumulated transaction amount in this year was RMB2,621.4 billion, and the total number of transaction in this year was 9,099,047, accounting for 91.85% of the total number of transactions conducted by corporate banking customers during the same period.

During the Reporting Period, the Bank launched the "Corporate Mobile Banking boss Version" to provide corporate executives with account overview, policy information, exclusive monthly report and other financial services. The Bank created the first open registration form in the industry, and successfully passed the Level 3 assessment of the R&D and Operations Integration (DevOps) Capability Maturity Model•Part 3: Continuous Delivery conducted by the Ministry of Industry and Information Technology, marking that the continuous delivery capacity of the evaluated projects reached the leading level in China.



Chapter 5 Management Discussion and Analysis

During the Reporting Period, the Bank continued to focus on the industries such as bulk commodities, building materials and modern logistics, comprehensively promoted the implementation of innovative projects in transaction banking, and extended services to the upstream and downstream customers of the supply chain with a customer-centered and profit-oriented approach. Under the business logic of “industry + finance + technology”, the Bank cut into the industry scene through cooperation with the industrial end, realized that the whole process of business is “visible + controllable” by means of science and technology, and reduced industry transaction costs by re-feeding the industry through finance. The modern logistics financial service platform, online supply chain financial platform for bulk commodities, online supply chain financial platform for building materials and other projects continued to improve. By deepening industry transactions and applying scientific and technological risk control means, the Bank served small, medium and micro customers in the industrial chain, alleviated the difficulties in financing for small and medium-sized enterprises, practiced inclusive finance and help the real economy.

9.2 Retail Banking Business

During the Reporting Period, the Bank’s retail business consisted on taking implement of “Internetization and Ruralization of Banking Services” strategy and “Digital Transformation” strategy as the driving force, seized the major development opportunities brought by the post-epidemic situation, paid close attention to the changes in market and customers’ needs, focused on customer-centered approach and continuously enriched and improved product systems with market competitiveness and characteristics, further promoted customer operations, strengthened the ability to attract large group of customers, and improved the digitalization, intelligence, and onlineization of the retail business so that to promote coordinated and rapid development of efficiency, quality and scale.

9.2.1 Retail Deposits

During the Reporting Period, the Bank reshaped the business development logic, that is to strengthen the concept of asset allocation, actively explore online marketing model and constantly improve the online operation ability, at the same time, further promoted digital transformation, built a big data-driven marketing system, realize the application of big data use case, of which 35 cases being launched online, to promote the transformation to retail customer business model.

As of December 31, 2020, the time point balance of savings deposits was RMB200,492 million, representing an increase of RMB26,485 million or 15.22% as compared to the end of last year. The daily average balance of savings deposits was RMB190,468 million, representing an increase of RMB13,237 million or 7.47% as compared to the last year. The balance of asset under management was RMB274,295 million, representing an increase of RMB48,719 million or 21.6% as compared with the end of last year.



Chapter 5 Management Discussion and Analysis

9.2.2 Retail Loans

During the Reporting Period, the Bank implemented thoroughly the digital transformation strategy to strengthen the technological empowerment, enrich the online product systems and expand the product service channels, and maintained a good momentum of development by actively practicing the responsibility of inclusive finance and improving the intelligent risk control level of personal loan.

The Bank's retail loans business continued to be agilely empowered and data-driven to accelerate the launch of products. The operations of "perpetual loan" business were all performed online with an innovative renewal model. The Bank timely launched the car rental loan products and discount products according to the changes in demand of automobile consumer loan market. We innovatively launched Jushang Loan, an online credit loan product exclusive to Jushang merchants, which with the whole process could be handled by self-service through mobile banking and WeChat bank. As of December 31, 2020, the accumulated number of followers of "perpetual loan" has reached 857,500, representing an increase of 281,400 of followers as compared to the end of last year; the number of applicants since the launch of Jushang Loan were 50,600, with a credit amount of RMB1.175 billion and a total withdrawal of RMB450 million. In 2020, the annual sales of zero-loan online product was RMB31.177 billion, accounting for 42.68%, and an increase of 5.93% compared to the end of last year.

We Implemented the concept of "three ways of customer acquisition" and Internet marketing, built "proprietary + traffic platform" customer acquisition channels, constructed private traffic circle marketing systems such as WeChat official account, Original Heart, Wecom, mobile banking, etc., to achieve customer acquisition of MGM; we carried out operations from the aspects of reach, customer acquisition, active customers, retention and self-dissemination to achieve accurate reach of customers and effective promotion leveraging on big data use cases and funnel model construction. As of December 31, 2020, the number of online applications for "perpetual loan" was 60,000, accounting for 60% of the total applications, representing an increase of 22% as compared to the end of last year, and exceeding the offline share for the first time. The "Yuan e Hua" increased 750,000 new customers for the whole year, including 363,000 online customers, accounting for 48.4% of the online customers, representing an increase of 10.1% as compared to the online customer acquisition at the end of last year.

We insisted on paying equal emphasis on both business development and risk prevention and control. With the technology empowerment, we carried out intelligent marketing, intelligent risk control, intelligent collection before loans, in the process of loans and after loans. We used a series of technical implementation such as biometric technology, big data inquiry, risk warning model and robot collection to realize the end-to-end intelligent risk control through out the whole process of loan, thus guarantee a rapid, healthy and steady development of the retail credit business.

As of December 31, 2020, the time point balance of the personal loans was RMB170,501 million, representing an increase of RMB39,076 million or 29.73% as compared to the end of last year; the daily average balance of personal loans was RMB153,380 million, representing an increase of RMB28,905 million or 23.22% as compared to the end of last year.

Chapter 5 Management Discussion and Analysis

9.2.3 Personal customers

As of December 31, 2020, the Bank's customers reached 17,105,300 in total, representing an increase of 2,159,100 or 14.45% as compared with the end of last year.

9.2.3.1 Mass customers

As of December 31, 2020, the size of assets under management (including savings) of the Bank's mass customers was RMB194,836 million, representing an increase of RMB31,616 million as compared to the end of previous year, of which the amount of savings deposits was RMB146,077 million, representing an increase of RMB19,362 million over the end of previous year. The Bank is customer-centered and customer-oriented, and has made a new breakthrough in the operation of agency customers. The number of qualified agency customers representing an increase of 652,600 or 27% as compared to the end of last year. The assets under management (including savings) representing an increase of RMB17.153 billion or 35% as compared to the end of last year.

9.2.3.2 Wealth management & private banking customer groups

As of December 31, 2020, the amount of assets under management (including savings) of wealth management & private banking customer groups of the Bank was RMB78,995 million, representing an increase of RMB19,658 million or 33.13% over the previous year, of which the savings deposits of wealth management & private banking customers increased by RMB7,885 million. The number of customers with a balance exceeding RMB3 million was 5,400, representing an increase of 1,400, or 35% over the previous year. The balance of off-balance sheet assets was RMB34,437 million, representing an increase of RMB11,774 million or 51.95% over the end of previous year; the business scale of high-net-worth exclusive products such as trust asset management has achieved leapfrog growth. During the Reporting Period, the amount of high-net-worth exclusive products sold was RMB11,478 million, making the Bank No.1 in the province.

9.2.4 Scenario Development and Operation Business

During the Reporting Period, the Bank has continuously expanded the scenario product content and has improved customer experience, thus effectively promoted the steady development of various scenario business.

In terms of Zhongyuan Foodie Map, the Bank carried out three operation activities: "direct mail from origin place of production", "food to your home" and live broadcast to rural areas, visited poor villages to assist in the online operation of agricultural products, realized online issuance of credit card interests and customer attraction for website by the functions of "Huimingou—outlet drainage" and "Herald of Autumn—online interests of customers". As of December 31, 2020, the number of registered users reached 1,400,700, the number of monthly active users reached 200,500; the total number of merchants with products sold on the platform reached 9,737, the total number of online transactions is 422,100, and the total transaction amount is RMB14,620,900. The Bank launched the "Credit Card Wednesday Eating Day" activity (recording a transaction amount of RMB10,016,200), and helping farms activity (recording a total of 128 farmers/cooperatives/merchants settled in the area, and 817 pieces of agricultural products were online, helping farmers to sell 102,100 pieces of agricultural products and increasing their income by RMB2,217,200).



Chapter 5 Management Discussion and Analysis

In terms of serving small and micro merchants, Zhongyuan Jushang responded to environmental changes, quickly adjusted business operation ideas, continued to streamline operating procedures, and enriched online promotional tools for merchants; it provided credit support, and use big data use cases to conduct refined business operations through rapid product iteration. As of December 31, 2020, the number of registered merchants was 266,800, the balance of deposits from these merchants were RMB8.128 billion, representing an increase of RMB2.808 billion from the end of last year. The balance of assets management was RMB12.095 billion, representing an increase of RMB4.415 billion from the end of last year.

In terms of community products, the Bank rapidly launched the epidemic registration management system “One District One Code” during the epidemic prevention and control period to fully meet customers’ needs and effectively improve the informationization of epidemic prevention and control measures; it conducted accurate marketing, and carried out customer-driven operation transformation activities by multi-measures, effectively improve customer conversion. As of December 31, 2020, there were a total of 10.4 communities included, covering 1,874 property management companies and the epidemic level system covered 102,000 projects. The total number of users in the community is 4,206,000, with 3,656,000 registered online users.

In terms of products in the education field, the health reporting system was launched and payment without meeting was promoted during the epidemic period. The Bank developed “Yishoubao” scene wallet based on users, accounts, payments and wallets, and connected the whole chain of scene transformation to improve online customer acquisition. As of December 31, 2020, there were 1,048 new schools and educational institutions, reaching a total of 3,980; 1,056,000 new registered users, reaching a total of 1,426,000 registered users; and 2.71 million new collections with an amount of RMB2.44 billion, reaching a total of 3.12 million receipts with an amount of RMB3.11 billion; the number of monthly active users was 193,000, with 50,080 newly converted customers; in terms of all-in-one card projects, 7 has been put online; a total of 121,000 cards were issued, including 31,000 new cards were tied and 16,000 new cards issued.

9.2.5 Mass Customer Service

During the Reporting Period, the Bank created an open financial ecosystem, expanded a new growth model of agency development and launched an open platform of “E-Pay” agency development. It provided one-stop products, interests and services for agency units and customers. More than one month from the launch of platform, it has served 500 enterprises, effectively solving the pain points of cumbersome offline business procedures for customers, optimizing customer experience and facilitating the development of intra-industry agency business.

The Bank actively explored new market opportunities, took the initiative to plan the elderly customer group and looked for new business growth points. It adapted to the aging trend of society, built an overall operation system for elderly customers, and explored the growth potential of the customers through all-round empowerment of products, activities, interests, channels and services. The Bank launched special products and services and exclusive financial management for elderly customers. At the same time, based on the needs of elderly customers, the Fanghua version of mobile banking is comprehensively upgraded, which not only optimizes the details, but also adds the quick transfer function, love travel, super affordable, points purchase and other modules, which greatly optimizes the experience of elderly customers.



Chapter 5 Management Discussion and Analysis

The Bank adapted to customers' mobile online trend, increased the customers' online rate through online operation. Focusing on the whole life cycle and value proposition of customers, combining festivals and social hot spots, the Bank formed a map of online activities to serve customers, which could effectively carry out online activities, and improve customers' online activity and our bank's online customer management ability. As of December 31, 2020, Intelligent Win Platform has created and configured 306 online activities in total, reached 2,390,800 customers and 36,178,200 visits. At the same time, it also operated the shopping mall with accumulated reward points to increased the customers' online rate. During the Reporting Period, the accumulated visits of the shopping mall with accumulated reward points were 64.69 million times, and the accumulated registered users of the shopping mall with accumulated reward points were 1,982,500, representing an increase of 730,300 or 58% as compared to the end of last year.

9.2.6 Wealth and Private Banking

During the Reporting Period, in terms of customer acquisition, the Bank changed thinking mode, connected internal and external channels with data-based thinking, conducted multi-dimensional analysis of big data, conducted category-based operations and refined management of customers, and explored a new data-based customer acquisition mode.

In terms of customer operations, the Bank adhered to the customer-centered philosophy, created various asset allocation schemes and tools based on the needs of customers' wealth management, and established a professional private banking service team to continuously optimize customers' asset structure for healthy development, and provided more professional and intimate services for the Bank's high net worth customers. To meet the diversified, differentiated and professional needs of VIP customers, the Bank has established wealth management centers within the province, which have covered 13 cities in Henan Province as of December 31, 2020.

The non-financial product systems has been continuously improved. As of December 31, 2020, focusing on the customers' needs during the epidemic period, 8 online activities and 9 offline activities have been held, covering Wealth Forum, Finance and Tax Seminar, Real Estate Form Research and Assessment and other activities, and launched 8 non-financial products such as UN junior ambassador, Yuntai Mountain Electric Music, Art and Culture Exhibition "Not up to Trend Today", Beida Lake Skiing Winter Camp, Sanya Sailing Independent Camp. Focusing on the fields of "clothing, food, housing, transportation, travel, shopping, entertainment, education and health", the Bank improved the service systems of nine major brands such as Zhongyuan Famous Doctor(中原名醫堂) and Zhongyuan Happy Tour(中原悦出行).

9.2.7 Agriculture-related Business

During the Reporting Period, in accordance with the overall idea "laying foundations, focusing on specifications and emphasizing efficiency", the agriculture-related business of the Bank deeply promoted the strategy of "Internetization and Ruralization of Banking Services". The Bank steadily implemented the construction of inclusive financial service stations at the center of towns, launched "village online" platform with pilot operation among counties and increased agriculture-related loans. The quantity and quality of township sub-branches was constantly increased; the "1+1+1" assistance mechanism among sub-branches in big county firstly showed its effects. The Bank continuously improved the ability to prevent agriculture-related business risk.



Chapter 5 Management Discussion and Analysis

The Bank seized the highland, so as to lay a solid foundation for the new structure of “one point, one line and one center” agriculture-related service. As of December 31, 2020, the Bank had established 126 county-level sub-branches, 71 township sub-branches, and approximately 5,000 farmers-benefiting payment service outlets and rural inclusive financial service stations within the province. At present, the inclusive financial service stations and farmers-benefiting payment service outlets under operation have covered 75% of the towns in 18 cities in Henan Province, benefiting more than 10 million rural residents, and accepting 2,677,100 various transactions of rural residents in the province for the year with a cumulative amount of RMB9.696 billion.

The Bank helped farmers online, and focused on diversified rural services. The Bank innovatively developed the rural online comprehensive service platform – “Village Online” platform, which integrates party building, governance, villagers and services, addressing the “Ruralization of digital banking services” problem by technology method. The Bank contributed its financial wisdom and power to write the new chapter of the Overall Rural Revitalization in the new era by building a new model of agriculture-related “Financial + Non-financial” service. As of December 31, 2020, the number of registered users of Village Online APP amounted to 220,000, and the number of customers who have bound their accounts to the APP was 200,000, or 90%.

The Bank innovated its loan products and credit-grant model, to help achieving the valid connection of poverty alleviation and rural revitalization. The Bank promoted the construction of “Credit Village” and bank-government joint construction of Credit Village. The Bank adhered to the initial mind of supporting agriculture and agriculture-related business, assisting precision poverty alleviation; to strengthen the bank-insurance cooperation, and explore the new model of “Bank + insurance” loan, which improved the ability of financial services for Rural Revitalization. As of December 31, 2020, the balance of agriculture-related personal loan was RMB1.33 billion, representing an increase of RMB956 million, or 256%, as compared with the beginning of the year; the amount released by the Bank for the year totaled RMB2.377 billion with the number of loan business reached 67,600 in aggregate, among which “Yu’nong Loan” has issued a total of RMB1.766 billion and a pre-credit amount of approximately RMB13.8 billion, serving approximately 276,200 rural households in aggregate and approximately 1,290,000 rural people.

The Bank facilitated “three-in-one” channel service system, and significantly improved county-level and agriculture-related contribution. As of December 31, 2020, the amounts balance of agriculture-related accounts was RMB27.31 billion, representing an increase of RMB8.39 billion, or 44.3%, from the end of last year, ranking the first among 51 financial institutions cooperating with Yinong Technology.

Chapter 5 Management Discussion and Analysis

9.2.8 Credit card business

During the Reporting Period, the Bank insisted on paying equal attention to credit card issuance and operation, improved the customers ratio of main settlement, optimized income structure of credit cards, continuously enriched interest system and constantly improved the scenario-based and digital operation system. The Zhongyuan Bank-Ctrip co-branded platinum card, Silver Base co-branded card, iQIYI co-branded card and Free&Easy Life female card have been launched successively, using large platform traffic and characteristic cooperation implantation scenarios to gain customers. To enrich the installment product system, it launched installment products such as “cash instalments”, Fenbei, and Yingcai jin, further optimizing customer structure, enriching credit cards label system by big data customer needs and carrying out customer operations in multi-dimensions. It continued to promote the construction of intelligent risk control system, strengthen data empowerment, and formulate differentiated risk pricing strategies, with an aim to further enhancing customer insight.

Annual theme “May you have a wonderful life | Be your company every day” was established, ranging from “Dress, diet, live and travel” to “sports, culture and entertainment”. Under multiple life and consumption scenarios, customers can feel firm company provided by credit cards of the Bank. Therefore, it finished the role transformation from “paying tool” to “life partner”.

As of December 31, 2020, a total of 2,450,400 credit cards were issued, representing an increase of 452,700 as compared with the end of last year. The number of the valid activated cards was 1,755,700; the transactions amount of the period was RMB81,167 million, representing a year-on-year increase of 39.85%. The total income was RMB702 million, representing a year-on-year increase of 75.09%. The loan balance was RMB13,188 million. Among them, the revolving loan was RMB9,406 million, and the balance of installment loans was RMB3,782 million.

9.2.9 Direct bank

During the Reporting Period, the direct bank business department regarded building a digitally transformed service brand for small and medium-sized financial institutions as its vision, and was committed to promoting the jointly innovative business of perpetual loan. As of December 31, 2020, 21 cooperative banks have signed agreements with us on jointly innovative business of perpetual loan, of which 16 banks have started operations, and managed an amount of RMB9.19 billion of assets, establishing a good brand image and word-of-mouth effect in the industry.

In order to support the efficient operation of the jointly innovative business of perpetual loan, the direct bank business department continuously promoted standardized operation systems in terms of projects operation; in terms of risk control, it actively constructed company-level intelligent decision-making platform; supported that risk control strategy was determined by cooperative banks on their own in accordance with risk preference; it launched 35 graphs in four categories, including business statistics, business analysis, Easyscreen and business risk on digital operations data platform project. 23 system iteration works were finished in aggregate for the year, with 142 functions launching, which laid a solid foundation for continuous healthy development of the jointly innovative business of perpetual loan.



Chapter 5 Management Discussion and Analysis

9.3 Financial Market Business

9.3.1 Treasury business

During the Reporting Period, the Bank actively implemented every regulatory requirements, prudently carried out financial market business with compliance. As a primary dealer in open market, and an interbank bond market maker, the Bank assumed its own market responsibility and effectively conducted monetary policy on the basis of reasonable arrangement with liabilities duration and guarantee of liquidity security. The Bank continuously made bilateral market quotes which made great contribution to steady operation of interbank market. As of December 31, 2020, the balance of the Bank's deposits and placements with banks and other financial institutions as well as financial assets held under resale agreements was RMB54.594 billion, accounting for 7.21% of the Bank's total assets. The balance of the Bank's deposits and placements from banks and other financial institutions as well as financial assets sold under repurchase agreements was RMB136,744 million, accounting for 19.59% of the Bank's total liabilities.

During the Reporting Period, faced with emergent COVID-19 epidemic and complex international situation, the Bank closely tracked the policy guideline, grasped market trends and enhanced market research and judgement, making full use of the ability of investment and research: during the period of interest rates going low, seized market opportunities, enhanced the efforts of operation at different time points and increased investment returns; in the context of the resumption of work and production being progressed orderly, overall economy going forward while staying stable, the Bank decreased portfolio duration in a timely manner. By flexibly adjusting transaction strategies, achieving the increase of bond investment income for the year and optimization of asset portfolio structure, which further laid a solid foundation for profits and development. At the same time, faced with severe price change of assets globally, the Bank reasonably applied to derivatives business qualifications, actively carrying out hedging business and effectively decrease interest rate risk based on operation in compliance and risk control. In addition, the Bank continuously promoted the development of innovative business, explored business qualifications, enriched business products system, deepened the depth of business and improve its market influence step by step.

9.3.2 Interbank business

The interbank business segment has implemented the business strategy of providing mid-to-long-term liquidity support for the entire bank, serving interbank customers to conduct product sales, optimizing the asset structure to support the real economy, and adjusting assets scale to balance funds. While ensuring stable business growth, it actively implemented each financial policies of epidemic prevention, improved product innovation and customer service capabilities, and effectively promoted the deepened development and innovation transformation of interbank business.



Chapter 5 Management Discussion and Analysis

During the Reporting Period, supported by fintech, the Bank improved the promotion efforts on online products, improved business processing efficiency and safety, so as to help prevent and control the epidemic, promoting continuous and steady business growth. First, as the first batch of pilot banks in China to join CFETS interbank deposits, the Bank vigorously explored CFETS interbank deposits business, and led customers transfer from offline to online, with the number of customers we explored ranking top. As of the end of Reporting Period, the cumulative turnover of CFETS interbank deposits was RMB39.07 billion, representing a year-on-year increase of 57.64%. Second, the “Y e-discount(原e貼)” 2.0 was successfully upgraded to “Y e-discount” 3.0. The online discount function of commercial bills was newly added, achieving online discount of bank notes and commercial bills, which effectively improved the efficiency of discount and the customer experience. As of the end of Reporting Period, the bill discount business of the Bank recorded RM60.707 billion in aggregate, representing a year-on-year increase of 28.89%.

9.3.3 Asset management

During the Reporting Period, the Bank’s asset management business recorded a stable performance, making the scale of wealth management steadily increase. As of December 31, 2020, the Bank issued a total of 530 wealth management products. By the end of the year, the Bank’s existing wealth management products amounted to 216, with a size of RMB72.787 billion, representing an increase of RMB11.746 billion or 19.24%, as compared to the end of last year.

During the Reporting Period, the Bank actively fulfilled social responsibilities and help epidemic prevention and control efforts through issuing wealth management products dedicated to anti-epidemic. At the same time, the Bank closely kept pace with changes in regulatory policies, steadily promoted the transformation of efforts, adhered to customer demand-oriented, enhanced the capacity of investment and research, optimized product structure and improved the net-worth series of wealth management products, forming “Eight main product series” focusing on fixed income. Product types of the Bank included cash management product “Xianjinbao”(現金寶) and “Xinyibao”(心意寶), customer lifecycle type product “Ruyibao”(如意寶), product with minimum holding period “Deyi” series(得益系列) and “Anxin” series(安鑫系列), regular open “Profit” series(盈系列), closed type “Stable Profit Increment” series(穩健增利系列) and “Qianjing” series(乾景系列) and others, to providing investors with various options for asset allocation.

9.4 Distribution Channels

During the Reporting Period, the Bank focused on the “mobile first” development strategy, adhered to being “customer-centric”, actively carried out omni-channel operation and management, and orderly promoted the construction of online and offline channel systems, refined online operation management, and strengthened online customer operation and service capabilities, comprehensively improved user experience, to assist the rapid development of the Bank’s retail business.

9.4.1 Physical distribution channels

As of December 31, 2020, the Bank had 18 branches and 2 direct sub branches in total, covering all 18 cities in Henan Province. In particular, there were 297 city-level sub-branches, 126 county-level sub-branches and 71 township-level sub-branches, as well as almost 5,000 farmers-benefiting payment service outlets and inclusive financial service stations.

Chapter 5 Management Discussion and Analysis

9.4.2 Self-service banking channel

The Bank's self-service equipment includes automatic teller machine, smart teller machine, mobile PAD, CRS, etc.. Those machines provide customers with a variety of self-services such as depositing and withdrawal of cash, account opening and account services, investment and wealth management, credit card business, etc.. During the Reporting Period, the Bank used advanced technology to implement innovative service models such as face recognition and mobile phone code scanning for business processing, strengthened traffic conversion from offline channels to online channels, completed new UI/UE transformation of ATMs and VTMs and continuously enhanced customer operating experience. As of December 31, 2020, the number of Bank's self-service equipment has reached 5,507 units in total, of which, there were 1,517 ATMs and CRSs, 873 smart teller machines, 412 smart cash counters, 50 VTMs, 1,219 multimedia kiosks, 1,320 mobile PADs and 116 self-service receipt printers. During the Reporting Period, a total of 33,377,800 transactions were completed via offline self-service channels, involving a total transaction amount of RMB103.865 billion.

9.4.3 E-banking channel

9.4.3.1 Personal online banking

Under the "mobile first" strategic environment, the Bank continued to maintain the stable operation of the personal online banking and focused on key customers to guarantee customers' demands for financial products. As of December 31, 2020, the Bank's personal online banking attracted 106,200 new users, with the total number of users reaching 991,800. The total number of transactions reached 23,285,600 and the total transaction amount reached RMB1,365.272 billion in 2020.

9.4.3.2 Mobile finance

(I) Mobile banking

During the Reporting Period, the Bank's mobile banking launched more than 20 new functions such as mobile phone number registration, accounting books, and dual video recording, realized real-time anti-fraud with big data, achieved the improvement of national secrets and IPV6, and completed PBoC's financial security record, strengthening the online service capabilities of mobile banking in terms of experience, security, performance and others; Online financial products have been further enriched by four types of single-online loan products by customer segments such as Jushang Quick Loan (聚商快貸), Yuan Ding Loan (園丁貸), Angel Loan (天使貸) and Kaixinbao (開薪寶) that have been launched to further satisfy the financing needs of different groups.

As of December 31, 2020, the Bank's mobile banking obtained 1,667,700 new users, and the cumulative number amounted 7,724,900; the total number of monthly active users increased by 692,900 and the cumulative number amounted 2,087,900. The Bank continuously improved the capabilities when serving non-financial scenarios, newly set 18 scenarios characterized by Henan local special lifestyle, settled in 117 farmers/cooperatives, expanded the shopping mall divisions by 5 blocks including cosmetics, mobile phone 3C, sports, home appliances and parent-child series, and launch 70 brands to establish ecology of comprehensive services provided by mobile banking. As of December 31, 2020, the number of third-party sellers in the online integrated mall reached 311, the number of orders effectively completed was 167,100 and the actual transaction amount reached RMB2,877,700.



Chapter 5 Management Discussion and Analysis

(II) WeChat banking

Under the guidance of the digital transformation strategy, the WeChat ecological customer service has been deeply cultivated. As of December 31, 2020, the WeChat Official Account of the Bank has posted 285 articles, which have been viewed for 6,442,500 times; the number of fans was 4,682,500, representing an increase of 1,748,400 as compared to the end of the previous year; 3,109,600 customers handled card-tied service, representing an increase of 1,626,600 clients as compared to the end of the previous year; and there were 1,099,900 monthly active users, representing an increase of 582,600 new users as compared to the end of the previous year.

(III) Customer service center

During the Reporting Period, in reliance on digital and artificial intelligence technology, the Bank's customer service center transformed into the intelligent and intensive operation. Leveraging on big data analysis and introducing technical means such as AI to empower and improve efficiency, online operations for certain customer groups were remotely conducted, in order to realize the transformation from a passive customer service center into an active remote operation service center. For the same time, certain intelligent training related positions were set up to help the intelligent transformation of the customer service center and reduce the cost of manual access. We changed the outsourcing service model of traditional manual services, and improve the customer service response rate, connection rate and other service indicators by strengthening the management of outsourcing personnel. As of December 31, 2020, the total number of incoming calls was 3,479,600, of which 1,604,300 were manual call answers, and the connection rate was 89.89% and customer satisfaction rate was 99.56%; online customer service served clients for 3,789,300 times, of which 160,400 times were transferred to labor channel, the shunt rate of intelligent robots was 95.77%, the connection rate was 99.15%, and the customer satisfaction rate was 94.1%.

9.5 Information Technology

The Bank focused on the work goal of focusing on customers and promoting the transformation of innovative development, comprehensively promoted the practice of strategic transformation, consolidates technological infrastructure and capabilities, and strived to handle technological risk management to promote the steady development of the Bank's business.

In accordance with the practical requirements of digital transformation strategy, the Bank firmly promoted the construction of agile capability system, IT infrastructure transformation and data banking. The Bank strengthened the construction of agile capability system by the way of agile empowerment, agile training team, agile culture, and DevOps system establishment; highlighted the transformation of IT infrastructure by the way of technology intermediate platform, business intermediate platform and cloud platform; speeded up the construction of data banking by the way of data governance, data integration, data intermediate platform, digitalization marketing and digital business construction.



Chapter 5 Management Discussion and Analysis

The Bank strengthened the construction of research and development teams specialized in science and technology innovation, actively followed up the development trend of advanced technology, and explored technological innovation applications such as big data, artificial intelligence and federal study. Whereas we increased resources input, developed and researched in-house innovative projects such as health code to provide strong technological support in fights against epidemics. Firstly, the Bank conducted joint modeling based on Bayesian Deep Learning algorithms to help enhance the Bank's risk control capabilities, retrieved 49,370 customers who were refused, and cumulatively released loans of RMB20 million. Secondly, the Bank independently researched and developed deep learning models, released 21 kinds of artificial intelligence services such as OCR and NLP, with an average usage for over 5,000 times per day and the replacement rate of scenarios workload at 70% thus empowered business processing such as account opening, transfer and approval to improve its quality and efficiency. Thirdly, the Bank actively explored private computing technologies such as multi-party security computing and federal learning, built an innumerable and data joint modeling environment, relied on internal and external data for federated modeling, and initially predicted a high-potential clue with the accuracy rate of 50%. Fourthly, the Bank put effort to advance the digital defense against the epidemic. We completed the construction of the "One District, One Code" project to effectively support the prevention and control of epidemic in communities, public transportation, hospitals, shopping malls, etc. in 18 cities across the province; we undertook Henan provincial health code construction project, adopted the technological infrastructure independently controlled by the Bank to provide strong support for the provincial epidemic prevention and control work; we completed the construction of an online contracting platform to effectively support the online contracting activities of enterprises to resume work and production.

The Bank paid attention to the establishment of technology brands. Firstly, the Bank enhanced in-house innovation, made application for a total of 30 software copyrights and 12 patents during the year, and the brand influence of Zhongyuan Technology has become increasingly prominent. Secondly, the Bank convened Financial Cyber Security Forum on the 2020 national cyber security-week financial day to fulfill corporate social responsibilities and promote public security awareness. Thirdly, the Bank carried the leadership in establishing the Financial Technology Committee of AFCA to promote scientific and technological communications and cooperation among members of the association. Fourthly, the Bank participated in the 2020 "Wangding Cup (網鼎杯)" cyber security competition, and won the 16th place in the Zhuque Group (朱雀組) in which 3,203 teams participated, which effectively reflected the actual level of the Bank's cyber security offensive and defensive combat.

During the Reporting Period, the information system of the Bank was running smoothly as a whole with no major production liability incident incurred.

Chapter 5 Management Discussion and Analysis

9.6 Investment Business of Subsidiaries and Joint Ventures

For details of the Bank's subsidiaries, please refer to Note 23 to the financial statements of this annual report.

9.6.1 County banks

9.6.1.1 Percentage of shareholding of the Bank in county banks

Name	Percentage of shareholding of the Bank
Linzhou Zhongyuan County Bank Co., Ltd. (林州中原村鎮銀行有限公司)	51.00%
Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行有限公司)	51.00%
Xinxiang Zhongyuan County Bank Co., Ltd. (新鄉中原村鎮銀行有限公司)	78.46%
Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行有限公司)	51.00%
Lushi Zhongyuan County Bank Co., Ltd. (盧氏中原村鎮銀行股份有限公司)	51.00%
Xiangcheng Huipu County Bank Co., Ltd. (襄城匯浦村鎮銀行股份有限公司)	51.00%
Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司)	51.72%
Xiping Zhongyuan County Bank Co., Ltd. (西平中原村鎮銀行股份有限公司)	43.69%
Suiping Zhongyuan County Bank Co., Ltd. (遂平中原村鎮銀行股份有限公司)	51.02%

9.6.1.2 Business development during the Reporting Period

The nine county banks provide local small and micro enterprises and retail banking customers with a broad range of financial products and services, including business and consumer loans, deposits from customers and fee-based and commission-based products and services, such as settlement services, remittance services and bank card services.

The Bank will take advantage of own technology, products, management and other resources to continuously help the nine county banks to enrich their own financial service system, better serve the target customer base of county banks, and contribute financial strength of country banks to the local rural revitalization, so as to enhance the Bank's brand awareness.

The nine county banks adhered to their market positioning of serving "agriculture, rural areas and farmers(三農)" and "small and micro enterprises(小微)" and extended credit following the principles of "micro, mobile and disperse(小額、流動、分散)". Their size of assets kept expanding with the structure of deposits and loans approaching rational, along with intensified support to agriculture and small and micro enterprises. As of December 31, 2020, the total assets amounted to RMB13,875 million, representing an increase of RMB1,824 million, or 15.14%, as compared to the beginning of the year. The balance of deposits amounted to RMB11,666 million, representing an increase of RMB1,344 million, or 13%, as compared to the beginning of the year. The total loans amounted to RMB9,157 million, representing an increase of RMB1,163 million, or 14.6%, as compared to the beginning of the year.



Chapter 5 Management Discussion and Analysis

The nine county banks are independent legal entities regulated by the China Banking and Insurance Regulatory Commission. The Bank respects and strives to maintain the independent operation of such banks. The Bank believes that the independent business model has enabled the nine banks to leverage their local networks and customer relationships to adapt to changes in local markets.

9.6.2 Consumer Finance Company

During the Reporting Period, Consumer Finance Company focused on epidemic prevention and control on the one hand, and prudent operation on the other hand, taking advantages of Zhongyuan Bank's Shareholders, it consolidated its position in Henan, penetrated to other regions in the PRC, rooted in areas and energetically implemented inclusive finance. As of December 31, 2020, the total amount of loans issued by Consumer Finance Company reached RMB48,159 million in 2020 with accumulated loans issued of RMB102,334 million; during the Reporting Period, new loan balance was RMB5,292 million with the loan balance was RMB19,300 million, with the number of loans transaction exceeding 18.4468 million and the aggregated number exceeding 31.6353 million realizing the amount of operating revenue recorded was RMB2,109 million and the number of new customers was 5.3516 million, providing consumer finance services for an aggregate of 10,917,800 clients, and adding new vitality to the economic development of Henan Province and the whole country.

9.6.3 Financial Leasing Company

On February 19, 2019, the Bank successfully acquired 90% of the equity of AB Leasing. During the Reporting Period, insisting on faithfully serving the development of real economy, AB Leasing focuses on urban construction related business that are related to the national economy and the people's livelihood and actively develop industrial finance and car leasing business at the same time; adheres to give top priority to risk management in development of the Bank and effectively guard against credit risks, it constantly reinforces credit risk related research and investigation to ensure that credit risks are fully assessed; upholding the principles of legality, reasonability, applicability and completeness, it continuously improves its internal control system, enhancing the implementation thereof, ensuring that the Bank's development strategy and business objectives can be fully realized and strives to become an outstanding company with good efficiency, distinctive features, prominent professional and the ability of sustainable development, standing at the forefront of industry development.

As of the end of the Reporting Period, the balance of financial leases of AB Leasing were RMB32,484 million. As of December 31, 2020, the amount released by AB Leasing totaled more than RMB70 billion. It has started business in 28 provinces, municipalities and autonomous regions in the PRC.



Chapter 5 Management Discussion and Analysis

10. Risk management

During the Reporting Period, the Bank spared no efforts to control risks arising from the COVID-19 pandemic, provided supports for the entities to resume their work and production and offered supports and services for real economy amid the grim and intertwined internal and external operating situations, while taking the sustainable development of the commercial bank as the fundamental way to prevent and control financial risks. Meanwhile, the Bank vigorously strengthened its ability to manage new risks in the fintech environment and improved an online, digital, intelligent and refined risk control system. It actively promoted the construction of an intelligent risk control system across the bank, continuously strengthened model risk management, and deepened big data application in the whole process and key risks of credit business. In addition, the Bank facilitated the overall risk management, closely monitored the implementation of “reducing old and controlling new” and proactively responded to the external impact, thereby ensuring each of the businesses of the Bank develops in a continuously healthy manner.

10.1 Credit risk management

During the Reporting Period, the Bank earnestly implemented the relevant decisions and arrangements by the central government, strengthened the sense of responsibility, continuously improved the quality and efficiency of financial services to provide assistance to win the battle against the COVID-19 pandemic, accurately and powerfully support the real economy. The Bank optimized the risk approval mechanism, allowed “green review and approval channels”, set templates for investigation and review during the COVID-19 pandemic, established an emergency docking system and simplified the credit reporting process to ensure the credit grant for pandemic prevention and anti-pandemic companies. The Bank coordinated the renewal and maturity management of existing loans during the COVID-19 pandemic to give strong support to enterprises in resuming work and production; innovated services, optimized client's experience, and continuously improved the online and digital level of credit audit process; implemented differentiated authorization and increased the support for credit examination of small and micro credit extension business. Leveraging financial technology, the Bank effectively identified risks and realized automatic approved of standardized products; Focusing on the rural revitalization strategy, the Bank will vigorously develop inclusive finance, accelerate the research and development of online products that benefit farmers, enrich unguaranteed and unsecured credit products, meet the diversified financial needs of rural areas, and improve the financial service capacity of agriculture, rural areas and farmers.

During the Reporting Period, the Bank maintained its prudent risk preference, proactively responded to the credit risk exposures arising from external factors such as the COVID-19 pandemic, adhered to seek improvement in stability, promoted the coordinated development of quality, efficiency and scale. The Bank deepened the assessment and application system of RAROC and EVA, improved the capital-constrained incentive system, and guided new credit granting to areas like light capital, low risk and high yield. In addition, it continued to strengthen credit concentration risk monitoring and early warning, the dynamic monitoring of credit balance and portfolio regulation, as well as continuously optimize the credit structure to effectively disperse risks. The Bank also continued to improve the industry research system, strengthen the landing effect of industry research to boost the business transformation and development.



Chapter 5 Management Discussion and Analysis

During the Reporting Period, the Bank adhered to “managed increment, controlled variables and improved quality”, making the Bank’s asset quality remaining stable, the credit structure being optimized and the overall concentration risk under control. The Bank closely monitored the implementation of “reducing old and controlling new”, continued to maintain a stable asset quality, strictly complied with the regulatory requirements, to classify all the loans overdue for more than 60 days into non-performing loans. The Bank continued to promote the recovery and resolution of non-performing assets and high-risk credit extension, focused on the overall layout of key branches and key projects, strengthened supervision and guidance, enriched its solutions, and improved the effectiveness of resolution through “portfolio consolidation”. By continuously promoting risk screening and inspection, carrying out in-depth inspections on external shock risks, credit business risks and shadow banking risks, etc., the Bank aims to promote improvement through inspection and effectively settle hidden risks.

During the Reporting Period, the Bank focused on digital transformation, continued to enable the construction of online, digital and intelligent risk management, actively promoted the construction of intelligent risk control system across the Bank and constantly strengthened model risk management. The Bank carried out model risk management practices such as independent model verification and regular model test in an orderly manner, promoted the construction of a one-stop model management platform, actively promoted the launch and online implementation of key projects such as the new-generation credit system, non-zero big data assisted decision system, risk management data mart, retail customer quota to support the steady development of business.

10.2 Market risk management

During the Reporting Period, the Bank continuously improved the system of market risk management system based on the business development, continued to explore the market risk management mode suitable for the development of the Bank. Relying on the market risk management system, the Bank continuously enhanced the level of market risk measurement and established market risk management framework for the whole process of market risk identification, measurement, monitoring and reporting, to continuously improve the refined management level of market risks.

During the Reporting Period, the Bank had completed the re-inspection of market risk policies and systems to further improve various market risk policies and systems, solidified the special market risk investigation mechanism and strengthened the internal control and management system. The Bank constantly adjusted and optimized the market risk quota management system to ensure that the market risk quota indicators were implemented effectively and carried out comprehensive verification of market risk model to effectively ensure that the market risk support system was complete, the data was accurate and complete, and the valuation model could accurately reflect the market risk situation of the Bank. To prevent tail losses, the Bank adopted stress test as the supplement to market risk management. Aiming at different market environment, position status and risk characteristics, a variety of composite stress test scenario systems such as historical scenario and expert scenario are designed to fully assess the market risk tolerance of the Bank under various extreme situations and improve the foresight and comprehensiveness of market risk management.



Chapter 5 Management Discussion and Analysis

10.3 Operational risk management

The Bank has established an operational risk management structure composed of the Board, the Board of Supervisors, senior management, compliance department, internal audit department, all lines (departments) and branches. When enhanced the operational risk management through business line inspection and employee behavior investigation, system improvement, and compliance education activities, the Bank, in accordance with the Guidelines for Operational Risk Management of Zhongyuan Bank and the requirements of the management system of three major instruments, and through its internal control compliance and operational risk management system, further perfected the procedure featured by the identification, assessment, monitoring and early warning of operational risks. Continuous optimization of the system and process design had helped maintaining the continuity and effectiveness of the internal control and compliance and operational risk management of the Bank, and further improve the refined management of operational risk.

During the Reporting Period, the Bank continuously improved its internal control compliance and operational risk management system. strengthened the application of three major instruments of operational risk, and organized and conducted regular process evaluations, process annual re-inspection and combing, and key risk indicator monitoring and analysis. Based on strengthening internal control and implementing compliance management, the Bank organized and carried out employee behavior investigation and employee account abnormal transaction monitoring and verification, potentiated risk monitoring and prevention in key positions and critical areas to ensure effectiveness in the identification, monitoring and reporting of risks. Simultaneously, the business continuity and emergency management mechanism were improving. The Bank unceasingly made effort to upgrade and transform the important information system, ensuring that the Bank could take timely measures in case of emergency, so that the impact and loss could be minimized. During the Reporting Period, the Bank's overall operation was standardized and orderly, and there was no major operational risk event.

10.4 Liquidity risk management

The Bank has established a liquidity risk management system commensurating with the scale, nature and complexity of the business, which specifically includes the bank-wide collaborative management organization system, liquidity management strategy system, liquidity management system, daily management tool system, and regional liquidity mutual assistance system. During the Reporting Period, the Bank strengthened liquidity risk management and constantly improved the construction of liquidity risk system. The overall liquidity was relatively abundant, and major liquidity regulatory indicators meet the regulatory requirements and kept improving.



Chapter 5 Management Discussion and Analysis

During the Reporting Period, the Bank continued to optimize and improve the liquidity risk management organizational system framework, strengthened the three-level linkage among head office, branches and sub-branches, clarified the responsibilities at all levels, and strengthened collaborative management and control of liquidity risk at the bank level. By improving the management policies, management methods and operation procedures related to liquidity risk, institutional basis was provided for liquidity management. Relying on the management and the decision made by the asset and liability management committee, the Bank realized effective transmission of liquidity management strategy, further improved market and business analysis, daily management, stress tests, emergency drill and other management tools, thereby elevated liquidity risk resilience. The Bank continued to improve the macro-level research and discussion mechanism, continued to improve its macroeconomic analysis capabilities, enhanced the forward-looking and proactive nature of liquidity management, and dynamically adjusted liquidity management strategies to guide the Bank's business development. The Bank, as a primary dealer in the open market and the chair bank of the Liquidity Mutual Aid Mechanism of Henan City Commercial Banks(河南省城商行流動性互助機制), actively disseminated the monetary policy of the central bank, played the role of the chair bank of the regional liquidity mutual aid mechanism, strengthened its responsibility, and effectively maintained the safety and stability of regional liquidity.

10.5 Information technology risk management

The goal of the information technology risk management of the Bank is to realize the identification, measurement, monitoring and control of information technology risks through the establishment of an effective mechanism, improve the use of information technology, strengthen the ability to protect information assets, promote business innovation, and enhance core competition and sustainable development capabilities to promote the safe, sustained and stable operation of the Bank.

During the Reporting Period, the Bank had always adhered to the principle of "technology cultivation, technology prosperity(科技立行、科技興行)". The Bank built a systematic information technology risk management framework, proactively conducted information technology risk control self-assessment, information technology key risk indicators monitoring, information technology risk loss (event) database collection and other related work, and established an effective risk management process system that supports risk identification, assessment, control/release, monitoring/reporting. It improved risk management tools and quantitative technology, strengthened the application of information network technology, big data and new financial technology, strengthened the construction of data standardization and knowledge discovery, and continued to improve data quality and the data processing capabilities of the information system. The Bank also pays great attention to information security management, focusing on strengthening the security management of the whole life cycle of system development, establishing and improving the security built-in management mechanism that adapts to the agile delivery model, strictly implementing the technical specifications and requirements of Internet application security and data security, and strictly managing information technology outsourcing, so as to further improve the management level of information security technology.

During the Reporting Period, the information technology construction and risk management was rated 2B in the CBIRC's 2019 regulatory rating, rising one level as compared with 2018. The score has been climbed for six consecutive years, demonstrating that the information technology risk management of the Bank is becoming better and better.



Chapter 5 Management Discussion and Analysis

10.6 Reputational risk management

The Bank's reputational risk management adheres to the combination of prevention and disposal, and following the principles of "plan for hazards in peaceful days, take preventive and governance measures on collective basis(居安思危, 群防群治)", "centralized leadership, hierarchical management and control(統一領導, 分層管控)", "respond quickly, tackle problems together(快速反應, 協同應對)" and "perform duties and comply with discipline, investigate accountability(履職守紀, 責任倒查)", we enhanced the capabilities and efficiency of preventing reputational risk and resolving reputational incidents.

During the Reporting Period, the Bank conscientiously conducted reputational risk prevention and control work, improved the reputational risk management system, and continuously optimized the reputational risk disposal mechanism. We conducted regular reputational risk investigations on a quarterly basis, making a comprehensive investigation for the customers, institutions, and businesses of the Bank to dig deep into major hidden risks that may have a negative impact on the Bank's reputation, with early identification, early warning, and early resolution of risk signs. By innovating reputational risk management methods, carrying out media response capability inspection projects, compiling reputational risk cases in financial industry, and preparing special plans for the prevention and control of public opinion at key nodes, the Bank's awareness of reputational risk prevention was further enhanced. The Bank organized relevant personnel of each operating unit to participate in public opinion training and reputational risk drills to continuously improve capabilities of research and judgment for public opinion and management and disposal of reputational risk for each unit. We broadened the channels for handling public opinion, strengthened communication with the media inside and outside the province, kept close contact with the publicity, internet information, and network supervision departments on a daily basis, and strove for strong support from the news and public opinion management departments for the Bank's reputational risk management work.

During the Reporting Period, the Bank actively implemented the work arrangements of the Party Central Committee, the State Council, the Provincial Party Committee, the Provincial Government and the regulatory authorities. In consideration of vital time nodes such as the "National People's Congress and Chinese People's Political Consultative Conference" and the "Fifth Plenary Session of the 19th Communist Party of China Central Committee", and around the topics on "stability on the six fronts (namely, employment, financial sector, foreign trade, foreign and domestic investments, and market expectations)", "security in the six areas (namely, employment, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments)", "integration into Yellow River strategy", "fighting against poverty" and "construction of technology bank", the Bank positively formulated publicity and coverage. The manuscripts were widely reproduced by the domestic mainstream media, coming into an active and positive atmosphere of public opinions and the brand reputation made increasingly improvement.



Chapter 5 Management Discussion and Analysis

10.7 Exchange rate risk management

During the Reporting Period, the Bank closely monitored the changing trend of exchange rates and proactively analyzed the impacts of global exchange rate fluctuation on the Bank's assets in foreign currency and its operations. Based on the actual needs of its business, the Bank enhanced strategy research on hedging of foreign exchange and hedged the foreign exchange risks by applying various exchange rate-based derivatives in time. During the Reporting Period, the Bank determined foreign exchange limitation indicators, paid continuous attention to exposures of different foreign currencies held by the Bank during the daily management, monitored the implementation of foreign exchange limitation indicators on a daily basis and continued to carry out the management of foreign exchange business and limits. During the Reporting Period, the Bank was subject to a stable and controllable exchange rate risks.

11. OPERATING STRATEGIES AND PROSPECTS FOR DEVELOPMENT

During the Reporting Period, Zhongyuan Bank kept three major strategic directions of “offering featured products in traditional banking business, accomplishing break-through by innovation and taking first-mover advantage in developing future banking”(傳統業務做特色、創新業務找突破、未來銀行求領先), focused on digital transformation and actively conducted “Internetization and Ruralization of Banking Services(上網下鄉)” to continuously explore the data-driven transformation of business development model.

1. Comprehensively Promote the Digital Transformation

Firstly, it continuously optimizes the agile organization and swiftly responds to customer needs, deepens the “customer-centric” business philosophy, explores the “secondary agility” of the organization, establishes a flexible adjustment mechanism for agile groups and PO, stimulates the vitality of the organization, captures the market changes in time, and gains insight into customer needs; it improves the operation mechanism of agile organization to promote the implementation of assessment and evaluation system in combination of “KPI+OKR”, and guides each of agile tribe and agile team to balance current performance and future long-term development.

Secondly, it speeds up the invention and design of digital products and improves the customer service capabilities. The Bank establishes a closed-loop management mechanism for the life cycle of product, launches and builds a product management platform, carries out the optimization of customer experience for core products, solidify the three major innovation tracks of products, and realizes product innovation iterations. During the epidemic, in response to the unique market needs and customer needs in the certain period, we fully took the advantages of agile transformation, and quickly launched online products such as “One District One Code”(一區一碼), “Resumption Loan”(復工貸), and “Anjia Loan”(安家貸).

Thirdly, it strengthens the support on technology and data to drive business innovation and development. During the Reporting Period, we continue to improve our scientific and technological service capabilities, and the construction of technology intermediate platform, business intermediate platform, and cloud platforms made significant progress. The next-generation of second-phase credit system and related systems, as well as products and application promotion achieve online and iterative optimization. Scaled appliance cases and promotion of big data are fully implemented. The accuracy and effectiveness of marketing have been significantly improved, and the core competitive strength of data-driven marketing has been initially formed. The support of advanced technology on the business has been increased; the construction of RPA platform has been completed, AI services including self-developed OCR, NLP and others have effectively reduced operating costs.



Chapter 5 Management Discussion and Analysis

2. Thoroughly Implement the Strategy Layout of “Go to the Countryside”

First, give full play to the advantages of financial technology of digital transformation for Zhongyuan Bank around the “Internetization and Ruralization of Banking Services” strategic positioning. Use digital thinking and technology means to provide service for the rural customers, continuously improve the mobile banking APP of farmer benefiting version, focus on innovation and R&D of “Countryside Online” platform setting rural party construction, living, social contact, e-commerce, finance and other functions in one, helping to solve the problem of unbalanced and inadequate financial development.

Second, adhere to the construction direction of channel service system “stress the source for county branches, stress the implementation for township branches and stress the extension for farmer benefiting service sites”. Promote the creating of basic service network benefiting farmers of “one point, one line, one center” to provide convenient and high-quality financial services to rural residents, around the development direction of “channel sinking, service sinking, product sinking and funds sinking”,

Third, around the main line of safety and compliance, further improve the “four-in-one (online + offline + the third party + synergy and mutual assistance)” risk control system to enhance the risk prevention and control ability for farmer benefiting.

In 2020, China achieved the double victory in the battles against COVID-19 and protecting the economy. China was the first in the world to achieve a V-shaped economic reversal, with an annual economic growth rate of 2.3%, becoming the only major economy entity in the world to achieve positive economic growth. The resilience of domestic economic development is evident. However, the world today is undergoing great changes not occurring in a century. The international environment is becoming increasingly complicated and various instability and uncertainty increase significantly. Looking ahead to 2021, facing the complex and volatile domestic and international situation currently, in the beginning year of the China’s “14th Five-Year Plan”, Zhongyuan Bank will keep strategic focus, seek improvement in stability and open the path of high-quality development on the premise of stable operation, around the strategic positioning “close to the common people, provide services for entity, assist in small and micro enterprises, achieve internetization and ruralization of banking services and promote the regional economic development”.

First, take solid steps to “Internetization and Ruralization of Banking Services”, use digital thinking and technology means to provide service for the rural customers, innovate in service models, helping to solve the problem of unbalanced and inadequate financial development; second, comprehensively and deeply promote digital transformation, increase input in data and science and technology, optimize the basic framework of data and science and technology, improve data support capacity and application level, and form a strong support for business; third, gradually establish the assessment system centering on economic profit, constantly optimize the business structure, vigorously develop the retail business and innovate in development of the Bank’s business.

Chapter 6 Changes in Share Capital and Information on Shareholders

1. Changes in Ordinary Shares of the Bank during the Reporting Period

There were no changes in the share capital of the Bank during the Reporting Period. As at the end of the Reporting Period, the total issued share capital of the Bank was 20,075,000,000 Shares, comprising 3,795,000,000 H Shares and 16,280,000,000 Domestic Shares.

2. Shareholdings of Top 10 Non-Overseas Listed Domestic Shareholders of the Bank

As at the end of the Reporting Period, there was no controlling shareholder or actual controller of the Bank. As at December 31, 2020, the shareholdings of the Bank's top 10 Shareholders of ordinary Shares were as follows:

No.	Name of Shareholders	Nature of Shareholders	Number of Shares held at the end of the Reporting Period	Approximate percentage of the total share capital of issued ordinary shares of the Bank at the end of the Reporting Period
1	Henan Investment Group Co., Ltd. (河南投資集團有限公司)	State-owned Legal Person Shares	2,057,285,479	10.25%
2	Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司)	Privately-owned Legal Person Shares	753,000,000	3.75%
3	Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司)	Privately-owned Legal Person Shares	568,000,000	2.83%
4	Henan Xingda Investment Co., Ltd. (河南興達投資有限公司)	Privately-owned Legal Person Shares	566,395,712	2.82%
5	Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司)	Privately-owned Legal Person Shares	553,109,303	2.76%
6	Henan Machinery Investment Group Co., Ltd. (河南機械裝備投資集團有限責任公司)	State-owned Legal Person Shares	506,751,425	2.52%
7	Xinxiang Bailu Investment Group Co., Ltd. (新鄉白鷺投資集團有限公司)	State-owned Legal Person Shares	337,492,544	1.68%
8	Southern Henan Highway Investment Co., Ltd. (河南省豫南高速投資有限公司)	Privately-owned Legal Person Shares	327,637,129	1.63%
9	Henan Aike Industrial Development Co., Ltd. (河南省愛克實業發展有限公司)	Privately-owned Legal Person Shares	300,000,000	1.49%
10	Xuchang City Finance Bureau (許昌市財政局)	State-owned Shares	252,020,004	1.26%
Total			6,221,691,596	30.99%

Chapter 6 Changes in Share Capital and Information on Shareholders

3. Interests and Short Positions of Substantial Shareholders under Hong Kong Regulations

As of December 31, 2020, so far as is known to the Bank and the Directors, substantial Shareholders of the Bank and other persons (other than Directors, Supervisors and chief executive officers of the Bank) who had interests and short positions in the Shares and underlying Shares of the Bank which were required to be notified to the Bank or the Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Bank under Section 336 of the SFO were as follows:

Name of Shareholders	Class of Shares	Nature of interests	Number of Shares ⁽¹⁾	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) ⁽²⁾	Approximate percentage of the total share capital of issued ordinary shares of the Bank (%) ⁽²⁾
Henan Investment Group Co., Ltd. (河南投資集團有限公司) ⁽³⁾	Domestic Shares	Beneficial owner	2,057,285,479(L)	12.64	10.25
	Domestic Shares	Interest in controlled corporation	17,696,926(L)	0.11	0.09
Zhong Sheng Capital (Hongkong) Co., Limited (中晟資本(香港)有限公司)	H Shares	Beneficial owner	214,168,000(L)	5.64	1.07
AMTD Group Company Limited ⁽⁴⁾	H Shares	Interest in controlled corporation	482,288,000(L)	12.71	2.40
L.R. Capital Management Company (Cayman) Limited ⁽⁴⁾	H Shares	Interest in controlled corporation	482,288,000(L)	12.71	2.40
NEW MERIT GROUP LIMITED	H Shares	Beneficial owner	453,636,000(L)	11.95	2.26
Guangzhou Rural Commercial Bank Co., Ltd.	H Shares	Security interest held in Shares	303,000,000(L)	7.98	1.51
GOLD LEADING CAPITAL LIMITED	H Shares	Security interest held in Shares	573,964,000(L)	15.12	2.86
CITIC Securities Company Limited ⁽⁵⁾	H Shares	Interest in controlled corporation	221,593,927(L)	5.84	1.10
	H Shares	Interest in controlled corporation	221,593,927(S)	5.84	1.10
DBS Group Holdings Ltd ⁽⁶⁾	H Shares	Interest in controlled corporation	882,393,350(L)	23.25	4.40
	H Shares	Interest in controlled corporation	882,393,350(S)	23.25	4.40
Piramid Park Co., Ltd ⁽⁷⁾	H Shares	Beneficial owner	1,199,831,000(L)	31.62	5.98
XU Yan (徐雁) ⁽⁷⁾	H Shares	Interest in controlled corporation	1,199,831,000(L)	31.62	5.98



Chapter 6 Changes in Share Capital and Information on Shareholders

Notes:

- (1) (L) represents the long position, (S) represents short position.
- (2) As of December 31, 2020, the number of total issued Shares of the Bank was 20,075,000,000, comprising 16,280,000,000 Domestic Shares and 3,795,000,000 H Shares.
- (3) Henan Investment Group Co., Ltd. (河南投資集團有限公司) is wholly owned by the Finance Department of Henan Province (河南省財政廳)³. Henan Investment Group Co., Ltd. directly holds 2,057,285,479 Domestic Shares of the Bank (long positions) and indirectly holds 17,696,926 Domestic Shares of the Bank (long position) through its controlled corporation, Henan Investment Group Guarantee Co., Ltd. (河南投資集團擔保有限公司).
- (4) L.R. Capital Management Company (Cayman) Limited, through its controlled corporations, namely L.R. Capital Financial Holdings Limited, AMTD Group Company Limited and AMTD Asia (Holdings) Limited, indirectly holds 482,288,000 H Shares of the Bank (long positions) held by AMTD Asia Limited. Therefore, by virtue of the SFO, each of L.R. Capital Management Company (Cayman) Limited, L.R. Capital Financial Holdings Limited, AMTD Group Company Limited and AMTD Asia (Holdings) Limited is deemed to be interested in the H Shares of the Bank (long positions) held by AMTD Asia Limited.
- (5) CITIC Securities Company Limited, through its controlled corporations, namely CITIC Securities International Company Limited, CLSA B.V. and CITIC CLSA Global Markets Holdings Limited, indirectly holds 221,593,927 H Shares of the Bank (long positions) and 221,593,927 H Shares of the Bank (short positions) directly held by CSI Capital Management Limited and CSI Financial Products Limited, respectively. Therefore, by virtue of the SFO, each of CITIC Securities Company Limited, CITIC Securities International Company Limited, CLSA B.V. and CITIC CLSA Global Markets Holdings Limited is deemed to be interested in the H Shares of the Bank (long positions) and H Shares of the Bank (short positions) held by CSI Capital Management Limited and CSI Financial Products Limited, respectively. CITIC Securities Company Limited holds underlying Shares of the Bank (long positions and short positions) in derivative interests, including the underlying 221,593,927 H Shares (long position) derived from listed derivatives of the convertible instruments, and the underlying 221,593,927 H shares (short positions) derived from cash-settled unlisted derivatives.
- (6) DBS Bank Ltd. directly holds 882,393,350 H Shares (long positions) and 882,393,350 H Shares (short positions) of the Bank. DBS Bank Ltd. is a corporation wholly controlled by DBS Group Holdings Ltd. Therefore, by virtue of the SFO, DBS Group Holdings Ltd. is deemed to be interested in the 882,393,350 H Shares (long positions) and 882,393,350 H Shares (short positions) of the Bank held by DBS Bank Ltd..
- (7) Pyramid Park Co., Ltd is wholly owned by XU Yan (徐雁).

Save as disclosed above, to the knowledge of the Bank, none of the substantial Shareholders or other persons had, as of December 31, 2020, any interests or short positions in the Shares or underlying Shares of the Bank as recorded in the register required to be kept under Section 336 of the SFO.

³ The entire equity interests held by Henan Development and Reform Commission in Henan Investment Group Co., Ltd. (河南投資集團有限公司) was transferred to Henan Department of Finance at nil consideration and on January 10, 2020, Henan Investment Group Co., Ltd. (河南投資集團有限公司) completed the change of relevant business registration. Please refer to the Bank's announcement dated January 13, 2020 for details.

Chapter 6 Changes in Share Capital and Information on Shareholders

4. Shareholders Holding 5% or More of the Total Ordinary Share Capital of the Bank

Please refer to the relevant section “Changes in Share Capital and Information on Shareholders” for details of the Shareholders with an interest in 5% or more of the share capital of the Bank.

5. Information on Substantial Shareholders Disclosed Under the Interim Measures for the Equity Management of Commercial Banks

According to the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by the CBIRC, in addition to the two Shareholders mentioned above, namely Henan Investment Group Co., Ltd. (河南投資集團有限公司) and Pyramid Park Co., Ltd, the following three Shareholders are also substantial Shareholders of the Bank.

- (1) Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司), which holds 753,000,000 domestic Shares of the Bank. The company was incorporated in Jinshui District, Zhengzhou City, Henan Province on October 24, 2001 with a registered capital of RMB850 million. The company's business scope includes investment and investment service management, information technology consulting services, enterprise planning management, project planning management, and electronic network engineering services (excluding items subject to state approval). During the Reporting Period, Mr. LI Xipeng (李喜朋), a non-executive Director of the Bank, was the chairman and legal representative of the company. The company was effectively owned by Mr. LI Xipeng and his wife, Ms. SHU Pujuan (舒蒲娟).
- (2) Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司), which holds 553,109,303 Domestic Shares of the Bank. The company was incorporated in Erqi District, Zhengzhou City, Henan Province on January 20, 2010 with a registered capital of RMB100 million. The company's business scope includes development and sale of real estate, property leasing, engineering project consultation, engineering cost professional consultation service, real estate information consultation, enterprise management consultation and conference and exhibition service. During the Reporting Period, Ms. LI Weizhen (李偉真), a Shareholder Representative Supervisor of the Bank, was the chief accountant of the company.
- (3) Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司), which holds 200,000,000 Domestic Shares of the Bank. The company was incorporated in Luolong District, Luoyang City, Henan Province on November 4, 2005 with a registered capital of RMB300 million. The company's business scope includes the construction and operation of long-distance natural gas pipelines, and the research, development, construction and operation of LPG and other oil and gas utilization projects (business within the above scope which is subject to approval shall not be operated before obtaining relevant approval(s)). During the Reporting Period, Mr. LI Wanbin (李萬斌), a Shareholder Representative Supervisor of the Bank, was the de facto controller of the company. Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司), which is effectively controlled by Mr. LI Wanbin, holds 207,657,871 Domestic Shares of the Bank.



Chapter 6 Changes in Share Capital and Information on Shareholders

6. Equity Pledge and Freezing

As at the end of the Reporting Period, so far as is known to the Bank, the Bank's 5,251,107,009 domestic Shares were subject to pledge, accounting for 26.16% of the total number of issued ordinary Shares (of which, the Domestic Shares pledged by the Bank's substantial Shareholders accounted for 4.93% of the total number of issued ordinary Shares). In addition, there were 885,910,950 Domestic Shares which were judicially frozen (of which, the Domestic Shares owned by the Bank's substantial Shareholders which were judicially frozen accounted for 1.00% of the total number of issued ordinary Shares).

7. Non-public Issuance of Offshore Preference Shares

7.1 The issuance and listing of Offshore Preference Shares

To replenish the Bank's capital through diversified ways, further enhance the Bank's capital strength and enhance the Bank's risk resistance, according to the approvals of former China Banking Regulatory Commission Henan Supervision Bureau (Yu Yin Jian Fu [2018] No. 120) and the China Securities Regulatory Commission (Zheng Jian Xu Ke [2018] No. 1343), the Bank issued USD1,395 million non-cumulative perpetual Offshore Preference Shares on November 21, 2018. The Offshore Preference Shares were listed on the Hong Kong Stock Exchange on November 22, 2018 (stock name: ZYBNK 18USD PREF, stock code: 04617). The Offshore Preference Shares have a par value of RMB100 each with an issuance price of USD20 each. The total number of the Offshore Preference Shares issued is 69,750,000, and were all issued fully paid in U.S. dollars.

Based on the CNY Central Parity Rate published by the China Foreign Exchange Trading System on November 21, 2018, the gross proceeds from the issuance of the Offshore Preference Shares amounted to approximately RMB9,688 million. The proceeds raised from the issuance of the Offshore Preference Shares (after deducting the issuance expenses) were all used to replenish the Bank's additional Tier 1 capital, to increase the Bank's Tier 1 capital adequacy ratio and optimize the capital structure, which was consistent with the specific use previously disclosed.

For the issuance terms and relevant details of the Offshore Preference Shares, please refer to the announcement of the Bank published on the website of Hong Kong Stock Exchange (www.hkex.com.hk) and the official website of the Bank (www.zybank.com.cn).

Chapter 6 Changes in Share Capital and Information on Shareholders

7.2 Number of Offshore Preference Shareholders and particulars of shareholding

At the end of the Reporting Period, the Bank had one Offshore Preference Shareholder.

The shareholdings of the top 10 Offshore Preference Shareholders (or nominees) of the Bank are set out in the table below (the following data are based on the register of Offshore Preference Shareholders as at December 31, 2020):

Name of Shareholder	Nature of Shareholder	Type of Shares	Increase/decrease during the Reporting Period (shares)	Shareholding percentage (%)	Total shareholdings (shares)	Number of Shares subject to restriction on sale (shares)	Number of pledged or frozen shares (shares)
The Bank of New York Depository (Nominees) Limited	Foreign legal person	Offshore preference shares	–	100%	69,750,000	–	Unknown

Notes:

1. The shareholding of Offshore Preference Shareholders is based on the information set out in the register of Offshore Preference Shareholders of the Bank.
2. As the Offshore Preference Shares were issued by way of offshore non-public issuance, the information recorded on the register of Offshore Preference Shareholders is the information on the nominee of the investor(s) to whom the Offshore Preference Shares were allotted.

7.3 Profit distribution on the Offshore Preference Shares

Dividends of Preference Shares would be paid in cash by the Bank to Preference Shareholders. Each dividend will be payable annually in arrears on the dividend payment date. During the Reporting Period, as considered and approved at the meeting of the Board of the Bank held on November 11, 2020, the Bank will distribute the dividends on the Offshore Preference Shares pursuant to the terms of the Offshore Preference Shares. The total dividends on the Offshore Preference Shares distributed by the Bank amounted to USD86,800,000, of which USD78,120,000 was paid to the holders of Offshore Preference Shares at a coupon dividend rate of 5.60%, and USD8,680,000 was withheld as the income tax at a rate of 10% pursuant to relevant laws and regulations. The dividend period was from November 21, 2019 (inclusive) to November 21, 2020 (exclusive), the dividend payment date was November 23, 2020 and the recipients were holders of Offshore Preference Shares whose names appeared on the register of members of the Bank as at the close of business of the clearing system on November 20, 2020. For details, please refer to the announcement on payment of a dividend for the Offshore Preference Shares published by the Bank separately on November 11, 2020. On November 23, 2020, the Bank completed the dividend payment of the Offshore Preference Shares.

Chapter 6 Changes in Share Capital and Information on Shareholders

Table on profit distribution in respect of Offshore Preference Shares in the past three years:

Unit: RMB'000

Year of distribution	Amount of distribution (before tax)	Net profit attributable to the Shareholders of the Bank in the consolidated financial statements of the Bank for the year of distribution	Percentage of net profit attributable to the Shareholders of the Bank in the consolidated financial statements of the Bank (%)	Balance accumulated to the next accounting year due to insufficiency of distributable profits or the part that can be used for the distribution of retained profits
2020	573,487	3,300,822	17.37	–
2019	609,224	3,163,849	19.26	–
2018	–	2,414,576	–	–

7.4 Other information on the Offshore Preference Shares

During the Reporting Period, no Offshore Preference Shares have been repurchased, converted into ordinary shares or had their voting rights restored, and there was no occurrence of any triggering event that would result in mandatory conversion of Offshore Preference Shares into H Shares.

In accordance with Accounting Standards for Enterprise No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprise No. 37 – Presentation of Financial Instruments and Rules on the Differences between Financial Liability and Equity Instruments and Relevant Accounting Treatment promulgated by the Ministry of Finance of the PRC, as well as IAS 39 – Financial Instruments: Recognition and Measurement and IAS 32 – Financial Instruments: Presentation formulated by the International Accounting Standards Board, the provisions of the issued and existing Offshore Preference Shares conform to the requirements as equity instruments, and will be calculated as equity instruments.

8. Purchase, Sale or Redemption of Listed Securities of the Bank

During the twelve months ended December 31, 2020, neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Bank.

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

1. Basic Information of Existing Directors, Supervisors and Senior Management

1.1 Basic Information of Directors

Name	Gender	Month and year of birth	Starting Time of Term of Office	Positions	Shareholding or not
DOU Rongxing (竇榮興)	Male	March 1963	March 2018	Executive Director, chairman of the Board	No
WANG Jiong (王炯)	Male	June 1968	March 2018	Executive Director, president	No
LI Yulin (李玉林)	Male	March 1966	May 2018	Executive Director, executive vice president	No
WEI Jie (魏傑) ⁽¹⁾	Male	August 1963	May 2018	Executive Director, vice chairman of the Board	Yes
ZHANG Qiuyun (張秋雲) ⁽²⁾	Female	February 1972	January 2021	Non-executive Director	No
LI Xipeng (李喜朋)	Male	November 1963	March 2018	Non-executive Director	No
MI Hongjun (弭洪軍)	Male	February 1971	May 2018	Non-executive Director	No
PANG Hong (龐紅)	Female	April 1955	March 2018	Independent non-executive Director	No
LI Hongchang (李鴻昌)	Male	December 1948	March 2018	Independent non-executive Director	No
JIA Tingyu (賈廷玉)	Male	August 1942	March 2018	Independent non-executive Director	No
CHAN Ngai Sang Kenny (陳毅生)	Male	November 1964	March 2018	Independent non-executive Director	No

- Notes:
- (1) The qualifications of Director and vice chairman for Mr. WEI Jie have been approved by the China banking and insurance regulatory authority on May 9, 2018 and July 26, 2018, respectively.
 - (2) On November 11, 2020, the Bank convened the 24th meeting of the second session of the Board and proposed to appoint Ms. ZHANG Qiuyun as a non-executive Director of the second session of the Board of the Bank. On November 30, 2020, the Bank convened the 2020 first extraordinary general meeting, at which Ms. ZHANG Qiuyun was elected as a non-executive Director of the second session of the Board of the Bank. The directorship qualification of Ms. ZHANG Qiuyun was approved by the China banking and insurance regulatory authority on January 21, 2021. Please refer to the Bank's announcements dated November 11, 2020, November 30, 2020 and January 25, 2021 and circular dated November 13, 2020 for details.

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

1.2 Basic Information of Supervisors

Name	Gender	Month and year of birth	Starting Time of Term of Office	Positions	Shareholding or not
HAO Jingtao (郝驚濤)	Male	June 1971	March 2018	Employee representative Supervisor, chairman of the Board of Supervisors	No
JIA Jihong (賈繼紅)	Female	September 1963	March 2018	Employee representative Supervisor, vice chairwoman of the Board of Supervisors	Yes
ZHANG Yixian (張義先)	Male	October 1967	March 2018	Employee representative Supervisor	No
LI Weizhen (李偉真)	Female	June 1965	March 2018	Shareholder representative Supervisor	No
LI Wanbin (李萬斌)	Male	December 1971	March 2018	Shareholder representative Supervisor	No
LI Xiaojian (李小建)	Male	August 1954	March 2018	External Supervisor	No
Han Wanghong (韓旺紅)	Male	March 1954	March 2018	External Supervisor	No
SUN Xuemin (孫學敏)	Male	April 1963	March 2018	External Supervisor	No
PAN Xinmin (潘新民)	Male	January 1957	May 2019	External Supervisor	No

1.3 Basic Information of Senior Management

Name	Gender	Month and year of birth	Positions	Date of appointment	Shareholding or not
WANG Jiong (王炯)	Male	June 1968	President	March 2018	No
LI Yulin (李玉林)	Male	March 1966	Executive vice president	March 2018	No
LIU Kai (劉凱)	Male	March 1971	Vice president	March 2018	No
ZHOU Litao (周麗濤)	Male	November 1979	Vice president	May 2018	No
LIU Qingfen (劉清奮)	Male	March 1970	Assistant to the president	June 2018	No
YAO Hongbo (姚紅波)	Male	April 1969	Assistant to the president	May 2019	No
ZHANG Ke (張克)	Male	October 1977	Secretary to the Board	March 2018	No
WANG Shanshan (王珊珊)	Female	December 1981	General manager of the planning and financing department	September 2020	No
ZHANG Yixian (張義先)	Male	October 1967	General manager of the audit department	December 2017	No



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

2. Changes of the Directors, Supervisors and Senior Management

2.1 Changes of the Directors

On October 20, 2020, Mr. LI Qiaocheng, a non-executive Director of the Bank, tendered his resignation to the Board and resigned as a non-executive Director and a member of the Strategy and Development Committee of the Bank. Please refer to the Bank's announcements dated June 29, 2020 and October 21, 2020 for details.

On November 11, 2020, the Bank convened the 24th meeting of the second session of the Board and proposed to appoint Ms. ZHANG Qiuyun as a non-executive Director of the second session of the Board of the Bank. On November 30, 2020, the Bank convened the 2020 first extraordinary general meeting, at which Ms. ZHANG Qiuyun was elected as a non-executive Director of the second session of the Board of the Bank. The directorship qualification of Ms. ZHANG Qiuyun was approved by the China banking and insurance regulatory authority on January 21, 2021. Please refer to the Bank's announcements dated November 11, 2020, November 30, 2020 and January 25, 2021 and circular dated November 13, 2020 for details.

On January 29, 2021, the Bank adjusted the members of the Nomination and Remuneration Committee under the second session of the Board of the Bank. The adjusted Nomination and Remuneration Committee consists of Ms. PANG Hong (Chairman), Mr. LI Hongchang and Mr. JIA Tingyu. Please refer to the Bank's announcements dated January 29, 2021 for details.

2.2 Changes of Supervisors

During the Reporting Period, there was no change in the Supervisors of the Bank.

2.3 Changes of Senior Management

On July 30, 2020, Mr. ZHAO Weihua resigned as vice president of the Bank due to work arrangement.

On August 7, 2020, the Bank convened the 21st meeting of the second session of the Board of Directors and appointed Ms. WANG Shanshan as the general manager of the planning and financing department of Zhongyuan Bank Co., Ltd. Ms. ZHANG Yi ceased to be the general manager of the planning and financing department of Zhongyuan Bank Co., Ltd. On September 27, 2020, the qualification of the general manager of the planning and financing department for Ms. WANG Shanshan was approved by the China banking and insurance regulatory authority.

Save as disclosed above and in relevant announcements, there is no other information required to be disclosed in accordance with Rule 13.51B(1) of the Hong Kong Listing Rules. Meanwhile, there is no change in any information in relation to the Directors, Supervisors and president required to be disclosed in accordance with Rule 13.51(2) of the Listing Rules.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

3 Biography of Directors, Supervisors and Senior Management

3.1 Biography of Directors

Mr. DOU Rongxing (竇榮興), born in March 1963, Chinese. Mr. DOU Rongxing is an executive Director and the chairman of the Bank. Mr. Dou has over 30 years of experience in banking business management. In addition to his role as the chairman of the Board, Mr. Dou is also the secretary to the party committee of the Bank. Mr. Dou's primary work experience prior to joining the Bank includes: (i) serving as the deputy chief (director-of-bureau level) and a member of the party group of the Office of Financial Service of Henan Government (河南省政府金融服務辦公室) from December 2013 to December 2014, during which period he also served as the deputy chief of the Leading Group Office of the Reform and Reorganization of Certain City Commercial Banks in Henan Province (河南省部分城市商業銀行改革重組工作); (ii) the Director of the wholesales business and the general manager of the corporate banking department of China CITIC Bank from June 2013 to December 2013; and (iii) the secretary to the party committee and the president of the Zhengzhou Branch of China CITIC Bank from January 2005 to June 2013. He worked as the vice president of the Zhengzhou Branch of China Merchants Bank from September 2002 to January 2005. Mr. Dou held several positions successively at the Henan Branch of the China Construction Bank from July 1985 to August 2002, including: (i) an officer, the deputy chief of the investment research institution; (ii) vice president of Shangqiu Branch, (iii) the deputy chief of funds planning department, (iv) the deputy general manager of finance department, (v) the deputy chief and the chief of the inspection and audit department, (vi) the chief of the planning and finance department, (vii) the secretary to the party committee and the president of the Xinxiang Branch, and (viii) the chief of asset preservation department and the president of the Jinyuan Sub-branch. Mr. Dou was recognized as the "Outstanding Contribution Entrepreneur on the 40th Anniversary of Reform and Opening Up (改革開放四十周年傑出貢獻企業家)" by "The 8th Hong Kong International Finance Forum cum China Securities Golden Bauhinia Award" in December 2018. Mr. Dou is a member of the 13th National Committee of the Chinese People's Political Consultative Conference. Mr. Dou received a bachelor's degree in infrastructure finance and credit from Hubei College of Finance (湖北財經學院) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in July 1985, a master's degree in investment finance from Zhongnan University of Finance (中南財經大學) (currently known as Zhongnan University of Economics and Law) in June 1995 and a doctor's degree in management science and engineering from Huazhong University of Science and Technology (華科技大學) in December 2005. Mr. Dou is a senior economist accredited by China Construction Bank in December 1997.

Mr. WANG Jiong (王炯), born in June 1968, Chinese. Mr. WANG Jiong is an executive Director and the president of the Bank. Mr. Wang has more than 20 years of experience in banking business operations and management. Mr. Wang served as the secretary to the party committee and the president of the Haikou Branch of China CITIC Bank from May 2012 to December 2014, and was in charge of the planning group of the Haikou Branch of China CITIC Bank from November 2011 to May 2012. Prior to that, he successively held several positions in the Zhengzhou Branch of China CITIC Bank from March 2001 to November 2011, including the deputy general manager and the general manager of the planning and financing department, the assistant to the president, and the vice president. Mr. Wang's work experience also includes serving as the deputy manager, the manager, and the assistant to the general manager of the business department, the assistant to the general manager and the deputy general manager of the financial accounting department

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

of the Zhengzhou Branch of China Guangfa Bank from December 1995 to March 2001. Before that, Mr. Wang worked at the Zhengzhou Railway Branch of China Construction Bank from August 1993 to November 1995 and at the human resources department of Zhengzhou College of Industry (鄭州工學院) from July 1990 and August 1993. Mr. Wang is a deputy of the 13th National People's Congress of Henan Province. Mr. Wang received a bachelor's degree in applied physics from Wuhan University (武漢大學) in July 1990, a secondary bachelor's degree in ideological and political education from Xi'an Jiaotong University (西安交通大學) in July 1994, and a doctor's degree in economics from Zhongnan University of Economics and Law in June 2009. Mr. Wang is a senior accountant accredited by the Review Committee of Senior Professional and Technical Positions of Accounting Professions of Henan Province (河南省會計系列高級專業技術職務評委會) in April 2000.

Mr. LI Yulin (李玉林), born in March 1966, Chinese. Mr. LI Yulin is an executive director and executive vice-president of the Bank. Mr. Li's primary work experience includes serving as the vice president of the Changsha Branch of China Merchants Bank (招商銀行長沙分行) from March 2016 to May 2016. Mr. Li held various positions successively in the Zhengzhou Branch of China Merchants Bank (招商銀行鄭州分行) from August 2002 to February 2016, including the assistant to the office chief, the vice general manager of the business department, the head of the planning group of the Sub-branch II, the president of the Huayuan Road Sub-branch (花園路支行), the general manager of the corporate banking department I, assistant to the president, the assistant to the president and the president of the Luoyang Branch (洛陽分行), the member of party committee and the vice president. He served as the vice president of the Huayuan Road Sub-branch of the Henan Branch of Industrial and Commercial Bank of China Limited (中國工商銀行河南省分行花園路支行) from March 2000 to August 2002. Prior to that, Mr. Li served successively as an accountant, a facility reviewer, the office chief and the vice president of the Railway Sub-branch of the Henan Branch of Industrial and Commercial Bank of China Limited (中國工商銀行河南省分行鐵路支行) from July 1989 to February 2000. Mr. Li completed his undergraduate education in finance at Zhengzhou University (鄭州大學) in June 1989.

Mr. WEI Jie (魏傑), born in August 1963, Chinese, is an executive director and vice-chairman of the Bank. Prior to that, Mr. Wei had served as an assistant to the president of the Bank from December 2014 to March 2018. Mr. Wei's primary work experience prior to joining the Bank includes serving as the chairman and the secretary to the party committee of Shangqiu Bank from December 2009 to December 2014, the chief, the deputy secretary and the secretary to the party committee, and the Director and the general manager of Shangqiu City Credit Union Co., Ltd. from January 2003 to December 2009. Mr. Wei held several positions successively at the Shangqiu Branch of China Construction Bank from April 1992 to December 2002, including the deputy chief of facility department, the vice president, the president and the secretary to the party group of the Yongxia Mine District Sub-branch, the president, the secretary to the party group and the secretary to the party general branch of the Liangyuan Sub-branch and vice president of Shangqiu Branch of China Construction Bank. He served as the chief of the construction economics section of the former Shangqiu Sub-branch of China Construction Bank from February 1987 to April 1992, and the member of the construction economics section and the deputy secretary to the communist youth league of the former Shangqiu District Central District of China Construction Bank from August 1983 to February 1987. Mr. Wei received a technical secondary school diploma from School of Finance and Trade of Kaifeng (開封市財貿學校) in July 1983. Mr. Wei completed college education in fundamental construction economics at the Correspondence College of Renmin University of China in June 1988 and completed undergraduate education in finance and investment at Henan University in July 1995.

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Ms. ZHANG Qiuyun (張秋雲), born in February 1972, Chinese, has served as head of financial management department of Henan Investment Group Co., Ltd. from June 2019 to present. Prior to this, Ms. Zhang's work experience includes: she has served as executive deputy director of China (Henan) Pilot Free Trade Zone Zhengzhou District Management Committee from August 2017 to June 2019; served as the secretary to the Party Committee of Henan Academy of Macroeconomic Research from June 2015 to August 2017; served as deputy researcher and deputy director in Finance Department of Henan Provincial Development and Reform Commission from July 2004 to June 2015. She studied in School of Economics, Fudan University from September 2001 to June 2004 and obtained a doctoral degree of economics; and studied in School of Economics, Henan University from September 1998 to June 2001 and obtained a master degree of economics. She served as a teacher in Kaifeng No.1 Middle School from March 1993 to September 1998, and studied in Department of History, Henan University from September 1994 to June 1997 and obtained a bachelor degree. Ms. Zhang majored in history at Henan University from September 1990 to June 1992. Since June 2020, Ms. Zhang has served as a supervisor of Zhongyuan Securities Co., Ltd.

Mr. LI Xipeng (李喜朋), born in November 1963, Chinese. Mr. LI Xipeng is a non-executive Director of the Bank. Mr. Li has been the chairman of the board of directors of Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司) (formerly known as Henan Shengrun Venture Capital Management Co., Ltd. (河南盛潤創業投資管理有限公司)) ("Henan Shengrun Group") since October 2001, and served as the director of FanXian Rural Commercial Bank Company Limited (範縣農村商業銀行股份有限公司) since January 2017. Mr. Li received a Master of Business Administration degree for senior management from Cheung Kong Graduate School of Business (長江商學院) in March 2006.

Mr. MI Hongjun (弭洪軍), born in February 1971, Chinese. Mr. MI Hongjun is a non-executive Director of the Bank. Mr. Mi currently serves as the chief executive officer of CMIG Leasing Holdings Limited. He served as the Director of finance and secretary to the board of directors of Minsheng Royal Fund Management Co., Ltd. (民生加銀基金管理有限公司) from February 2012 to June 2014, the chief financial officer and the chief executive officer of Digital Diligent Knowledge (Beijing) Information and Technology Co., Ltd. (數字博識(北京)信息技術有限公司) from February 2009 to December 2011, the chief financial officer of Beijing Hinge Software Co., Ltd (北京和勤軟件技術有限公司) from September 2007 to January 2009, the Director of finance of Dayang Technology Development Inc. (中科大洋科技發展股份有限公司) from March 2004 to August 2007, and the Director of finance of Ec-Founder Company Limited (方正數碼有限公司) from March 2001 to February 2004. Mr. Mi obtained an Executive Master of Business Administration degree from Tsinghua University (清華大學) in 2012 and was accredited as a senior accountant.

Ms. PANG Hong (龐紅), born in April 1955, Chinese. Ms. PANG Hong is an independent non-executive Director of the Bank. Ms. Pang has been a professor in the School of Finance of Renmin University of China (中國人民大學財政金融學院) since August 2010. Prior to that, she held several positions at Renmin University of China from December 1996 to August 2010, including the deputy secretary to the party committee in the School of Finance from January 2007 to August 2010, a deputy professor from July 2001 to July 2010, and a lecturer from December 1996 to July 2001. She also worked as a teacher in the School of Finance of Central University of Finance and Economics (中央財經大學財政金融學院) from September 1982 to November 1996. Ms. Pang was awarded the prize of "Innovation Pilot of Education in Beijing (北京市教育創新標兵獎)" by the Education Legal Union of Beijing Municipality for the year from 2003 to 2004, was named the "Teacher of the Year (優秀教師獎)" by Baosteel Education Foundation (寶鋼教育基金會) in November 2003, was also awarded the title of the "Top 10 Pilot in Education (十大教學標兵)" of Renmin University of China in September 2002, the title of the "Excellent Ideological and Political Workers in Beijing (北京市優秀思想政治工作者)" by the People's Government of

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Beijing Municipality and the Communist Party of China Beijing Municipal Committee (中共北京市委) in March 1991. Ms. Pang received a bachelor's degree in economics from Central Institute of Finance and Banking (中央財政金融學院) (currently known as Central University of Finance and Economics) in August 1982 and a master's degree in economics from Central University of Finance and Economics in March 2001.

Mr. LI Hongchang (李鴻昌), born in December 1948, Chinese. Mr. Li Hongchang is an independent non-executive Director of the Bank. Mr. Li has served as a professor and the dean of Zhengzhou College of Finance (鄭州財經學院) from September 2013 to September 2018. Prior to that, Mr. Li served as a professor at Henan University of Economics and Law (河南財經政法大學) from December 2008 to December 2011. In addition, Mr. Li successively held several positions at Henan College of Finance (河南財經學院) (currently known as Henan University of Economics and Law) from July 1985 to December 2008, including the vice chief and the chief of the finance department, the assistant to the dean, the vice dean and the dean researcher. Mr. Li received a master's degree in economics from Zhongnan University of Finance in November 1985. Mr. Li is a professor in economics accredited by the Review Committee of Senior Positions of College Teachers of Henan Province (河南省高校教師高級職務評委會) in November 1993 and was awarded the title of "Top Expert in Henan Province (河南省優秀專家)" by Henan Government and the Communist Party of China Henan Provincial Committee (中共河南省委) in July 1995.

Mr. JIA Tingyu (賈廷玉), born in August 1942, Chinese. Mr. Jia Tingyu is an independent non-executive Director of the Bank. Mr. Jia has served as an independent non-executive director of Hang Seng Bank (China) Limited from January 2010 to January 2019, and during his tenures, he served as a member of the audit committee and the chairman of the risk committee under the board of Hang Seng Bank (China) Limited since May 2010 and April 2010, respectively. Prior to that, he concurrently served as the risk consultant, the deputy chief of the facility approval committee, the deputy chief of the audit committee, and a member of the assets and liability management committee of China CITIC Bank from January 2005 to September 2009. He served as the general manager of the risk control department, the deputy chief of the facility approval committee, and a member of the expert panel of China Merchants Bank successively from March 2000 to December 2004. Additionally, he served as the vice president and the president of the Chengdu Branch of China Merchants Bank successively from July 1997 to March 2000, and the deputy general manager of the facility approval department and the general manager of the department of planning and capital at China Merchants Bank successively from February 1992 to June 1997.

Mr. CHAN Ngai Sang Kenny (陳毅生), born in November 1964, Chinese (Hong Kong). Mr. Chan Ngai Sang Kenny is an independent non-executive Director of the Bank. Mr. Chan has over 30 years of experience in accounting, taxation, auditing and corporate finance. He is a partner and the funder of Kenny Chan & Co., a firm of Certified Public Accountants (Practicing). In addition, Mr. Chan has served on several tribunals and committees of the Government of Hong Kong, which includes the Mandatory Provident Fund Schemes Appeal Board (強制性公積金計畫上訴委員會) and Advisory Committee of Enhancing Self-Reliance Through District Partnership Programme ("夥伴倡自強"社區協作計劃), where he has been a member, and the Organizing Committee of the Hong Kong Youth Cultural & Arts Competitions Committee (全港青年學藝比賽大會統籌委員會) and the Youth Development Programme Consultative Panel (青年發展計劃諮詢小組) of Home Affairs Department, where he has served as the chairman. Mr. Chan currently serves as an independent non-executive director of several companies, including CMIC Ocean En-Tech Holding Co., Ltd. (Stock Code: HK.206) since October 2005, Minsheng Education Group Co., Ltd. (Stock Code: HK.1569) since March 2017, Hebei Construction Group Corporation Limited (Stock Code: HK.1727) since December 2017 and Pak Tak International Limited (Stock Code: HK.2668) since October 2019. Mr. Chan is a member of the Institute of Chartered

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Accountants of New Zealand (currently known as the Institute of Chartered Accountants of Australia and New Zealand) since March 1998, a member of the Hong Kong Institute of Certified Public Accountants since February 1992 and the fellow member of Hong Kong Institute of Directors (香港董事學會) since October 2016. Mr. Chan received a bachelor's degree in commerce (accounting and finance) from the University of New South Wales in Australia in October 1988. Mr. Chan also is a member of the Taxation Institute of Hong Kong (香港稅務學會) since August 1998 and a member of the Australian Society of Certified Practicing Accountants since February 1989.

3.2 Supervisors

Mr. HAO Jingtao (郝驚濤), born in June 1971, Chinese. Mr. HAO Jingtao is the Chairman of the Board of Supervisors of the Bank. Mr. Hao served as the deputy secretary of the party committee of the Bank from January 2018 and employee representative Supervisor of the Bank from March 2018, the executive vice president of the Bank from April 2015 to January 2018 and an executive director of the Bank from December 2014 to January 2018. Mr. Hao has more than 20 years of experience in banking business operations and management. Prior to joining the Bank, Mr. Hao's major work experience includes: serving as the vice president of the Hefei Branch of China Minsheng Banking Corp., Ltd. (中國民生銀行合肥分行) from December 2013 to December 2014; serving as a member of the party committee and the vice president of the Guiyang Branch of China CITIC Bank (中信銀行貴陽分行) from September 2011 to December 2013. He served successively as the deputy head of the planning group, vice president, secretary to the party committee and the president of the Luoyang Branch of China CITIC Bank (中信銀行洛陽分行) from December 2007 to September 2011. In addition, he served successively as the general manager of corporate banking department of the Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) and the president of the Information Mansion Sub-branch (信息大廈支行) of the Zhengzhou Branch. His work experience also includes serving as the deputy president of the Zhengzhou Chengdong Sub-branch of Bank of China (中國銀行鄭州城東支行) from December 2003 to February 2005, the president of the Xinmi Sub-branch of Bank of China (中國銀行新密市支行) from June 2001 to December 2003, the deputy head of accounting department of the Zhengzhou Sub-branch of Bank of China from July 1999 to June 2001. He worked at the Zhengzhou Branch of Bank of China from July 1994 to July 1997. Mr. Hao received a bachelor's degree in statistics from Zhongnan University of Finance (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in July 1994 and a master's degree in applied economics (financial engineering) from Renmin University of China (中國人民大學) in January 2012. Mr. Hao is an accountant accredited by the Ministry of Finance of the People's Republic of China in May 1998.

Ms. JIA Jihong (賈繼紅), born in September 1963, Chinese. Ms. JIA Jihong is an employee representative supervisor and the Vice Chairwoman of the Board of Supervisors of the Bank. She has more than 30 years of experience in banking business operations and management. Prior to joining the Bank, Ms. Jia's major work experience includes: serving as the president, legal representative and the deputy secretary to the party committee of Nanyang Bank from December 2011 to December 2014 and serving as the president, legal representative and the deputy secretary to the party committee of Nanyang Commercial Bank Co., Ltd from May 2005 to November 2011. Ms. Jia held several positions in the Nanyang Branch of Agricultural Bank of China, including vice president and the deputy secretary to the party committee from December 1996 to May 2005, the deputy section chief and the section chief of the information computer successively from September 1989 to November 1996. Before that, Ms. Jia served as an accountant, a facility reviewer, the office chief, the vice president and the chairwoman of the labor union of the Sheqi County of Agricultural Bank of China successively from February 1981 to September 1987. Ms. Jia received a bachelor's degree in management from the Party School of the Central Committee of the Communist Party of China in December 1995, a master's degree in literature from Henan University in October 2001 and an Executive Master of

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Business Administration degree from Tsinghua University in July 2009. She studied at Wuhan Management Cadres College of Agricultural Bank of China (中國農業銀行武漢管理幹部學院) from September 1987 to July 1989. Ms. Jia is a certified senior consultant accredited by the Henan Science and Technology Committee (河南省科學技術委員會) in January 1999, a senior economist accredited by Agricultural Bank of China in December 2001 and received the basic qualification certificate for insurance agent from the CIRC in July 2002.

Mr. ZHANG Yixian (張義先), born in October 1967, Chinese. Mr. ZHANG Yixian is an employee representative Supervisor and the general manager of the audit department of the Bank. Mr. Zhang's major working experience in the Bank: worked in the audit department of the Bank since July 2017 and served as the general manager of the audit department since December 2017. He also served as the general manager of the monitoring and guardian department of the Bank from January 2015 to June 2017. Prior to joining the Bank, Mr. Zhang's major work experience includes: serving as the president of the Yellow River Road Sub-Branch of China Merchants Bank from May 2013 to January 2015, the general manager of the audit department of the Zhengzhou Branch of China Merchants Bank from August 2012 to May 2013, the vice president of Luoyang Branch of China Merchants Bank from August 2011 to August 2012, the deputy general manager of the monitoring and guardian department of Zhengzhou Branch of China Merchants Bank from July 2007 to August 2011, the vice president of Zhengzhou Weisan Road Sub-Branch (緯三路支行) of China Merchants Bank from July 2005 to July 2007, and the assistant to the general manager of accounting department of Zhengzhou Branch of China Merchants Bank from July 2002 to July 2005. Mr. Zhang worked at the finance department of the Xinxiang Branch of China Construction Bank (建設銀行新鄉分行) from September 1993 to July 2002 and the finance department of Xingxiang State-owned 103 Factory (新鄉國營103廠財務部) from July 1990 to September 1993. Mr. Zhang received a college diploma in finance and accounting from Zhengzhou University of Aeronautics (鄭州航空工業管理學院) in July 1990, and is a mid-level accountant.

Ms. LI Weizhen (李偉真), born in June 1965, Chinese. Ms. LI Weizhen is a Shareholder representative Supervisor of the Bank. Ms. Li has been the deputy director of Henan Mingrui Accounting Firm (河南明銳會計師事務所) since November 2015 and the general accountant of Zhengzhou Kangqiao Real Estate Development Co. Ltd (鄭州康橋房地產開發有限責任公司) since December 2009. Ms. Li's work experience also includes serving as the general manager of Henan Chenghe Accounting Firm (河南誠和會計師事務所) from June 2008 to November 2015 and the deputy chief accountant of Asia Pacific (Group) CPAs (亞太(集團)會計師事務所) from October 1993 to June 2008. Ms. Li has been an independent non-executive director of several listed companies, including Zhengzhou Coal Industry and Electric Power Co., Ltd. (鄭州煤電股份有限公司) (SH.600121) since May 2016, Henan City Development Environment Co., Ltd. (河南城發環境股份有限公司) (SZ.000885) since February 2016 and Zhongyuan Environment protection Co., Ltd. (中原環保股份有限公司) (SZ.000544) since July 2013. Ms. Li completed her undergraduate education in planning and statistics in the department of economics at Zhengzhou University (鄭州大學) in July 1987 and received a master's degree in management from Tianjin University of Finance and Economics (天津財經學院) in June 1999. Ms. Li received the qualification as a PRC certified public accountant from the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in December 2008 and was accredited as a senior accountant by the Senior Review Committee of Accounting Professions of Henan Province (河南省會計系列高評會) in November 2002.

Mr. LI Wanbin (李萬斌), born in December 1971, Chinese. Mr. LI Wanbin is a Shareholder representative Supervisor of the Bank. Mr. Li has been the chairman of the board of directors of Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) since March 2011. Before that, Mr. Li worked as a director, the vice president, the general manager, the vice chairman of the board of directors and a member of the party committee of Henan Blue Sky Group Co., Ltd. (河南藍天集團有限公司) successively from July 2003 to August 2008.

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

In addition, Mr. Li served as the chairman of the board of directors of several companies, including Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司) from August 2008 to March 2011, Southern Henan Highway Investment Co., Ltd. (河南省豫南高速投資有限公司) from October 2003 to October 2004, and Southern Henan Gas Co., Ltd. (河南省豫南燃氣有限公司) from September 2000 to December 2002. Mr. Li was also a director and the executive vice general manager of Henan Zhongyuan Gas and Chemical Engineering Investment Co., Ltd. (河南中原氣化工程投資有限公司) from June 1999 to April 2001, and a sales personnel, the vice general manager and the general manager of Zhumadian Middle Distillate Co., Ltd. (駐馬店中油銷售有限公司) successively from July 1994 to June 1999. Mr. Li received an Executive Master of Business Administration degree from Hong Kong University of Science and Technology (香港科技大學) in June 2012.

Mr. LI Xiaojian (李小建), born in August 1954, Chinese. Mr. LI Xiaojian is an external Supervisor of the Bank. Mr. Li's primary work experience prior to joining the Bank includes serving as the principal of Henan University of Economics and Law from September 2010 to September 2015, the principal of Henan College of Finance from October 2003 to September 2010, the vice principal of Henan University from September 2001 to October 2003, and the dean of the school of environment and planning of Henan University from April 1994 to September 2001. Mr. Li received a bachelor's degree in geography from Henan Normal University (河南師範大學) in January 1982. He received a doctor's degree in economical geography from Nankai University (南開大學) in June 1990 and completed a doctorate program at Australian National University in March 1990, respectively. Mr. Li is a professor accredited by Henan Government in November 1993.

Mr. HAN Wanghong (韓旺紅), born in March 1954, Chinese. Mr. HAN Wanghong is an external Supervisor of the Bank. Prior to joining the Bank, Mr. Han held various other positions at Zhongnan University of Economics and Law, including serving as a professor from September 2002 to March 2019, a Ph.D. supervisor and the deputy director of the Investment Study Centre of Zhongnan University of Economics and Law from September 2009 to March 2019, as well as the vice president of the Committee of the Construction of the Investment Major of the Investment Association of China (中國投資協會投資學科建設委員會) from July 2015 to July 2019, the head of the investment department from September 2004 to December 2011, a lecturer and a deputy professor successively from September 1987 to August 2002. Mr. Han received a bachelor's degree in economics from Hubei College of Finance in July 1982, a master's degree in economics from Zhongnan University of Finance in November 1985 and a doctor's degree in industrial economics from Zhongnan University of Economics and Law in December 2008.

Mr. SUN Xuemin (孫學敏), born in April 1963, Chinese. Mr. SUN Xuemin is an external Supervisor of the Bank. Mr. Sun currently holds several positions at Zhengzhou University, including a professor in the business department since November 2001, the chief of the Strategic Research Centre of the Development of Modern Industry and Enterprises (現代產業與企業發展戰略研究中心) since April 2010 and the chief of the Corporation Research Centre (企業研究中心) since April 2004. Mr. Sun's work experience also includes serving as the legal representative and the executive director of Zhengzhou Jiebang Management Consulting Co., Ltd. (鄭州傑邦管理諮詢有限公司) since April 2005, the Director of Zhengzhou High-Tech Valley of Technology Development Co., Ltd. (鄭州高創穀科技園開發有限公司) since July 2015, the legal representative and executive director of Zhengzhou Zhengda Yunchuang Technology Co., Ltd. (鄭州鄭大雲創科技有限公司) since December 2015. Mr. Sun had served as an independent non-executive director of Jindan Rusuan Technology Co., Ltd. (河南金丹乳酸科技股份有限公司) from April 2011 to April 2016. Mr. Sun served as a member and the deputy chief of the "Expert Committee for Small and Medium Enterprises in Zhengzhou" (鄭州市中小企業專家服務團) from December 2010 to May 2014. Mr. Sun received a doctor's degree in western economy from Huazhong University of Science and Technology in June 2008.

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Mr. PAN Xinmin (潘新民), born in January 1957, Chinese. Mr. PAN Xinmin is an external supervisor of the Bank and has 40 years of experience in banking operations and management. He has been a senior researcher of Henan Songshan Think Tank (河南嵩山智庫) since November 2018. He served as an inspector in the inspection group at the head office of China Merchants Bank (中國招商銀行總行) from December 2015 to February 2017, the president and secretary to the CPC Committee of China Merchants Bank Kunming Branch (中國招商銀行昆明分行) from December 2009 to December 2015, the principal of the organization panel of China Merchants Bank Zhengzhou Branch (中國招商銀行鄭州分行) from July 2002 to December 2002, and the president and secretary to the CPC Committee of the same from December 2002 to December 2009. Mr. Pan was the president and secretary to the CPC Committee of China Everbright Bank Dalian Branch (光大銀行大連分行) from April 2001 to July 2002. He successively held several positions in China Construction Bank (中國建設銀行) from April 1980 to April 2001, including: (i) clerk of Henan Branch (河南省分行), (ii) deputy chief officer of Henan Branch, (iii) vice president and member of the CPC Committee of Zhumadian Branch (駐馬店分行), (iv) deputy director of Sanding office of Henan Branch, (v) the general manager of Henan Trust Investment Co., Ltd. (河南省信託投資公司), (vi) the president and secretary to the CPC Committee of Shangqiu Branch (商丘分行), (vii) vice president and member of the CPC Committee of Henan Branch. The working experience of Mr. Pan also includes being employed as a worker at the Third Coal Mine of Hebi Mining Bureau (鶴壁礦務局第三煤礦) from September 1977 to April 1978. Mr. Pan graduated from Henan Accounting School (河南省會計學校) in February 1980, and graduated from Henan Radio and Television University (河南廣播電視大學) majoring in Chinese language and literature in July 1985. He studied in the Party School of the CPC Committee of Henan Province (河南省委黨校) from September 1992 to July 1994 and obtained the graduation certificate majoring in economics management for undergraduates at the evening college of the Party School. He completed the on-the-job postgraduate courses and obtained a master degree of economics from Zhongnan University of Finance (中南財經大學) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in July 1996, and completed education in international finance (as an off-the-job transferred student) and graduated at the Business School of Wuhan University (武漢大學商學院) and obtained a bachelor degree of economics in July 1999. He completed the on-the-job postgraduate courses and obtained a doctorate in management from the School of Management of Huazhong University of Science and Technology (華中科技大學) in December 2008. Mr. Pan obtained the senior economist qualification in March 1994 and the certified public accountant qualification from the Chinese Institute of Certified Public Accountants in December 1997.

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

3.3 Biography of Senior Management

For biographical details of Mr. WANG Jiong (王炯) and Mr. LI Yulin (李玉林), please see “Biography of Directors, Supervisors and senior management – 3.1 Biography of Directors”. For the biographical details of Mr. ZHANG Yixian (張義先), please see “Biography of Directors, Supervisors and senior management – 3.2 Biography of Supervisors”.

Mr. LIU Kai (劉凱), born in March 1971, Chinese. Mr. LIU Kai is the vice president of the Bank. Mr. Liu has served as a vice president of the Bank since December 2014. Mr. Liu has more than 20 years of experience in banking operations and management. Mr. Liu’s primary work experience prior to joining the Bank includes serving as: (i) a member of the Leading Group Office for the reform and restructuring of some city commercial banks in Henan Province from December 2013 to December 2014, (ii) the assistant to the head of the Bureau of Financial Market of PBoC from August 2011 to November 2013, (iii) the president and the secretary to the party committee of PBoC Anyang Central Sub-branch and the head of the Anyang Central Sub-bureau of the State Administration of Foreign Exchange (國家外匯管理局安陽支局) from May 2007 to August 2011. He served successively as a chief section member, the deputy chief and the chief of the office of the party committee and the manager of the office of legal affairs of PBoC Zhengzhou Central Sub-branch from January 1999 to April 2007. Prior to that, Mr. Liu served successively as an officer and a section member of the finance management department and a deputy chief section member and a chief section member of the office of the Henan Branch of PBoC from July 1994 to January 1999. He worked at PBoC Tanghe County Sub-branch from July 1993 to July 1994. Mr. Liu received a bachelor’s degree in the science of law from Zhengzhou University in June 1993, and a master’s degree in liberal arts from Henan University in June 2007. Mr. Liu received a certificate for passing the lawyer’s qualification exam from the Department of Justice of Henan Province (河南省司法廳) in May 1995 and is a senior economist accredited by the PBoC in May 2005.

Mr. ZHOU Litao (周麗濤), born in November 1979, Chinese. Mr. ZHOU Litao is the vice president of the Bank. Before that, Mr. Zhou was the corporate business director of the Bank from December 2014 to May 2018. Prior to joining the Bank, Mr. Zhou held several positions, including serving as the general manager of the asset management department of the investment banking division of the China CITIC Bank from May 2013 to December 2014, the general manager of the strategic customer department of the Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) from January 2013 to May 2013, the product manager, assistant to general manager, deputy general manager and general manager of the investment banking center of Zhengzhou Branch of China CITIC Bank successively from March 2008 to January 2013, and the product manager of corporate banking department of Zhengzhou Branch of China CITIC Bank from February 2006 to March 2008. Prior to that, he worked at the Henan Branch of the China Construction Bank (中國建設銀行河南省分行) from July 2001 to July 2003. Mr. Zhou received a bachelor’s degree in Economics in July 2001 and a master’s degree in business administration in July 2006, both from Xi’an Jiaotong University. Mr. Zhou was recognized as an intermediate economist in November 2007.

Mr. LIU Qingfen (劉清奮), born in March 1970, Chinese. Mr. LIU Qingfen is an assistant to the president of the Bank. Before that, Mr. Liu served as the secretary to the party committee and general manager of the head office of the Bank from December 2014 to July 2017 and the secretary to the party committee and president of the Zhengzhou Branch of the Bank from July 2017 to February 2018. Mr. Liu is the general manager of the corporate banking department of the Bank since February 2018. Prior to joining the Bank, Mr. Liu held several positions, including serving as a section member of the office of Zhengzhou Commercial Bank (鄭州市商業銀行) from July 1994 to July 1998, the vice

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

president of Zhengbian Road Sub-branch (鄭汴路支行) and Qiaojiamen Sub-branch (喬家門支行) of Zhengzhou Commercial Bank successively from July 1998 to March 2000, the deputy director of the office of Zhengzhou Commercial Bank from March 2000 to November 2000, the deputy section chief and section chief of the customer section of the business department of Zhengzhou Branch of Bank of Communications (交通銀行鄭州分行) from November 2000 to April 2004, the vice president and president of the Weiwu Road Sub-branch (緯五路支行) of the Zhengzhou Branch of Bank of Communications successively from April 2004 to April 2006, the head of business expansion department of the Zhengzhou Branch of China Industrial Bank (興業銀行鄭州分行) from April 2006 to July 2007, the president of the Dongdajie Sub-branch (東大街支行) of the Zhengzhou Branch of China Industrial Bank from July 2007 to July 2012, the Director of the Dongdajie business department of the Zhengzhou Branch of China Industrial Bank from July 2012 to January 2013, the deputy secretary to the party committee and the president of Kaifeng Commercial Bank (開封市商業銀行) from January 2013 to December 2014. Mr. Liu graduated from Zhengzhou University (鄭州大學) with a bachelor's degree in Chinese language and literature in June 1994. Mr. Liu was awarded the intermediate economist in November 1998.

Mr. YAO Hongbo (姚紅波), male, born in April 1969, Chinese. Mr. YAO Hongbo is an assistant to the president of the Bank. Previously, Mr. YAO served as the secretary to the party committee and president of the Bank's Xinxiang Branch from March 2016 to April 2018; served as the Bank's retail business director from April 2018 to May 2019. Since May 2018, he has been the assistant to the president of the Bank. Prior to joining the Bank, Mr. YAO Hongbo's major work experience includes: serving as an employee, director of the branch office and office director of China Construction Bank's Puchi County Branch from July 1992 to April 2001; a cadre in the integrated division under the asset protection department in China Construction Bank Henan Branch from April 2001 to January 2002; a cadre in the research department of the China Construction Bank Henan Branch office from January 2002 to January 2003; the organization section chief in the human resources department of the China Construction Bank Henan Branch from January 2003 to February 2005; the deputy director of Zhengzhou Branch Office of CITIC Bank from February 2005 to January 2008; the vice president of Zhengzhou Wenhua Road Sub-branch of CITIC Bank from January 2008 to January 2010; the president of CITIC Bank Zhengzhou Huanghe Road Sub-branch from January 2010 to April 2010; the president of CITIC Bank Zhengzhou Dongfeng Road Sub-branch from April 2010 to January 2013; the President of CITIC Bank Jiaozuo Branch from January 2013 to October 2015; and the general manager of the Banking Department of CITIC Bank Zhengzhou Branch from October 2015 to March 2016. Mr. YAO graduated from Zhengzhou University with a major in finance (bachelor's degree) in July 1992 and has a title of intermediate economist.

Mr. ZHANG Ke (張克), born in October 1977, Chinese. Mr. ZHANG Ke is the secretary to the Board. Mr. Zhang has served as the secretary to the Board of the Bank since December 2014. His primary work experience prior to joining the Bank includes serving as a member of the Leading Group Office for the reform and restructuring of some city commercial banks in Henan Province from December 2013 to December 2014, the general manager of the accounting finance department, the chief accountant and a director of Kaifeng Commercial Bank from April 2010 to December 2013, as well as a business manager of the corporate planning department of Henan Investment Group Co., Ltd. (河南投資集團有限公司) from July 2007 to March 2010. Before that, Mr. Zhang worked as a deputy chief officer in the accounting finance section of the Central Sub-branch of Sanmenxia City of the PBoC from July 1999 to June 2007. Mr. Zhang received a bachelor's degree in management from Henan University of Finance in June 1999 and a Master of Business Administration degree from Xi'an University of Technology in April 2006. Mr. Zhang is a senior accountant accredited in December 2008 a title of senior accountant in December 2019.



Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Ms. WANG Shanshan, born in December 1981, Chinese. Ms. WANG Shanshan is the general manager of the planning and financing department of the Bank. Ms. Wang performed duties on behalf of the general manager of the planning and financing department from March 2020 to September 2020. She served as the deputy general manager of the planning and financing department of Zhongyuan Bank from August 2019 to March 2020, the member of party committee and vice president of the Zhengzhou Branch of Zhongyuan Bank from February 2019 to August 2019, the assistant to the general manager of the planning and financing department of Zhongyuan Bank from May 2017 to February 2019 and the responsible person of reimbursement center of the planning and financing department of Zhongyuan Bank from April 2016 to May 2017. Prior to that, she served as the teller, the financial accounting of the accounting management department, the responsible person of reimbursement center of the planning and financing department and the senior product manager of the investment banking division of Jinshui Road Sub-branch of Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) successively from June 2005 to April 2016. Ms. Wang received a bachelor's degree in accounting from Zhengzhou University in July 2005 and a Master of Business Administration degree from Zhengzhou University in December 2016. Ms. Wang was awarded the mid-level accountant in September 2018 and the senior international financial manager in April 2019.

4 Confirmation of Independence of Independent Non-executive Directors

The Bank has received from each of its independent non-executive Directors the annual confirmation of his independence and considered that all the independent non-executive Directors are independent pursuant to the guidelines set out in Rule 3.13 of the Hong Kong Listing Rules.

5 Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank has adopted the Model Code as the code of conduct for securities transactions of the Bank by all Directors and Supervisors. The Bank has also put in place guidelines in respect of dealings in securities of the Bank with terms no less exacting than those of the Model Code, for the relevant employees (as defined in the Hong Kong Listing Rules). Having made specific enquiries to all Directors and Supervisors regarding their compliance with the Model Code, each of the Directors and Supervisors confirmed that those standards as provided thereunder have been complied with for the twelve months period from January 1, 2020 to December 31, 2020. Having made specific enquiries to the relevant employees regarding their compliance with the guidelines of dealing in securities of the Bank, the Bank is not aware of any incompliance with the guidelines.

6 Interests and Short Positions of Directors, Supervisors and Chief Executive Officers in Shares, Underlying Shares and Debentures

As of December 31, 2020, the Directors, Supervisors and chief executive officers of the Bank who had interests and short positions in the Shares, underlying Shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Bank under Section 352 of the SFO, or which were required to be notified to the Bank and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code were as follows:

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Interests in Shares of the Bank (Long Positions)

Name	Class of Shares	Nature of interests	Number of Shares	Approximate percentage of the total issued share capital of the relevant class of the Bank ⁽¹⁾ (%)	Approximate percentage of the total issued share capital of the Bank ⁽¹⁾ (%)
Mr. WEI Jie	Domestic Shares	Beneficial owner	500,000	0	0
Mr. LI Xipeng ⁽²⁾	Domestic Shares	Interest in controlled corporation	753,000,000	4.63	3.75
Ms. JIA Jihong	Domestic Shares	Beneficial owner	2,472	0	0
Mr. LI Wanbin ⁽³⁾	Domestic Shares	Interest in controlled corporation	407,657,871	2.5	2.03

Notes:

- As of December 31, 2020, the number of total issued Shares of the Bank was 20,075,000,000, including 16,280,000,000 Domestic Shares and 3,795,000,000 H Shares.
- Mr. LI Xipeng and his spouse hold 100% equity interest in Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司). Therefore, by virtue of the SFO, Mr. LI Xipeng is deemed to be interested in the 753,000,000 Domestic Shares of the Bank (long positions) directly held by Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司).
- Mr. LI Wanbin is the de facto controller of Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) and Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司). Therefore, by virtue of the SFO, Mr. LI Wanbin is deemed to be interested in the 407,657,871 Domestic Shares of the Bank (long positions) directly held by Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) and Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司).

7 Remuneration Information for Directors, Supervisors and Senior Management

The Bank provide remuneration for Directors, Supervisors and Senior Management according to the “Administrative Measures on the Remuneration of Directors and Supervisors of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司董事、監事薪酬管理辦法》)”, “Administrative Measures on the Remuneration of Senior Management of Head Office of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司總行高級管理人員薪酬管理辦法》)”, “Measures for Evaluating the Performance of Directors and Senior Management of Board of Directors of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司董事會對董事、高管人員履職評價辦法》)”, “Measures for Evaluating the Performance of Directors, Supervisors and Senior Management of Board of Supervisors of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司監事會對董事、監事、高管人員履職評價辦法》)” and “Measures for the Administration of the Performance Appraisal of Senior Management of Head Office of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司總行高級管理人員績效考核管理辦法》)”.

The specific remuneration plan of the Bank’s directors, supervisors and senior management personnel shall be reviewed by the Nomination and Remuneration Committee of the Board and submitted to the Board for final decision. The remuneration system of directors, supervisors and senior management personnel is determined based on the principles of power and responsibility consistency, incentives (both short-term and medium- and long-term incentives are taken into account) and constraints combination, promoting the marketization of the Bank’s income distribution for senior management.

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

Remuneration paid to the senior management (excluding the Directors and Supervisors) by bands for the year ended December 31, 2020 is set out below:

	No. of employees
RMB0 to RMB1,000,000	2
RMB1,000,000 to RMB2,000,000	2
RMB2,000,000 to RMB3,000,000	3
RMB3,000,000 to RMB4,000,000	1

8 Employees' Remuneration Policies and Training Programs

8.1. Information of Employees

As of December 31, 2020, we had 13,396 employees in total, of which 1,649 employees at our head office and 11,747 employees at our branches and sub-branches (including direct sub-branches). We had 212 dispatched staff. As of December 31, 2020, 10,589 employees or 79.05% had bachelor's degrees or above, with the average age of 36.5. We totally had 1,012 employees at village and township banks sponsored by the Bank, 101 employees at AB Leasing Co., Ltd. and 399 employees at Henan Zhongyuan Consumer Finance Corp., Ltd. (河南中原消费金融股份有限公司).

8.2. Employees' Remuneration Policies

The Bank based on the concepts of paying for position value, paying for competence, paying for performance and paying for market price, aiming to establish a well-developed, scientific and effective incentive and restraint mechanism for remuneration policies, and realize the corporate strategy and long-term shareholder value. The policy is conducive to the implementation of strategic objectives, enhancement of competitiveness, cultivation of talents and control of risks.

The Bank established a position evaluation-based and operating results-oriented remuneration distribution mechanism and developed a professional serial review method for employees to broaden the career development channels, so as to promote the professional and sustainable development of the staff team.

The Bank gave full play to the guiding role of remuneration in management and risk control. In accordance with the principle of combining immediate incentives with long-term incentives and combining effective incentives and responsibility constraints and subject to the needs of risk management, the Bank mitigates risks through deferred payment of performance compensation of senior management with regard to the risk factors that are not reflected currently, so as to promote the stable operation and sustainable development of the Bank.

The relevant remuneration management system of the Bank should be submitted to the Party Committee, Nomination and Remuneration Committee and the Board of Directors for review. The Bank did not have any share option incentive scheme or employee shareholding plan during the Reporting Period.

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

8.3. Employees Training Programs

The Bank has set up the annual training programs according to its business development strategies and educational training plans, adhering to a people-oriented management philosophy, with “power digital transformation, to improve training quality” as the focus, and has carried out the training programs according to the principle of “different level, different classification, wide coverage”. By setting up an online learning digital academy, a series of trainings on the “digital quotient” improvement of all employees have been carried out in a continuous, multi-form and multi-level manner, gradually improving the employee’s digitalization of thinking and digital application ability, and further enhancing the employee’s overall quality, professional ability and management level. The Bank has committed to provide strong organization guarantee and talent support for our long-term development. The Bank manages its training programs based on the mechanism of “standardized principles and planning, and hierarchical management and implementation”, establishes a hierarchical training system comprising “piloting, voyaging, sailing”, and manages the trainings in accordance with a three-tier training system comprising “head office, branch, sub-branch (sector)”. During the Reporting Period, due to the impact of the COVID-19, the trainings throughout the Bank were mainly online trainings. The Bank organized 205 tier 1 training in various categories in total, the planned completion rate is 91.9%, the online projects accounted for 90.1% with aggregated number of staff trained of 48,000 and 3.56 trainings per head. 18 branches of the Bank organized 2,103 sessions of training in total, and the average fulfillment ratio of plan was approximately 93.34% with 133,700 staffs trained in total. Our training has reached full staff coverage and provides strong human resources protection for the sustainable and healthy business development of the Bank.

9 Information of Institutions under the Bank

As of December 31, 2020, there are 18 branches and 2 direct sub-branches, and 494 outlets in total, including 297 urban branches, 126 county-level branches and 71 township-level sub-branches under the Bank. The following table sets out the branches and sub- branches:

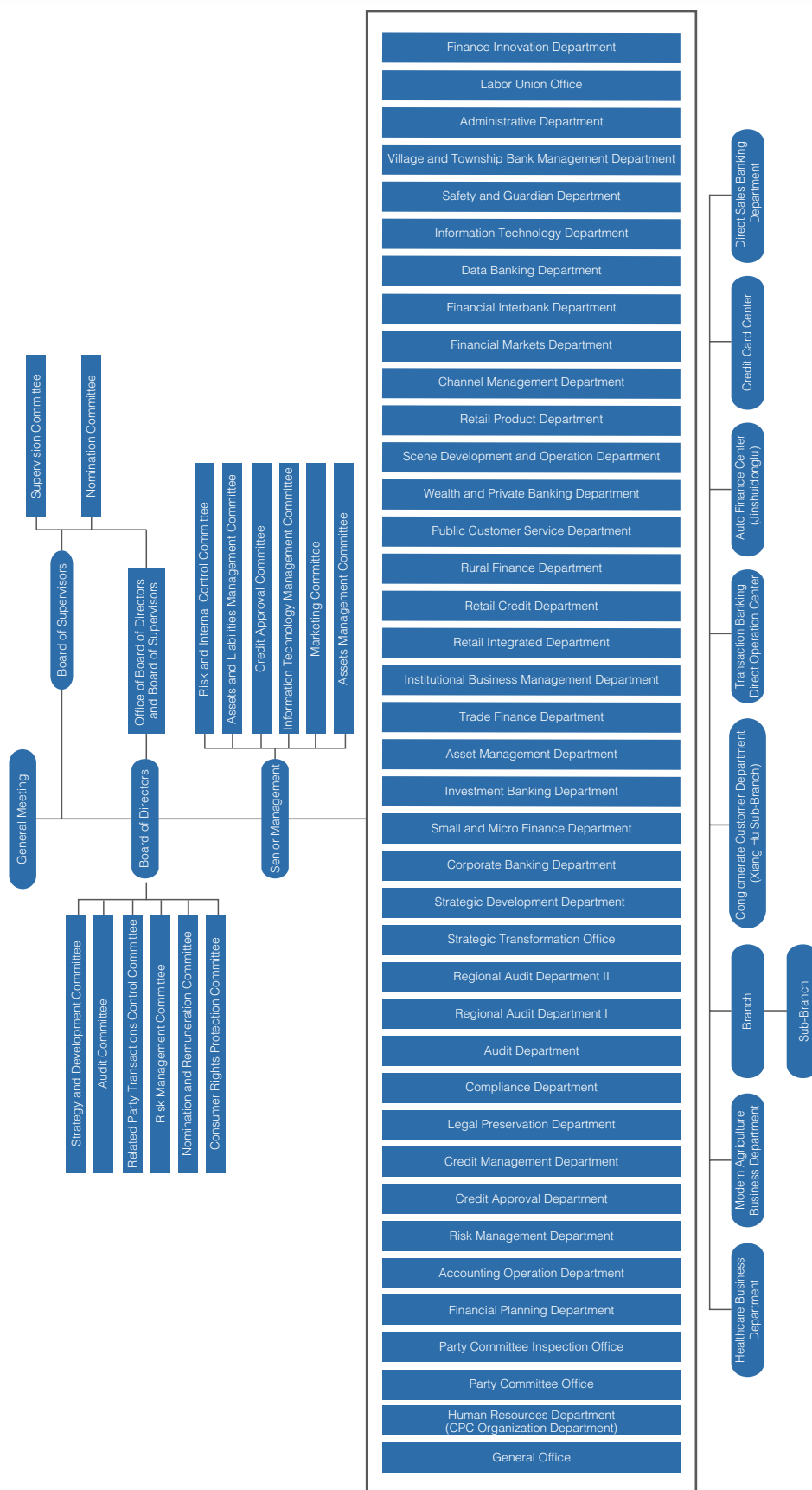
No.	Region	Name of the Branch	Business Address (China)	Remarks
1	Zhengzhou, Henan	Headquarters	Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province	Directly in charge of 2 sub-branch institutions
2	Zhengzhou, Henan	Zhengzhou	Shengrun International Plaza, 219 Jinshui Road, Jinshui District, Zhengzhou City, Henan	In charge of one business department, 40 sub-branch
3	Luoyang, Henan	Luoyang	No.66, Changxing Street, Luolong District, Luoyang City, Henan Province	In charge of one business department, 8 sub-branch institutions
4	Kaifeng, Henan	Kaifeng	No. 246, West Daliang Road, Kaifeng City, Henan Province	In charge of one business department, 32 sub-branch institutions
5	Pingdingshan, Henan	Pingdingshan	Northwest Corner, Intersection of Zhongxing Road and Zhannan Road, Zhanhe District, Pingdingshan City, Henan Province	In charge of one business department, 14 sub-branch institutions
6	Anyang, Henan	Anyang	Northwest Corner, Intersection of Wenfeng Avenue and Guangming Road, Wenfeng District, Anyang City, Henan Province	In charge of one business department and 26 sub-branch institutions
7	Hebi, Henan	Hebi	Finance Centre, Qishui Avenue, Qibin District, Hebi City, Henan Province	In charge of one business department, 15 sub-branch institutions
8	Xinxiang, Henan	Xinxiang	No.599 Pingyuan Road, Hongqi District, Xinxiang City, Henan Province	In charge of one business department, 34 sub-branch institutions

Chapter 7 Directors, Supervisors, Senior Management, Employees and Institutions

No.	Region	Name of the Branch	Business Address (China)	Remarks
9	Jiaozuo, Henan	Jiaozuo	No.479, Renmin Road, Jiefang District, Henan Province	In charge of one business department, 10 sub-branch institutions
10	Puyang, Henan	Puyang	No.444, Shenglizhong Road, Puyang City, Henan Province	In charge of one business department, 24 sub-branch institutions
11	Xuchang, Henan	Xuchang	East Jianan Avenue, Xuchang City, Henan Province	In charge of one business department, 29 sub-branch institutions
12	Luohe, Henan	Luohe	Intersection of Huangshan Road and Songjiang Road, Yancheng District, Luohe City, Henan Province	In charge of one business department, 18 sub-branch institutions
13	Sanmenxia, Henan	Sanmenxia	Yingbin Avenue West, No. 2 Commercial Street South, Central Business District, Sanmenxia City, Henan Province	In charge of one business department, 29 sub-branch institutions
14	Nanyang, Henan	Nanyang	No.6, Zhangheng Road, Nanyang City, Henan Province	In charge of one business department, 47 sub-branch institutions
15	Shangqiu, Henan	Shangqiu	No. 195, Wenhua Road, Suiyang District, Shangqiu City, Henan Province	In charge of one business department, 47 sub-branch institutions
16	Xinyang, Henan	Xinyang	Xinshi Street, Yangshan New District, Xinyang City, Henan Province	In charge of one business department, 32 sub-branch institutions
17	Zhoukou, Henan	Zhoukou	Changjian MOCO New World Business Office Building, Intersection of Zhoukou Avenue and Qingfeng Road, Dongxin District, Zhoukou City, Henan Province	In charge of one business department, 29 sub-branch institutions
18	Zhumadian, Henan	Zhumadian	No. 168, Wenming Road, Zhumadian City, Henan Province	In charge of one business department, 37 sub-branch institutions
19	Jiyuan, Henan	Jiyuan	No. 481, Middle Yellow River Road, Jiyuan City, Henan Province	In charge of one business department, 3 sub-branch institutions

Chapter 8 Corporate Governance Report

1. Organizational Structure Chart of Corporate Governance





Chapter 8 Corporate Governance Report

2. Summary of Organizational Structure of Corporate Governance

The Bank pursues excellence in corporate governance and is committed to continuously enhancing the quality and transparency of corporate governance for safeguarding shareholders' interests and enhancing the corporate values.

The Bank has established a comprehensive corporate governance structure in accordance with the requirements under the Hong Kong Listing Rules. The compositions of the Board and its special committees complied with the requirements under the Hong Kong Listing Rules. The responsibilities are clearly split among the general meeting, the Board, the Board of Supervisors and the senior management. The general meeting is the authority of the Bank, which exercises its powers pursuant to the laws. The Board shall be accountable to the shareholders' general meeting, and our Bank currently has six special committees under the Board. The special committees are operated under the leadership of the Board, and provide advice on the decision-making of the Board. The Board of Supervisors shall be accountable to the shareholders' general meeting, with the target of safeguarding the legitimate interests of the Bank, the Shareholders, staff, creditors and other stakeholders, as well as supervising the stable and compliance operation of the Bank and the performance of the Board and the senior management. The senior management of the Bank work under the leadership of the Board, which is responsible for the implementation of the resolutions of the Board and the daily business operations of the Bank and is required to report to the Board and the Board of Supervisors on a regular basis. The president of the Bank shall be appointed by the Board and shall be accountable to the Board, which is responsible for the overall business operation and management of the Bank.

As of the end of the Reporting Period, the Bank strictly complied with the code provisions as stated in the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules and the Hong Kong Listing Rules in relation to the disclosure of inside information. The Directors are not aware of any information which indicates that the Bank has not complied with the code provisions as stated in the Corporate Governance Code during the Reporting Period.

The Bank will continue to review and enhance corporate governance, for ensuring that our corporate governance continues to comply with the requirements under the Corporate Governance Code and to achieve a higher expectation from the Shareholders and investors.

Board Diversity Policy

The increasing diversity at the Board level is the key factor for the Bank to achieve its sustainable development, fulfill its strategic objectives and maintain good corporate governance.

Chapter 8 Corporate Governance Report

The Board diversity policy of the Bank specifies that in designing the composition of the Board, board diversity shall be considered from several aspects, including but not limited to gender, age, regional and industrial experiences, skills, knowledge and educational background. All Board members' appointment will be based on both capability and integrity, and candidates will be considered against objective criteria, with due regard given to the benefits of diversity of the Board. Selection of candidates for the Board will be based on a range of diversity perspectives, including but not limited to gender, age, regional and industrial experiences, skills, knowledge and educational background.

Members of the Board	Age 40 to 49	Age 50 to 59	Age above 60
Mr. DOU Rongxing		✓	
Mr. WANG Jiong		✓	
Mr. LI Yulin		✓	
Mr. WEI Jie		✓	
Ms. ZHANG Qiuyun	✓		
Mr. LI Xipeng		✓	
Mr. MI Hongjun		✓	
Ms. PANG Hong			✓
Mr. LI Hongchang			✓
Mr. JIA Tingyu			✓
Mr. CHAN Ngai Sang Kenny		✓	

3. Information Regarding the Convening of the Shareholders' General Meetings

The 2019 annual general meeting, the first domestic shareholders class meeting of 2020, the first H shareholders class meeting of 2020 and the 2020 first extraordinary general meeting were held during the Reporting Period.

On May 18, 2020, the Bank held the 2019 annual general meeting in Zhengzhou, Henan, at which 15 proposals were considered and approved, including Proposal on the Work Report of the Board of Directors of Zhongyuan Bank Co., Ltd. for 2019, Proposal on the Work Report of the Board of Supervisors of Zhongyuan Bank Co., Ltd. for 2019. 2 resolutions were considered and approved at the first domestic shareholders class meeting of 2020 and the first H shareholders class meeting of 2020, respectively, including the Resolution on the Amendments to the Articles of Association of Zhongyuan Bank Co., Ltd. and Resolution on the Amendments to the Rules of Procedures of the Shareholders' General Meeting of Zhongyuan Bank Co., Ltd. 2 resolutions were considered at the first extraordinary general meeting of shareholders of 2020, including Resolution on the Appointment of ZHANG Qiuyun as a Director of the Second Session of the Board of Zhongyuan Bank Co., Ltd. and Resolution on the Adjustment for the Financial Budget Report for 2020 of Zhongyuan Bank Co., Ltd.

The convening, notice, holding and voting procedures of the aforesaid Shareholders' general meetings were in compliance with the relevant laws and regulations and the relevant requirements of the Articles of Association of the Bank.



Chapter 8 Corporate Governance Report

4. The Board and its Special Committee

4.1 Operation of the Board

The Board of the Bank is responsible for the Shareholders' general meetings, and the directors are elected by the Shareholders' general meetings with a term of three years. The directors make decisions on the Bank's development strategy, operating plan and other matters mainly by form of board meetings. The board meetings are divided into regular board meeting and interim board meeting. The board meeting can be convened in the form of a physical meeting or in the form of written resolutions, and regular board meeting shall be convened in the form of a physical meeting. The Board shall hold at least one regular meeting quarterly convened by the chairman of the Board. Notices of the Board meetings shall be sent to all directors and supervisors in writing fourteen (14) days before the meeting, and the meeting documents shall be sent to all directors and supervisors five (5) days before the meeting. The Board and the senior management have established a good and communication mechanism. All proposals submitted to the Board meeting are subject to careful review and active discussion by all Directors before making a decision.

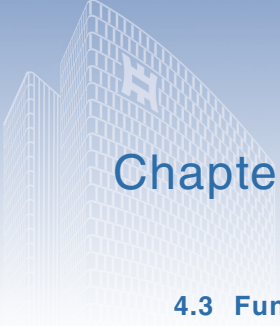
The Board has set up an office as its daily working organization which is responsible for preparing the general meeting, the Board meetings and all the meetings of special committees under the Board, and is responsible for implementing all the matters assigned by the general meeting, the Board and the special committees under the Board.

The Board and the senior management exercise their authority in accordance with the requirements under our Articles of Association, and the Board of the Bank performs regular discussion on risk management and internal control system. The Board believes that the risk management and internal control system established and implemented by the Bank is sufficient and effective.

4.2 Composition of the Board

As of the end of the Reporting Period, the Board consists of 10 Directors⁴, including 4 executive Directors, i.e. Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie; 2 non-executive Directors, i.e. Mr. LI Xipeng and Mr. MI Hongjun; and 4 independent non-executive Directors, i.e. Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny.

⁴ As of the end of the Reporting Period, 10 Directors of the Board excludes Ms. ZHANG Qiuyun whose qualification was approved by the China banking and insurance regulatory authority on January 21, 2021.



Chapter 8 Corporate Governance Report

4.3 Functions and Powers of the Board

The Board shall exercise the following functions and powers:

1. convening Shareholders' general meetings and reporting its performance at the general meetings;
2. implementing resolutions of the Shareholders' general meetings;
3. deciding on development strategies, operational plans and investment programs of the Bank;
4. working out annual financial budget plans and final account plans of the Bank;
5. formulating profit distribution plans and plans for recovery of losses of the Bank;
6. formulating proposals for increases in or reductions of registered share capital, issuance of bonds or other securities and listing plans of the Bank;
7. formulating proposals for repurchase of the Bank's shares, merger, separation, change of the nature of the Bank and dissolution or liquidation;
8. reviewing and approving annual authorization plans relating to business, personnel, and financial affairs;
9. reviewing and approving external donations with a single amount between RMB5 million (exclusive) and less than RMB30 million (inclusive);
10. reviewing and approving matters in relation to major equity investment and disposal with a single amount representing less than ten percent (inclusive) of the most recent audited net asset of the Bank;
11. reviewing and approving matters in relation to major asset acquisition and disposal with a single amount exceeding RMB200 million (exclusive) and representing less than ten percent (inclusive) of the most recent audited net asset of the Bank;
12. reviewing and approving external guarantees of non-commercial banking business (such as pledge of assets) with a single amount below RMB200 million (inclusive);
13. deciding on the establishment of the internal management structure of the Bank;
14. deciding on the establishment and planning of our branches;
15. appointing or removing senior management, including the president and the secretary of the Board of Directors of the Bank; appointing or removing senior management, including vice presidents, assistants to the president and finance officers of the Bank, based on the recommendations of the president; and deciding on matters relating to their emoluments and awards or punishment;



Chapter 8 Corporate Governance Report

16. establishing the basic management system of the Bank, deciding on policies on risk management, internal control and compliance of the Bank;
17. formulating proposals for any amendment to our Articles of Association;
18. managing the disclosure of information of the Bank;
19. proposing the appointment or replacement of accounting firms to the Shareholders' general meetings for the auditing of the Bank;
20. reviewing working reports of the president of the Bank and examining the performance of the president;
21. formulating capital replenishment plans;
22. formulating medium and long term incentive plans, such as equity incentive plans and employee stock ownership plans;
23. The Board of Directors shall establish a supervisory system to ensure that the management will formulate a code of conduct and working principles for the management staff and the business personnel at all levels and that the regulatory documents will specifically require employees at all levels to promptly report any possible conflict of interests, provide detailed rules and establish corresponding mechanism;
24. The Board of Directors shall establish a reporting system to require the senior management to report operational issues of the Bank to the Board of Directors regularly. The following items shall be regulated under this system:
 - (1) The contents and the basic standard of the information reported to the Board of Directors;
 - (2) The frequency of the report;
 - (3) The form of the report;
 - (4) The responsible bodies of the report and the responsibilities for delay or incompleteness of the report;
 - (5) The confidentiality of the report.
25. Exercising any other functions and powers prescribed by the laws, administrative regulations, departmental rules or the Articles of Association and authorized by the shareholders' general meetings

The Board is also responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code. The Board reviewed the Bank's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Bank's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employee Written Guidelines, and the Bank's compliance with the Corporate Governance Code and disclosure in this report.

Chapter 8 Corporate Governance Report

4.4 Director's Responsibility for the Preparation of the Financial Statements

The Directors acknowledge that they are responsible for the preparation of the financial statements of our Bank for the year ended December 31, 2020, which give a true and fair view of the state of affairs and results of the Bank. In doing so, the Directors opted for suitable accounting policies and applied them consistently and used accounting estimates as appropriate in the circumstances. With the assistance of the accounting and finance staffs, the Directors ensured that the financial statements of the Bank are prepared in accordance with statutory requirements and appropriate financial reporting standards. The statement of the external auditors with regard to their reporting responsibilities on the Group's financial statements is set out on page 148 to page 154 in the Independent Auditors' Report.

4.5 Meetings of the Board of Directors and the Directors' Attendance

During the Reporting Period, our Bank convened 9 board meetings, which reviewed or approved 72 resolutions.

The details of the board meetings are set out below:

Session of board meeting	Date of meeting	Form of meeting
The 17th meeting of the second session of the Board	January 2, 2020	Circulation of written proposal
The 18th meeting of the second session of the Board	March 12, 2020	On-site
The 19th meeting of the second session of the Board	March 27, 2020	On-site
The 20th meeting of the second session of the Board	June 29, 2020	On-site
The 21st meeting of the second session of the Board	August 7, 2020	On-site
The 22nd meeting of the second session of the Board	August 28, 2020	On-site
The 23rd meeting of the second session of the Board	September 29, 2020	Circulation of written proposal
The 24th meeting of the second session of the Board	November 11, 2020	On-site
The 25th meeting of the second session of the Board	December 30, 2020	On-site

The attendance of each Director at the general meeting during the Reporting Period is set out below:

Director		2019 annual general meeting	the first H shareholders class meeting of 2020	the first domestic shareholders class meeting of 2020	the 2020 first extraordinary general meeting
Executive Directors	DOU Rongxing	0/1	0/1	0/1	1/1
	WANG Jiong	1/1	1/1	1/1	1/1
	LI Yulin	1/1	1/1	1/1	1/1
	WEI Jie	1/1	1/1	1/1	1/1
Non-executive Directors	LI Qiaocheng ⁽¹⁾	1/1	1/1	1/1	/
	LI Xipeng	1/1	1/1	1/1	0/1
	MI Hongjun	1/1	1/1	1/1	1/1
Independent Non- executive Directors	PANG Hong	1/1	1/1	1/1	1/1
	LI Hongchang	1/1	1/1	1/1	1/1
	JIA Tingyu	1/1	1/1	1/1	1/1
	CHAN Ngai Sang Kenny	0/1	0/1	0/1	1/1

Chapter 8 Corporate Governance Report

The attendance of each Director at board meetings and meetings of special committees during the Reporting Period is set out below:

	Director	board meeting	Strategy and Development Committee	Risk Management Committee	Audit Committee	Nomination and Remuneration Committee	Related Party Transactions Control Committee	Consumer Rights Protection Committee
Executive Directors	DOU Rongxing	9/9	6/6	/	/	5/5	/	/
	WANG Jiong	8/9	6/6	1/1	/	5/5	3/3	2/2
	LI Yulin	9/9	/	1/1	/	/	/	1/2
	WEI Jie	9/9	6/6	1/1	/	/	3/3	/
Non-executive Directors	LI Qiaocheng ⁽¹⁾	7/7	4/4	/	/	/	/	/
	LI Xipeng	6/9	4/6	/	/	/	/	/
	MI Hongjun	9/9	6/6	/	/	/	/	/
Independent	PANG Hong	9/9	/	1/1	4/5	5/5	/	/
Nonexecutive Directors	LI Hongchang	9/9	/	1/1	5/5	5/5	3/3	2/2
	JIA Tingyu	9/9	6/6	1/1	5/5	5/5	3/3	/
	CHAN Ngai Sang Kenny	9/9	/	/	5/5	/	3/3	2/2

Note:

- (1) Mr. LI Qiaocheng resigned his office as a non-executive director and member of the Strategy and Development Committee of the Bank on October 20, 2020.

4.6 Independent Non-Executive Director

The Board of the Bank currently has 4 independent non-executive Directors with a term of 3 years, which complies with the relevant requirements under the Hong Kong Listing Rules.

Independent non-executive Directors of the Bank undertake the obligation to observe the principle of good faith in accordance with the relevant applicable laws and the Articles of Association, to safeguard the interests of the Bank as a whole, and particularly ensure that the legitimate rights and interests of depositors and minority shareholders of the Bank are not prejudiced. Independent non-executive Director performs the duties and responsibilities independently, without any interference by controlling shareholders of the Bank, or other entities or individuals who have a material interest in the Bank. The independent non-executive Directors of the Bank also attended the annual general meeting of the Bank to listen to shareholders' opinions. In addition, they have also committed contribution positively in the development of the Bank's strategy and policies by providing independent, constructive and informed advises. During the Reporting Period, the Chairman of the Bank held one meeting with independent non-executive Directors in the absence of other Directors.

The Bank has received from each of the independent non-executive Directors an annual confirmation letter of independence pursuant to the requirements under the Hong Kong Listing Rules, which confirmed their independence in written form, therefore, the Bank confirms that all the independent non-executive Directors have complied with the requirements under the Hong Kong Listing Rules in respect of their independence.

The independent non-executive Directors of the Bank have not raised any objections to the resolutions passed at the Board meetings or meetings of special committees during the Reporting Period.

Chapter 8 Corporate Governance Report

4.7 Appointment, Re-election and Removal of Directors

The Bank's appointment, re-election and removal of Directors are subject to the requirements of the Hong Kong Listing Rules and the Bank's Articles of Association. The Nomination and Remuneration Committee of the Board of the Bank conducts a preliminary verification of the qualifications and conditions of candidates for the Board, and proposes the qualified candidates to the Board of Directors for consideration. After the Board considered and approved, the candidates for the Board will be presented to the general meeting by way of written proposal. The Bank's general meeting of shareholders may, through ordinary resolutions, appoint relevant persons who meet the qualifications as Directors. For independent non-executive Director candidates, the Nomination and Remuneration committee of the Board will conduct qualification review before the appointment, focusing on independence, expertise, experience and ability.

The term of office of the Directors (include non-executive Directors) of the Bank is three years and Directors can be re-elected and re-appointed upon expiration. The renewal term of independent non-executive directors shall not exceed six years.

Subject to relevant laws and administrative regulations, the shareholders' meeting may, in accordance with Articles 108 and 130 of the Bank's Articles of Association, remove any Directors whose term of office has not expired by an ordinary resolution before the expiration of the term of the Directors.

5. Committees under the Board

As of the end of the Reporting Period, Our Bank currently has 6 special committees under the Board, which are the Strategy and Development Committee, the Audit Committee, the Related Party Transactions Control Committee, the Risk Management Committee, the Nomination and Remuneration Committee and Consumer Rights Protection Committee. Each special committee shall be accountable to the Board, which provides professional opinions to the Board or makes decisions for the professional matters as per the authorization of the Board.

5.1 Strategy and Development Committee

As of the end of the Reporting Period, the Strategy and Development Committee consists of 6⁵ Directors, being Mr. DOU Rongxing (an executive Director), Mr. WANG Jiong (an executive Director), Mr. WEI Jie (an executive Director), Mr. LI Xipeng (a non-executive Director), Mr. MI Hongjun (a non-executive Director) and Mr. JIA Tingyu (an independent non-executive Director). Mr. DOU Rongxing is the Chairman. The primary duties of the Strategy and Development Committee are:

1. formulating long and medium term strategic objectives of the Bank; overseeing and assessing the implementation of the strategies and making recommendations to the board;
2. Reviewing the annual operational plans and fixed asset investment budget of the Bank; supervising and inspecting the implementation of the annual operational plans and fixed asset investment budget of the Bank;
3. Studying the development of information technology, financial inclusion, green credit and other specialized strategic development plans of the Bank according to the needs of strategic development plans and making recommendations to the board;

⁵ During the Reporting Period, the Strategy and Development Committee consists of 7 Directors, being Mr. DOU Rongxing (an executive Director), Mr. WANG Jiong (an executive Director), Mr. WEI Jie (an executive Director), Mr. LI Xipeng (a non-executive Director), Mr. MI Hongjun (a non-executive Director), Mr. JIA Tingyu (an independent non-executive Director) and Mr. LI Qiaocheng (a non-executive Director). Mr. LI Qiaocheng resigned as a member of the Strategy and Development Committee of the Bank on October 20, 2020.



Chapter 8 Corporate Governance Report

4. studying and formulating strategies and policies of the social responsibilities of the Bank, supervising, inspecting and evaluating the performance of social responsibilities by the Bank;
5. Reviewing annual authorization plans relating to business, personnel, and financial affairs of the Bank and making recommendations to the board;
6. Reviewing the external donations with a single amount between RMB5 million (exclusive) and less than RMB30 million (inclusive); reviewing matters in relation to major equity investment and disposal with a single amount representing less than ten percent (inclusive) of the most recent audited net asset of the Bank; reviewing matters in relation to major asset acquisition and disposal with a single amount exceeding RMB200 million (exclusive) and representing less than ten percent (inclusive) of the most recent audited net asset of the Bank; reviewing external guarantees of other non-commercial banking business guarantees (such as pledge of assets) with a single amount less than RMB200 million (inclusive); and making recommendations to the board on above-mentioned matters.
7. Studying and coordinating other material matters in relation to the Bank's strategic development.

During the Reporting Period, the Strategy and Development Committee under the Board held 6 meetings. The committee member LI Xipeng commissioned took leave twice. Other committee members attended the meetings in person, reviewing two reports, including the 2019 Operation Report of Zhongyuan Bank Co., Ltd. and considering 18 resolutions, including the Resolution on the 2nd Five-year Strategic Planning (2020-2024) of Zhongyuan Bank Co., Ltd. (draft), which put forward practical suggestions to the Bank's strategic planning in response to changes in the internal and external environment.

5.2 Audit Committee

As of the end of the Reporting Period, the Audit Committee of the Bank consists of 4 Directors, being Mr. CHAN Ngai Sang Kenny (an independent non-executive Director), Ms. PANG Hong (an independent non-executive Director), Mr. LI Hongchang (an independent non-executive Director) and Mr. JIA Tingyu (an independent non-executive Director), respectively. Mr. CHAN Ngai Sang Kenny is the Chairman. The primary duties of the Audit Committee include the following:

1. conducting inspections on our risk and compliance, finance, accounting policies and practices, financial reporting procedures as well as our financial condition;
2. conducting our annual audit work;
3. making recommendations to the board on the engagement or change of the external audit institution that audits the Bank, including making recommendations to the board on the engagement, reappointment or change of the external audit institution, and approving the remuneration and terms of engagement of the external audit institution, and any questions of its resignation or dismissal;
4. reviewing and monitoring the external audit institution's independence and objectivity and the effectiveness of the audit process. The audit committee should discuss with the external audit institution the nature and scope of the audit and reporting obligations before the audit commences;



Chapter 8 Corporate Governance Report

5. developing and implementing policy on engaging an external audit institution to supply non-audit services. For this purpose, “external audit institution” includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The audit committee should report to the board, identifying and making recommendations on any matters where action or improvement is need;
6. Reviewing the Bank’s financial statements of the previous year’s results of operation and annual report and accounts, half-year report and, if prepared for publication, quarterly reports issued by the external audit institution, and reviewing significant financial reporting judgements contained in them, judging the truthfulness, accuracy, integrity and promptness of the audited financial statements and making review recommendations to the board. In reviewing these reports before submission to the board, the committee should focus particularly on:
 - (1) any changes in accounting policies and practices;
 - (2) major judgmental areas;
 - (3) significant adjustments resulting from audit;
 - (4) the going concern assumptions and any qualifications;
 - (5) compliance with accounting standards;
 - (6) compliance with the Hong Kong Listing Rules and legal requirements in relation to financial reporting.

Members of the audit committee should liaise with the board and senior management and the committee must meet, at least twice a year, with the Bank’s external audit institution. The committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Bank’s staff responsible for the accounting and financial reporting function, compliance officer or auditors;

7. reviewing and monitoring the Bank’s internal control (including financial control) system;
8. discussing the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Bank’s accounting and financial reporting function;
9. considering major investigation findings on risk management and internal control matters as delegated by the board or on its own initiative and management’s response to these findings;
10. responsible for the communication between the internal and external audit to ensure co-ordination between the internal and external audit institution, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Bank, and to review and monitor its effectiveness;



Chapter 8 Corporate Governance Report

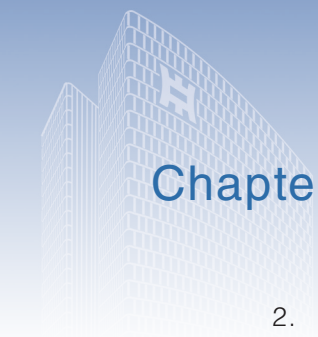
11. reviewing the external audit institution's Management Letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
12. ensuring that the board will provide a timely response to the issues raised in the external audit institution's Management Letter;
13. acting as the key representative body for overseeing the Bank's relations with the external audit institution;
14. reviewing arrangements employees of the Bank can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; The audit committee should establish a whistleblowing policy and system for employees and those who deal with the Bank (e.g. customers and suppliers) to raise concerns, in confidence, with the audit committee about possible improprieties in any matter related to the Bank;
15. reporting to the board on the above-mentioned matters;
16. other duties that the audit committee should perform required by the Hong Kong Listing Rules;
17. other functions that the board delegates to the committee.

All of the member of the Audit Committee are independent non-executive directors of the Bank. 4 members has focused on the Bank's risk, financial and compliance condition through considering the relevant financial reports, internal and external audit discussions as well as listening to special reports from internal auditing department, and actively put forward professional opinions and suggestions, and provided guidelines to the internal auditing works of the Bank to continuously promote the improvement in the Bank's risk control system. During the Reporting Period, the Audit Committee has totally convened 5 meetings, at which the committee member PANG Hong commissioned LI Hongchang to vote on his behalf for once and the other members have attended in person and considered 16 resolutions, including the "Proposal on the 2019 Final Account Report of Zhongyuan Bank Co., Ltd." and "Proposal on the Unaudited Interim Financial Statements of the Group for the period ended June 30, 2020 of Zhongyuan Bank Co., Ltd.", and met with external auditor for communication and interaction in the absence of the executive Directors and the senior management of the Bank. On March 24, 2021, the 12th meeting of the Audit Committee of the second session of the Board has reviewed the audited financial statement for the year ended December 31, 2020. This statement was prepared pursuant to the international accounting standards and policies.

5.3 Related Party Transactions Control Committee

As of the end of the Reporting Period, the Related Party Transactions Control Committee consists of 5 Directors, being Mr. LI Hongchang (an independent non-executive Director), Mr. WANG Jiong (an executive Director), Mr. WEI Jie (an executive Director), Mr. JIA Tingyu (an independent non-executive Director) and Mr. CHAN Ngai Sang Kenny (an independent non-executive Director). Mr. LI Hongchang is the Chairman. The primary duties of the Related Party Transactions Control Committee include the following:

1. managing the related party (connected) transactions of the Bank pursuant to the provisions of laws, regulations and the Hong Kong Listing Rules and formulating corresponding related party (connected) transactions management rules;



Chapter 8 Corporate Governance Report

2. identifying the Bank's related parties (connected persons) pursuant to the provisions of laws, regulations and the Hong Kong Listing Rules, and reporting to the Board and the Board of Supervisors;
3. defining our related party (connected) transactions in accordance with the requirements of the laws, regulations, the Hong Kong Listing Rules and the Articles of Association of the Bank;
4. reviewing the Bank's related party (connected) transactions pursuant to the provisions of laws, regulations and the Hong Kong Listing Rules and under the commercial principle of fairness and justice;
5. Material related party (connected) transactions of the Bank and other connected transactions which are subject to approval by the Board shall be submitted to the Board for approval after they are examined by the Related Party Transactions Control Committee. If such transactions fall within the related party (connected) transactions which need to be approved by the general meeting pursuant to the Hong Kong Listing Rules or the amount of related party (connected) transactions exceeds the cap authorized by general meeting to the Board, approval from general meeting is also required;
6. reviewing the information disclosure of the Bank's material related party transactions and connected transactions required to be disclosed;
7. other powers conferred by the Board on the committee.

The Related Party Transactions Control Committee of the Bank is composed of executive directors and independent non-executive directors of the Bank, and the independent non-executive director serves as the Chairman, which conducts prudent reviews on the related party transactions of the Bank and examined the material related party transactions in strict accordance with the approval procedures. During the Reporting Period, the Related Party Transactions Control Committee has convened 3 meetings, and all members have attended in person to consider 4 resolutions, including "Resolution on the Special Report of the Related Party Transactions of Zhongyuan Bank Co., Ltd. for the Year of 2019".

5.4 Risk Management Committee

As of the end of the Reporting Period, the Risk Management Committee consists of 6 Directors, namely Mr. JIA Tingyu (an independent non-executive Director), Mr. WANG Jiong (an executive Director), Mr. LI Yulin (an executive Director), Mr. WEI Jie (an executive Director), Ms. PANG Hong (an independent non-executive Director) and Mr. LI Hongchang (an independent non-executive Director). Mr. JIA Tingyu is the Chairman. The primary duties of the Risk Management Committee include the following:

1. considering and formulating risk management framework, setting up procedures to identify, assess and manage the material risks faced by our Group, providing guidance to the management on risk management and ensuring that the management fulfills its responsibility in establishing an effective risk management system;
2. supervising the Bank's control of credit risk, liquidity risk, market risk, operational risk, compliance risk and reputational risk and conducting necessary identification, assessment and management;
3. studying macro-economic and financial policies, analysing market changes and putting forward management proposals on industry risks;



Chapter 8 Corporate Governance Report

4. overseeing the Bank's risk management and internal control systems on an ongoing basis as delegated by the Board, and ensuring that the effectiveness of the Bank's and its subsidiaries' risk management and internal control systems has been reviewed at least once every year. Such review should cover all material controls, including financial, operational and compliance controls. The annual review conducted by the Risk Management Committee should ensure the adequacy of the Bank's resources, staff qualifications and experience in accounting, internal audit and financial reporting functions and the training courses attended by the staff and relevant budget.

The annual review conducted by the Risk Management Committee every year should, in particular, include:

- (1) the changes in the nature and extent of significant risks since the last annual review, and the ability of the Bank to respond to changes in its business and the external environment;
 - (2) the scope and quality of management's ongoing monitoring of risks and internal control systems, and its internal audit function and the work of other assurance providers;
 - (3) the details and frequency of monitoring results delivered to the Board or Risk Management Committee;
 - (4) significant control failures incurred or weaknesses identified during the period and the extent to which they have resulted in unforeseen outcomes or severity of emergencies that have had, could have had, or may in the future have, a material impact on the financial performance or condition of the Bank;
 - (5) the effectiveness of the Bank's procedures for financial reporting and compliance with the Hong Kong Listing Rules.
5. reporting any material matter on risk management to the Board, proposing solutions to such matter and advising on improving the Bank's compliance, risk management and internal control;
 6. studying risk prevention measures of material risk events in the Bank's operation and management;
 7. reviewing information disclosure issues in the Banks' risk management;
 8. other powers conferred by the Board on the committee.

Members of the Bank's Risk Management Committee paid close attention to macroeconomic, financial policies and market changes, and provided opinions and suggestions for the Bank's comprehensive risk management work. At the same time, members reviewed the credit concentration management plan and regular risk reports to perform risk management and risk supervision duties in accordance with regulations. During the Reporting Period, the Risk Management Committee held one meeting, and all members have attended in person and considered 8 resolutions, including the Resolution on the Risk Preference Statement of Zhongyuan Bank Co. Ltd. (2020).

Chapter 8 Corporate Governance Report

5.5 Nomination and Remuneration Committee

As of the end of the Reporting Period, the Nomination and Remuneration Committee consists of 5 Directors⁶, namely Ms. PANG Hong (an independent non-executive Director), Mr. DOU Rongxing (an executive Director), Mr. WANG Jiong (an executive Director), Mr. JIA Tingyu (an independent non-executive Director) and Mr. LI Hongchang (an independent non-executive Director). Ms. PANG Hong is the Chairwoman. The primary duties of the Nomination and Remuneration Committee include the following:

1. reviewing and considering the remuneration management system and policies of the Bank;
2. studying the appraisal criteria for directors and senior management, carrying out appraisal and making recommendations;
3. studying and reviewing the remuneration policy and plan for directors and senior management, studying and establishing standardized and transparent procedures for formulating remuneration policies and submitting proposals to the Board; and reviewing and approving the remuneration proposals of the management in accordance with the corporate policies and objectives set by the Board;
4. making recommendations to the Board on the remuneration packages (include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment) of individual executive directors and senior management members;
5. making recommendations to the Board on the remuneration of non-executive directors;
6. reviewing and approving compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that the compensation is consistent with contractual terms and is otherwise fair and not excessive if not consistent;
7. reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct to ensure they are consistent with contractual terms and are otherwise reasonable and appropriate if not consistent;
8. ensuring that no director or any of his associates (within the meaning of the Hong Kong Listing Rules) is involved in deciding his own remuneration;
9. formulating the mid- and long-term incentive plans and implementation schemes of the Bank;
10. assessing market competitiveness of the Bank's remuneration regularly, considering the salaries, time and responsibilities of similar banks and terms of employment of other posts of the Bank and its subsidiaries, and dynamically adjusting the Bank's remuneration policy;

⁶ *Members of the Nomination and Remuneration Committee under the second session of the Board have been adjusted on January 29, 2021, the adjusted Nomination and Remuneration Committee is as follows: Ms. PANG Hong (Chairwoman), Mr. LI Hongchang and Mr. JIA Tingyu. For details, please refer to the announcement of the Bank dated 29 January, 2021.*



Chapter 8 Corporate Governance Report

11. reviewing the structure, size, composition and diversity (including skills, knowledge and experience) of the Board of Directors at least once a year and making recommendations on any proposed changes to the Board of Directors to complement the Bank's corporate strategies;
12. researching the criteria and procedures for selecting directors, president and other senior management members, and making recommendations;
13. extensively identifying qualified candidates for directors, president and other senior management members, selecting and nominating relevant persons to serve as directors or president, and making recommendations to the Board of Directors;
14. reviewing candidates for directors and president and other senior management members and making recommendations;
15. reviewing the appointment or dismissal proposal of the senior management, such as the Bank's vice presidents, assistants to the president and finance officers submitted by the president and making recommendations to the Board of Directors;
16. assessing the independence of independent directors;
17. making recommendations to the Board of Directors on the appointment or reappointment of directors and succession planning for directors (in particular the chairman) and president;
18. formulating and reviewing the Board Diversity Policy when appropriate;
19. other responsibilities to be performed by the Nomination and Remuneration Committee of Directors as required under the Hong Kong Listing Rules;
20. other powers conferred by the Board of Directors to the committee.

According to Article 132 of the Articles of Association of the Bank, the general procedures for nominating and electing a director of the Bank are as follows:

1. The Nomination and Remuneration Committee of the Board of Directors can nominate candidates for directors according to the number of directors to be elected to the extent of the number specified by the Articles of Association; Shareholders individually or jointly holding above 3% of the Bank's total shares in issue with voting rights can also nominate candidates for directors to the Board of Directors;
2. The Nomination and Remuneration Committee of the Board of Directors shall conduct preliminary verification on the qualification and conditions of appointment of the candidates for directors, and propose the qualified candidates to the Board of Directors for consideration. The Board of Directors shall propose the candidates for directors to the shareholders' general meeting by way of written proposal after they are considered and approved by the Board of Directors;
3. The candidates for directors shall, before the convening of the shareholders' general meeting, make written undertakings, expressing their consent to their nomination, confirming the truthfulness and completeness of the publicly disclosed information and undertaking that they will duly perform their duties upon being elected;



Chapter 8 Corporate Governance Report

4. The Board of Directors shall, before the convening of the shareholders' general meeting, disclose the detailed information on the candidates for directors to the shareholders of the Bank in accordance with law and regulations and the Articles of Association, so as to ensure that the shareholders will have sufficient knowledge on the candidates when casting their votes;
5. Each candidate for director shall be voted for on a separate basis at the shareholders' general meeting;
6. When an additional director is temporarily nominated, the Nomination and Remuneration Committee of the Board of Directors or the shareholders satisfying the conditions for making such nomination shall propose a candidate to the Board of Directors for consideration. The shareholders' general meeting elects or replaces the Director.

In accordance with the nomination policy adopted by the Bank, the selection and appointment of Board members will be based on a range of diversification criteria, taking into account the diversity of Board members from a variety of measurable aspects, including but not limited to gender, age, regional and industry experience, skills, knowledge and educational background to ensure Board members have the skills, experience and diverse perspectives needed to meet the banking business and maintain a balance of board views, qualifications and skills.

During the Reporting Period, the Nomination and Remuneration Committee has convened 5 meetings, and all members have attended in person to consider 11 resolutions, including "Resolution on the Report of the Board of Directors on the Performance Evaluation of Directors and Senior Executives of Zhongyuan Bank Co., Ltd. in 2019", mainly to consider the performance of duties and remuneration of proposed directors, appointed senior executives, directors and senior management during the Reporting Period.

5.6 The Consumer Rights Protection Committee

As of the end of the Reporting Period, the Consumer Rights Protection Committee consists of 4 Directors, being Mr. WANG Jiong (an executive Director), Mr. LI Yulin (an executive Director), Mr. LI Hongchang (an independent non-executive Director) and Mr. CHAN Ngai Sang Kenny (an independent non-executive Director). Mr. WANG Jiong is the Chairman. The primary duties of the Consumer Rights Protection Committee include the following:

1. to formulate the Bank's strategies, policies and objectives of consumer rights protection, to incorporate consumer rights protection into corporate governance and business development strategies; and to guide the senior management to reinforce the construction of a corporate culture enabling consumer rights protection in overall planning;
2. to supervise and evaluate the Bank's consumer rights protection work regarding its comprehensiveness, timeliness and effectiveness, and the senior management's performance of duties;
3. in accordance with the Bank's overall strategy, to deliberate proposals on consumer rights protection for the consideration of the Board of Directors, and make recommendations to the Board of Directors;
4. to provide periodic reports to the Board;
5. other matters as required by laws and regulations, Articles of Association of the Bank, and which authorized by the Board of Directors.



Chapter 8 Corporate Governance Report

During the Reporting Period, the Consumer Rights Protection Committee has convened 2 meetings, at which committee member LI Yulin commissioned WANG Jiong to vote on his behalf for once, the other members have attended in person and considered 5 resolutions, including “Resolution Regarding Report on Consumer Rights Protection Work of Zhongyuan Bank Co., Ltd. in 2019”.

6. Board of Supervisors and its Special Committee

6.1 Composition of Board of Supervisors

As at the end of the Reporting Period, the Board of Supervisors of the Bank consists of 9 Supervisors, which shall include three employee representative Supervisors, namely Mr. HAO Jingtao, Ms. JIA Jihong and Mr. ZHANG Yixian; two shareholder representative Supervisors, namely Ms. LI Weizhen and Mr. LI Wanbin; four external Supervisors, namely Mr. LI Xiaojian, Mr. HAN Wanghong, Mr. SUN Xuemin and Mr. PAN Xinming.

During the Reporting Period, the Board of Supervisors fulfilled its duties diligently, supervised the performance of duties by Directors and the senior management personnel of the Bank, the strategy development and implementation, financial activities, risk management and internal control of the Bank.

6.2 Powers of Board of Supervisors

- (I) to supervise the adoption by the Board of Directors of prudent business philosophy and value standards and formulate development strategies in line with the actual situations of the Bank; to regularly evaluate the scientificity, rationality and effectiveness of the development strategies formulated by the Board and prepare evaluation reports;
- (II) to supervise the performance of duties of the Board of Directors and senior management and its members of the Bank, to conduct a comprehensive evaluation on the performance of duties of the directors, supervisors and senior management personnel and when the acts of directors and senior management personnel of the Bank are detrimental to its interests, to require them to correct these acts and to propose the removal or litigation against directors and senior management personnel who have violated laws, administrative regulations, the Articles or resolutions of the shareholders' general meetings;
- (III) to examine and supervise the financial activities of the Bank, to examine financial information such as financial reports, business reports and profit distribution plans proposed to be submitted to the Shareholders' general meeting by the Board of Directors, to conduct investigations if there are any doubts or irregularities in relation to the operation of the Bank, and to engage professionals, such as lawyers, certified public accountants and practicing auditors, if necessary, to assist its duties at the expenses of the Bank;
- (IV) to examine the periodical reports of the Bank compiled by the Board of Directors and submit its opinions in writing;
- (V) to supervise the election and appointment procedures for directors;
- (VI) to present at Board meetings, meetings of special committees of the Board of Directors and meetings of senior management and have the rights to query or make proposals in relation to the matters deliberated by the meetings;

Chapter 8 Corporate Governance Report

- (VII) to make written or oral proposals, give indications, conduct discussions and raise questions to the Board of Directors, senior management and its members or other personnel and require them to reply based on needs;
- (VIII) to guide the internal audit department to perform their duties of auditing and supervision independently, and check and supervise the risk management and internal control of the Bank;
- (IX) Exercising any other functions and powers prescribed by the laws, administrative regulations, departmental rules or the Articles and authorized by the shareholders' general meetings.

The ways in which the Bank's Board of Supervisors perform their duties mainly include: regular meetings of the Board of Supervisors and special committees; attending and listening to shareholders' meetings, meetings of the Board of Directors and their special committees; listening to various operation management meetings of senior management; reviewing all kinds of documents reported by the senior management; listening to the work reports and special reports made by the senior management, and conducting discussions; conducting surveys at various branches; conducting annual performance assessments of directors and the senior management, and so on. By carrying out the above-mentioned work, the Board of Supervisors will conduct all-round supervision over the Bank's operation and management, risk management, internal control, and the performance of directors and the senior management, and propose constructive and targeted business management recommendations and supervision opinions.

6.3 Meetings of the Board of Supervisors and Attendance of Supervisors

During the Reporting Period, the Bank has held six meetings of the Board of Supervisors in total, which considered and approved 44 resolutions.

The following are the details of meetings of the Board of Supervisors:

Session of meeting	Date of meeting	Form of meeting
The 12th meeting of the second session of the Board of Supervisors	March 12, 2020	On-site
The 13th meeting of the second session of the Board of Supervisors	March 27, 2020	On-site
The 14th meeting of the second session of the Board of Supervisors	June 29, 2020	On-site
The 15th meeting of the second session of the Board of Supervisors	August 28, 2020	On-site
The 16th meeting of the second session of the Board of Supervisors	November 11, 2020	On-site
The 17th meeting of the second session of the Board of Supervisors	December 30, 2020	On-site

Chapter 8 Corporate Governance Report

The attendance of each Supervisor at the meetings of Board of Supervisors during the Reporting Period is set out below:

Members of the Board of Supervisors	Required attendance of the meeting	Attendance in Person	Attendance by proxy
Mr. HAO Jingtao	6	6	0
Ms. JIA Jihong	6	5	1
Mr. ZHANG Yixian	6	6	0
Ms. LI Weizhen	6	6	0
Mr. LI Wanbin	6	5	1
Mr. LI Xiaojian	6	6	0
Mr. HAN Wanghong	6	6	0
Mr. SUN Xuemin	6	6	0
Mr. PAN Xinmin	6	6	0

6.4 Attendance at general meetings during the Reporting Period

During the Reporting Period, the Board of Supervisors of the Bank appointed supervisors to attend the Bank's 2019 Annual General Meeting, the First Domestic Shareholders Class Meeting of 2020, the First H Shareholders Class Meeting of 2020 and the First Extraordinary General Meeting of 2020 and supervised the legal compliance of the procedures of meetings and the voting process on-site.

6.5 Attendance at the meetings of the Board during the Reporting Period

During the Reporting Period, the Board of Supervisors attended all on-site meetings of the Board of Directors, and supervised legal compliance of the meetings and procedures of voting as well as the attendance, speech and voting of Directors.

7. Committees under the Board of Supervisors

7.1 Nomination Committee

As of the end of the Reporting Period, there were a total of 7 members in the Nomination Committee of the Board of Supervisors, including Mr. HAN Wanghong, Mr. HAO Jingtao, Ms. JIA Jihong, Mr. ZHANG Yixian, Mr. LI Xiaojian, Mr. SUN Xuemin and Mr. Pan Xinmin. The chairman was acted by Mr. HAN Wanghong, an external Supervisor. The major duties and responsibilities of the Nomination Committee were:

- (I) making recommendations to the Supervisors on the scale and composition of the Board of Supervisors;
- (II) studying into the standard and procedures of selection of Supervisors and making recommendations to the Supervisors;
- (III) identifying extensively qualified candidates for supervisors;
- (IV) conducting preliminary review on the qualification and conditions of candidates for supervisors proposed by shareholders and making recommendations;
- (V) supervising the procedure of selection and engagement for directors;

Chapter 8 Corporate Governance Report

- (VI) responsible for the comprehensive evaluation of the performance of duties by the directors, supervisors and senior management and report to the Board of Supervisors;
- (VII) studying and formulating the remuneration policy and plans of Supervisors, and submitting to the Shareholders' general meetings for approval upon review by the Board of Supervisors;
- (VIII) any other matters authorized by the Board of Supervisors.

During the Reporting Period, the Nomination Committee convened a total of 2 meetings, at which the 2019 Debriefing of External Supervisors of Zhongyuan Bank Co., Ltd. was heard and 9 resolutions including the Proposal on the Performance Evaluation Report of Directors, Supervisors and Senior Management by the Board of Supervisors in 2019 of Zhongyuan Bank Co., Ltd.

The attendance of each member of the Nomination Committee of the Board of Supervisors at the meetings held by the Committee during the Reporting Period is set out below:

Members of the Nomination Committee of the Board of Supervisors	Required attendance of the meeting	Attendance in person	Attendance by proxy
Mr. HAO Jingtao	2	2	0
Ms. JIA Jihong	2	2	0
Mr. ZHANG Yixian	2	2	0
Mr. LI Xiaojian	2	2	0
Mr. HAN Wanghong	2	2	0
Mr. SUN Xuemin	2	2	0
Mr. PAN Xinmin	2	2	0

7.2 Supervision Committee

As of the end of the Reporting Period, there were a total of 9 members in the Supervision Committee of the Board of Supervisors, namely Mr. LI Xiaojian, Mr. HAO Jingtao, Ms. JIA Jihong, Mr. ZHANG Yixian, Mr. LI Wanbin, Ms. LI Weizhen, Mr. HAN Wanghong, Mr. SUN Xuemin and Mr. Pan Xinmin. The chairman was acted by Mr. LI Xiaojian, an external supervisor. The major duties and responsibilities of the Supervision Committee are:

- (I) formulating plans for supervision of financial activities of the Bank and making relevant recommendations to the Board of Supervisors;
- (II) supervising the Board of Directors to adopt prudent business philosophy and value standards and formulating development strategies in line with the actual situation of the Bank, and organizing the evaluation of the scientificity, rationality and effectiveness of the development strategies formulated by the Board of Directors, preparing the evaluation report and reporting to the Board of Supervisors;
- (III) monitoring and reviewing the operation strategy, risk management and internal control of the Bank;
- (IV) communicating with the external audit institution of the Bank to know the preparation and major adjustments for regular reports of the Board of Directors, and reporting to the Board of Supervisors;

Chapter 8 Corporate Governance Report

(V) guiding the internal audit department to independently perform the audit and supervision functions;

(VI) any other matters authorized by the Board of Supervisors.

During the Reporting Period, the Supervision Committee convened a total of 6 meetings, at which 4 reports including 2019 Report on the Rectification of Regulatory Circular Issues of Zhongyuan Bank Co., Ltd. were heard and 35 proposals including the proposal of 2019 Final Financial Reports of Zhongyuan Bank Co., Ltd. were considered.

The attendance of each member of the Supervision Committee of the Board of Supervisors at the meetings held by the Committee during the Reporting Period is set out below:

Members of the Nomination Committee of the Board of Supervisors	Required attendance of the meeting	Attendance in person	Attendance by proxy
Mr. HAO Jingtao	6	5	1
Ms. JIA Jihong	6	5	1
Mr. ZHANG Yixian	6	6	0
Ms. LI Weizhen	6	6	0
Mr. LI Wanbin	6	5	0
Mr. LI Xiaojian	6	6	0
Mr. HAN Wanghong	6	6	0
Mr. SUN Xuemin	6	6	0
Mr. PAN Xinmin	6	6	0

8. Senior Management

The senior management, as the executive body of the Bank, is accountable to the Board and supervised by the Board of Supervisors. The Bank has one president and several vice presidents and assistants to the president, who are appointed or dismissed by the Board of Directors, and are responsible for implementing the decisions of the Board of Directors and are required to report to the Board of Directors of the Bank. The senior management has the powers as delegated and authorized by our Board to manage our daily operations. The division of authority between the senior management and the Board of Directors is carried out in accordance with the corporate governance documents such as the Bank's Articles of Association.

The senior management, with the president as its representative, perform their duties in accordance with the terms of reference as stipulated in the Articles of Association of the Bank, their main duties include manage operating activities of the Bank, manage daily administration, business and finance works, and report regularly to the Board with respect to the operating matters of the Bank.

8.1 Chairman and President

During the Reporting Period, the roles and duties of the Chairman and the President of the Bank were taken up by different individuals and there was a clear division of duties and responsibilities in compliance with the recommendations of the Hong Kong Listing Rules.



Chapter 8 Corporate Governance Report

As at the end of the Reporting Period, Mr. DOU Rongxing acted as the secretary of the party committee and the Chairman, and took charge of administrative work of the Bank. Mr. WANG Jiong acted as the deputy secretary of the party committee and the President, responsible for the daily operation and management of the Bank, and administered the human resources department, strategic development department, strategic transformation office, information technology department, data bank department, financial innovation department and direct marketing bank department.

9. Financial, Business and Family Relationship among Directors, Supervisors and Senior Management

The Directors, Supervisors and senior management of the Bank do not have any relationship, including financial, business, family and other material relations.

10. Training and Research of Directors and Supervisors during the Reporting Period

10.1 Introduction to the Training and Survey of Directors

During the Reporting Period, all the Directors of the Bank attached great importance to the improvement of the performance ability. First, participated in anti-money laundering and other special training according to domestic and oversea regulatory requirements. Second, strengthened the learning of corporate governance and other institutional policies for small and medium-sized banks through online and offline seminars and other forms. Third, deeply participated in branch research and went to 4 branches including Zhoukou, Xuchang to have an in-depth understanding of branch operation, reducing the old and controlling the new. Visited local entity enterprises and branch outlets to understand the impact of the pandemic on the real economy and the financial services provided within the bank. Through the above forms, the directors of the Bank further strengthened the overall grasp of the macroeconomic situation, industry regulatory policies and the operation within the bank, which is helpful to their exercise of decision-making power.

10.2 Introduction to the Training and Survey of Supervisors

During the Reporting Period, the Bank organized Supervisors to participated in “the Training of Corporate Governance of Commercial Bank” of the PBoC Zhengzhou Training Institute, “the Workshops of Small and Medium-sized Banks Corporate Governance” organized by external institutions as well as “the 2020 Annual Anti-money Laundering Training” etc. The training content included corporate governance, the ratings of central bank financial institutions etc., which further enhanced the performance ability of Supervisors and achieved good training results.

During the Reporting Period, the Board of Supervisors conducted the “the Impact of COVID-19 on the Bank”, “Strengthen Post-loan Management, continuously Enhance the Control Level of Asset Quality”, “Property Right Confirmation”, “Capital Management and Capital Supplement” and other panel discussion in the head office, and left for Kaifeng branch, Luohe branch, Xuchang branch, Zhengzhou branch, Lushi Zhongyuan Village Town Bank and Leijia village (the fixed poverty alleviation village of our Bank) to conduct field research.



Chapter 8 Corporate Governance Report

11. Company Secretary under the Hong Kong Listing Rules

The Bank appointed Mr. ZHANG Ke and Ms. LEUNG Wing Han Sharon, a vice president of SWCS Corporate Services Group (Hong Kong) Limited, as the joint company secretaries. The major associate of Ms. Leung in the Bank is Mr. ZHANG Ke, the other joint company secretary. Both Ms. LEUNG Wing Han Sharon and Mr. ZHANG Ke have been in compliance with Rule 3.29 of the Hong Kong Listing Rules that they received at least 15 hours of relevant professional training for the year ended December 31, 2020. During the Reporting Period, the Hong Kong Stock Exchange granted Mr. ZHANG Ke the qualification of Secretary of the Bank in accordance with Rule 3.28 of the Hong Kong Listing Rules.

12. Communication with Shareholders

12.1 Investors Relationship

The Bank attaches importance to communication with Shareholders, for which it formulated Measures on Management of Investors Relationship of Zhongyuan Bank Co., Ltd., and seeks to improve mutual understanding and enhance communication with Shareholders through various channels including general meeting, roadshows, press conference, official website, e-mail and telephone.

For enquiries to the Board, investors may contact: The Office of Board of Directors and Supervisors of Zhongyuan Bank Co., Ltd.

Address: Room 2625, No. 23 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, PRC

Telephone no.: (86)0371-85517898

Fax no.: (86)0371-85519888

E-mail: Dongjianban@zybank.com.cn

12.2 Information Disclosure

The Board of Directors and senior management place great importance to information disclosure. They rely on good corporate governance and internal controls to ensure investors obtain information in a timely and accurate manner.

In accordance with the requirements of the Hong Kong Listing Rules, Measures for the Information Disclosure of Commercial Banks and Measures for the Information Disclosure of Zhongyuan Bank Co., Ltd., the Bank continuously improved the timeliness, accuracy and completeness of the information to be disclosed. During the Reporting Period, the full version of the relevant reports is available for download on the website of the Bank. Meanwhile, the annual report and interim reports are available for review by the investors and stakeholders in The Office of Board of Directors and Supervisors and principal outlets of the Bank.



Chapter 8 Corporate Governance Report

12.3 Shareholders' Rights

Procedure for Shareholders to Convene Extraordinary General Meeting

The Bank strictly complies with the applicable laws and regulations, the Hong Kong Listing Rules, the Articles of Associations of the Bank and the corporate governance system, for practically safeguarding the rights of the Shareholders. Pursuant to the requirements under the Articles of Associations of the Bank and the rules of procedures of the general meeting: the shareholders who individually or jointly hold more than 10% of the shares for at least 90 consecutive days may make a written request to the Board to convene an extraordinary general meeting or class meeting, and to illustrate the subject of the meetings. In respect of such proposal, the Board shall, in accordance with the laws, administrative regulations and the Articles of Association of the Bank, make a written response as to whether or not it agrees to convene the extraordinary general meeting or class meeting within 10 days of receiving the proposal. The shareholding of the above Shareholders is based on their shareholdings on the date of such request is proposed to the Board in writing. If the Board agrees to convene an extraordinary general meeting or a class meeting, the Board shall deliver a notice of convening a General meeting or a class meeting within five days from the adoption of the resolution of the Board. Any change to the original request contained in the notice shall be made with the consent of relevant shareholders. Where the Board disagrees to convene an extraordinary general meeting or a class meeting or fails to give any feedback within ten days after the receipt of such request, shareholders individually or jointly holding 10% or more of shares are entitled to propose to the Board of Supervisors to convene an extraordinary general meeting or a class meeting by submitting a request in writing. Where the Board of Supervisors agrees to convene an extraordinary general meeting or a class meeting, it shall, within five days after the receipt of such request, deliver a notice of convening an extraordinary general meeting or a class meeting. Any change to the original request in the notice shall be made with the consent of relevant shareholders. In the event that the Board of Supervisors fails to deliver such notice to convene an extraordinary general meeting or a class meeting within the specified period, the Board of Supervisors shall be deemed not to convene or preside over such aforesaid meeting. Such shareholders individually or in aggregate holding more than 10% of the Bank's voting shares for at least 90 consecutive days may at their discretion convene and preside over such aforesaid meeting. Shareholders may refer to the Articles of Association of the Bank published on the websites of the Hong Kong Stock Exchange and the Bank for further details.

Procedure of Proposing a Resolution at the General Meeting

Shareholders individually or in aggregate holding 3% or more of the Bank's voting shares may propose an interim proposal and submit it to the convener ten days before the General meeting. The convener shall review such proposal, issue a supplemental notice of the General meeting and announce the proposal if it satisfies the provisions as specified in the Articles of Association of the Bank within two days after receiving the proposal. If the Hong Kong Listing Rules specifies otherwise, the procedures of submitting a proposal to the General meeting shall follow such provisions. Except as provided in the precedent paragraph, the convener shall not alter the proposals in the notice of the General meeting or add new proposals after the issuance of the notice of the General meeting. Shareholders may refer to the Articles of Association of the Bank published on the websites of the Hong Kong Stock Exchange and the Bank for further details.



Chapter 8 Corporate Governance Report

Raise Enquiries to the Board of Directors

Shareholders have the right to supervise the operation of the Bank, and to make suggestions or enquiries. Shareholders are entitled to access relevant information in accordance with the laws, administrative regulations, departmental rules, regulatory documents, relevant provisions stipulated by the securities regulatory authorities in the locality where the Bank's shares are listed and the requirements of the Articles of Association of the Bank, including audited accounting reports, personal information of the Directors, Supervisors, president and other senior management personnel, share capital of the Bank, etc. Where a Shareholder requests to inspect and read the relevant information, this Shareholder shall provide the Bank with written documents evidencing the class and number of shares of the Bank they hold, and the Bank shall provide such documentation as required by the Shareholders upon verification of their identities.

13. External Auditors and Auditor's Remuneration

The Bank engaged KPMG and KPMG Huazhen LLP to act as international auditor and domestic auditor for the year of 2020, respectively, at the 2019 annual general meeting convened by the Bank on May 18, 2020, to carry out auditing in accordance with the Hong Kong Standards on Auditing and China Standards on Auditing for Certified Public Accountants. The two accounting firms have provided audit services for the Bank for 5 consecutive years.

In 2020, the remuneration agreed to be paid by the Bank to KPMG Huazhen LLP and KPMG for the audit of annual financial statements was RMB4.34 million in aggregate.

The Board and the Audit Committee under the Board reached consensus on the selection and appointment of the external auditors of the Bank without any disagreement.

The accountants of the Bank have not changed in the past three years.

14. Amendments to the Articles of Association

On March 27, 2020, the Resolution on the Amendments to the Articles of Association of Zhongyuan Bank Co., Ltd. was considered and approved at the 19th meeting of the second session of the Board of the Bank and were submitted to the 2019 annual general meeting of the Bank for consideration on May 18, 2020. For details, please refer to the announcement titled "Proposed to amend the Articles of Association and Rules of Procedures of the Shareholders' General Meeting" of the Bank dated March 27, 2020. During the Reporting Period, the amendments to the Articles of Association of the Bank have been approved by Henan Regulatory Authority of CBIRC. For details, please refer to the announcement and Articles of Association issued by the Bank on September 2, 2020.

Save for the above, as of the date of this annual report, the Articles of Association of the Bank has no material amendments, texts of which are available on the websites of the Bank and the Hong Kong Stock Exchange.



Chapter 8 Corporate Governance Report

15. Risk Management and Internal Control

15.1 Risk Management

In accordance with the requirements of laws and regulations such as the Commercial Banking Law and Internal Control Guidelines for Commercial Banks, the Bank established a standardized corporate governance structure and defined the scope of rights, division of responsibilities and rules of procedure for the Party Committee and the general meeting, the Board of Directors, the Board of Supervisors and the senior management.

Based on the Regulation Governing Capital of Commercial Banks (Provisional) 《(商業銀行資本管理辦法(試行))》) and its schedules issued by the CBRC, risks and relevant terminology defined by the Basel Committee, practice of the domestic and overseas peers as well as its own situation, the Bank identifies, measures and controls various overall quantitative and non-quantitative risks which may arise from the interaction between business strategies, product portfolios, client demands and the macroeconomic environment. Taking into account the capital occupancy based on risk types, risks of banks determined by regulators and capital regulatory requirements together with results from identifying and assessing risk events, the Bank collects and publishes risk warnings, draws up risk event examples, identifies, collects and assesses risk events and then determines material risks for the purpose of identifying its material risks, which include credit risk, market risk, operational risk, liquidity risk, interest risk in bank accounts, compliance risk, legal risk and reputational risk, and subsequently making assessment and analysis on them with risk measurement approaches and techniques.

In accordance with laws and regulations including the Overall Risk Management Guidelines for Commercial Banks 《(商業銀行全面風險管理指引)》) and the Internal Control Guidelines for Commercial Banks 《(商業銀行內部控制指引)》) as well as relevant requirements of the Hong Kong Listing Rules, the Board of the Bank has formulated the Policies of Overall Risk Management in Zhongyuan Bank (《中原銀行全面風險管理政策》), Measures for Credit Exposure Management in Zhongyuan Bank 《(中原銀行授信集中度管理辦法)》), Basic Requirements for Internal Control in Zhongyuan Bank Co., Ltd. 《(中原銀行股份有限公司內部控制基本規定)》). It not only established and improved the internal control and risk management system, but also reasonably guaranteed the legal and regulatory operation and management, asset safety, authenticity and integrity of financial reports and related information, as well as improved operating efficiency and effect, and promoted the realization of development strategies. The Board of the Bank is of the opinion that the internal control and risk management system established and implemented by the Bank is adequate and effective. Such internal control and risk management system is designed to manage the risk of failing to meet business targets rather than eliminating such risk, and the Board of Directors only provides reasonable but not absolute assurance for not making material misstatement and losses. The Board shall guarantee a review of internal control and risk management system at least once a year. The Bank evaluated the overall risk situation on a quarterly basis and evaluated the quality of internal control on an annual basis. The Bank's risk management and internal control systems are scientific and effective, which provides a safeguard for the stable operation of the Bank.



Chapter 8 Corporate Governance Report

15.2 Internal Control

Based on the principles of full coverage, checks and balance, prudence and compatibility, the Bank has established a relatively scientific and standardized internal control system in accordance with relevant laws and regulations, such as the Commercial Banking Law of the PRC 《(中華人民共和國商業銀行法)》 and the Internal Control Guidelines for Commercial Banks 《(商業銀行內部控制指引)》, and the relevant requirements of the Hong Kong Stock Exchange, aiming to ensure the consistent compliance with relevant laws, regulations and rules of the PRC, the application of the Bank's development strategies and the accomplishment of its operating objectives, the accuracy and completeness of the Bank's financial information and other management information, and the effectiveness of the risk management of the Bank.

The Bank insists in and continues to optimize the defense mechanism comprising of three lines for internal control to ensure that the three lines form join force to effectively control deviations and risks. The first line of defense consists of various branches and operating units, which are the owners of, and are accountable for risks and controls, and have to undertake self- risk control functions in the course of their business operation, including the formulation and implementation of policies, business examination, the reporting of control deficiencies and the organization of rectification measures. The second line of defense consists of the internal control and risk management departments at all levels, which are responsible for the overall planning, organizing and implementing, and examining and assessing of risk management and internal control. The third line of defense consists of the audit and supervision departments, which are responsible for performing internal audit on the adequacy and effectiveness of the internal control and risk management, taking disciplinary actions against staff in violation of regulations or disciplinary rules, carrying out case investigations and promoting management accountability.

During the Reporting Period, the Bank had, followed on the principle of “prudential operation with risk-based supervision”, conducted the sorting of processes and risk points involving various business processes and management activities covering all departments, branches at all levels, all positions and personnel, and constantly improved the management tools related to internal control compliance and operational risk to provide a gripper for internal control, compliance and operational risk management, and to realize the effective integration of internal control management, compliance risk management and operational risk management. The Bank continued to optimize its regulatory framework by establishing a three-tier system comprising of basic norms, administrative measures and operational rules. For the purpose of operational management and to meet the need of business development, the Bank also introduced an internal control system covering all of its businesses such as credit business, counter business, financial markets business, financial accounting, Information system and intermediate business and management lines, and established the evaluation mechanism of internal control system, continuously modified and improved according to the external laws and regulations, as well as changes in regulatory requirements to ensure compliance with the external laws and regulations, regulatory requirements. It also provided the basis and guarantee for the Bank's operation and management, business operation and effective risk prevention and control.



Chapter 8 Corporate Governance Report

The Bank has continuously strengthened internal control compliance, made full use of the meeting, training, news media, publicity column, brochures and other carriers in the form of example inspired, case analysis, cultural and sports activities etc., to formulate “2020 compliance culture construction activities plan of Zhongyuan Bank Co., Ltd”, organized and carried out the “compliance culture construction on the road” theme essays, “propaganda month of compliance culture” and other kinds of construction activities of compliance culture. Advocated safe and steady internal control compliance culture, and formed good atmosphere of stable operation and harmonious development; Used the Intranet compliance zone platform to timely issue policy interpretation, case warnings and compliance risk warning, did well in warning education, and constantly improve the compliance awareness of employees; Actively carried out multi-level compliance training from senior management to front-line employees, improved the ability and level of internal control and compliance management of the bank, improved the long-term mechanism of compliance education, and further enhanced the effectiveness of internal control. The Bank considers its risk management and internal monitoring systems to be effective and adequate.

15.3 Internal Auditing

The audit work of the Bank closely focuses on the working ideas of “adhering to positioning, actively complying with regulations and leading by innovation”, Actively implements the requirements of regulatory systems including the “Internal Audit Guidelines for Commercial Banks”, and continues to build the internal audit system of Zhongyuan Bank Co., Ltd in combination with the business development within the Bank and the audit of actual resources. The internal audit work has been practically promoted through integrating audit resources, improving the work system, innovating working methods and strengthening the use of big data, giving full play to the functions of “self-examination” and “the third line”.

During the Reporting Period, the internal audit work aims at the construction of four systems, namely, the audit ability system, the evaluation system, the training system and the team system, fully performing the audit duties. First, expand the breadth and depth of audit, innovate audit methods and technical means, improve the quality and efficiency of internal audit work; Second, deepen the use of audit results, improve the mechanism for linking audit quality, audit rectification and comprehensive evaluation of audited institutions, and promote the deterrent power of audit supervision. Third, strengthen the guidance and assessment of the internal audit work of the branches, improve the performance evaluation mechanism of the audit departments and staff of the branches, enhance the supervision ability of internal audit for the branches; Fourth, strengthen the construction of audit team, optimize the personnel structure and enhance the professional competence of auditors.

15.4 Anti-Money Laundering

During the Reporting Period, the Bank strictly complied with the Anti-money Laundering law of the People’s Republic of China and the laws and regulations promulgated by People’s Bank of China, China Banking and Insurance Regulatory Commission. Adhered to the “risk-based” work idea for anti-money laundering, improved the governance mechanism of anti-money laundering work, optimized business processes and systems control, intensified propaganda, training etc., fully performing all anti-money laundering obligations



Chapter 8 Corporate Governance Report

During the Reporting Period, the Bank continuously improved the anti-money laundering responsibilities of the Board of Directors, the Board of Supervisors, senior management, operating institutions and business line departments, strengthened the operation of the mechanism and formed join force to promote the orderly development of the anti-money laundering work; Continuously strengthened the system construction, improved the internal control and management. The anti-money laundering work system formulated covers each business process of the anti-money laundering; Carried out the pilot work of centralized discrimination of suspicious transactions, conducted the reengineering of the discrimination process of suspicious transactions, and realized the operation mode of conducting systematically, centrally and expertly; Optimize the anti-money laundering monitoring and reporting system and suspicious transaction monitoring model, improved the backtracking mechanism of blacklist monitoring, promoted the accuracy of anti-money laundering data, and constantly enhanced the monitoring and reporting level of anti-money laundering and anti-terrorist financing; Make full use of LED screen, TV media, outdoor publicity, WeChat, mobile banking and other ways to carry out anti-money laundering publicity and education to the public, realized the normalization of anti-money laundering publicity and create good anti-money laundering environment; utilized resources from many parties to construct a multi-level and hierarchical training system to improve the effectiveness of anti-money laundering training and strengthened the theoretical and skill foundation for the promotion of anti-money laundering by all staff.

16. Management of Inside Information

The Board of the Bank is responsible for disclosing information of the Bank, which includes enacting standard procedures and methods in relation thereto and reviewing information to be disclosed, and it also assumes liabilities for the truth, accuracy and completeness of the information disclosed. The information disclosure of the Bank is subject to the supervision of regulators and the Bank's Board of Supervisors. Chairman of the Board is the primary person responsible for implementing the management measures for information disclosure, while the Secretary of the Board is in charge of its execution and the Office of the Board and the Board of Supervisors deals with the daily work thereof.

To ensure confidentiality of the Bank's inside information, safeguard the fairness in information disclosure and protect the legal rights of investors, the Bank enacted the Measures for Information Disclosure Management in Zhongyuan Bank Co., Ltd. 《(中原銀行股份有限公司信息披露管理辦法)》 based on domestic and overseas laws, regulations and other regulatory documents such as the Company Law of the People's Republic of China (中華人民共和國公司法), the Securities Law of the People's Republic of China (中華人民共和國證券法), Measures for Information Disclosure Management of Commercial Banks (商業銀行信息披露管理辦法), and the Hong Kong Listing Rules. The Bank makes information disclosure and manages inside information in strict compliance with the regulatory requirements and specifies the principles, contents, management and procedures for information disclosure in the Measures for Information Disclosure Management in Zhongyuan Bank Co., Ltd., which also provides for the coverage, insider limits and the security management of inside information as well as punishment for divulging inside information, etc. When relevant events or circumstances arise, the Bank would quickly assess the possible impact on the stock price and consciously decide whether the events or circumstances are inside information that should be disclosed and conduct the relevant disclosure accordingly. During the Reporting Period, the Bank not only stringently complied with the regulatory requirements of domestic and overseas regulators, but also intensified its management rules and enhanced the security measures of its inside information as well as disclosing relevant information timely according to requirements.



Chapter 8 Corporate Governance Report

17. Dividend Policy

Article 254 and Article 257 of the Articles of Association of the Bank specifies the requirements for profit distribution:

The Bank may make profit distribution if it has distributable profits for each year after making up for the losses, contributing to the statutory reserve, general reserve and paying dividends to the preference shareholders provided that the capital adequacy ratio of the Bank meets regulatory requirements. The Bank may distribute dividend in the form of cash or share. The profit distribution of the Bank attaches the emphasis on the reasonable return on the investment of investors. The Bank's profit distribution policy should maintain a certain continuity and stability, and the Bank shall distribute dividends in the profitable year. The total profit distributed in the form of cash dividends for the last three years shall not be less than 30% of the average annual distributable profit of the Bank of the last three years, when making profits distribution. Distribution of dividends in form of stock shall be approved by general meeting of shareholders and subject to approval by the banking regulatory authority of the State Council.

The payment of dividends on the preference shares of the Bank shall be made in accordance with the laws, regulations, departmental rules, relevant regulations of the securities regulatory authorities of the place where the shares of the Bank are listed and the preference shares are issued or listed and the requirements of the Articles of Association of the Bank. The dividend rate for the issued and outstanding preference shares of the Bank consists of the benchmark rate and the fixed spread. The dividend rate may be adjusted at different intervals. Preference shareholders shall rank in priority to ordinary shareholders in terms of dividends distributed in accordance with the agreed dividend rate and profit distribution terms. The Bank paid dividends in cash to the preference shareholders. After the relevant resolutions are approved at the general meeting, the Bank shall have the right to cancel dividends in whole or in part that have been proposed to be distributed on the interest payment date in the manner prescribed under the conditions.



Chapter 9 Report of the Board of Directors

1. Principal Business

The Bank is primarily engaged in banking and related financial services, including corporate banking, retail banking, treasury operation and other business in the PRC.

2. Business Review and Outlook

2.1 Business Review of the Bank

The business review of the Bank during the Reporting Period was set out in “Management Discussion and Analysis – 9. Business Review”.

2.2 Results

The results of the Bank for the year ended December 31, 2020 and the financial position of the Group as at that date are set out in the financial statements and notes section of this annual report.

3. Dividend

3.1 Dividends of Preference Shares

For dividends of preference shares during the Reporting Period, please refer to “Changes in Share Capital and Information on Shareholders -7.3 Profit distribution on the Offshore Preference Shares”.

3.2 Dividends of Ordinary Shares

With the approval of the meeting of the Board of Directors of the Bank on March 29, 2021, it was recommended not to distribute the 2020 final dividend to all Shareholders. Such recommendation of no dividend distribution shall be approved by the Shareholders on the upcoming 2020 annual general meeting of the Bank.

The independent non-executive Directors of the Bank also expressed independent opinions on the profit distribution plan.

4. Annual General Meetings

The Bank intends to convene the 2020 annual general meeting on Monday, May 10, 2021. In order to determine the Shareholders who are entitled to attend and vote at the annual general meeting, the register of members of the Bank will be closed from Wednesday, May 5, 2021 to Monday, May 10, 2021 (both days inclusive), during which period no transfer of shares will be effected. Shareholders whose names appear on the register of members of the Bank on Monday, May 10, 2021 are entitled to attend and vote at the annual general meeting. In order to be eligible to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates and other appropriate documents must be lodged for registration with the Board office of the Bank (for holders of domestic Shares) at Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province, PRC, or the H Share Registrar of the Bank (for holders of H Shares), Computershare Hong Kong Investor Services Limited, at shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, no later than 4: 30 p.m. on Tuesday, May 4, 2021. The Bank will despatch the notice and circular for the 2020 annual general meeting in due course.



Chapter 9 Report of the Board of Directors

5. Exposure to Major Risks

Please refer to “Management Discussion and Analysis – 10. Risk Management” for the major risks the Bank had been exposed to during the Reporting Period.

6. Future Development

A review of certain aspects affecting the future development of the Bank is set out in “Management Discussion and Analysis – 1. Past Economic and Financial Environment and Future Prospects” in this annual report.

7. Relationship between the Bank and its Major Employees, Customers and Suppliers

The Bank has been promoting a market-oriented human resources system and continually strengthen its incentive assessments, training, and other complementary mechanisms, and has adopted a distinctive training system that could serve different needs of various groups of employees, which is characterized with a multiple-level training structure. As a result, it managed to cultivate a highly qualified, aggressive and efficient workforce. The Bank also believes career planning of individual employees to be of great importance and have developed a clear career development path for different roles, which is believed could further encourage its employees to endeavor to maximize his or her value. In addition, the Bank’s concept of “people-oriented, performance-oriented (以人為本,業績導向)” exemplifies its corporate culture and best practice, creating an outlook and code of conduct for all employees of the Bank to follow.

The Bank’s labor union represents the interests of the employees and works closely with its management on labor-related issues. During the Reporting Period, the Bank has not experienced any material labor disputes that have affected its operation and the Bank believes that the relationship between its management and the labor union has been satisfactory.

The Bank has established long-term strategic cooperative relationships with a number of quality enterprises and medium and small enterprises focusing on technology innovation.

8. Major Depositors and Borrowers

As at the end of the Reporting Period, the balance of the Bank’s loans to any single borrower did not exceed 10% of the Bank’s net capital. The interest income from the five largest customers of the Bank did not exceed 30% of the Bank’s total interest income. None of the Directors of the Bank and their close associates or any Shareholder which to the knowledge of the Directors own more than 5% of the number of issued Shares of the Bank had any interest in the above five largest customers.

9. Share Capital

For details of the Bank’s share capital, please refer to “Changes in Share Capital and Information on Shareholders” in Chapter 6.

Pre-emptive rights

During the Reporting Period, pursuant to the Articles of Association of the Bank and the relevant laws, the Bank did not stipulate any requirements for granting preemptive right to shareholders.



Chapter 9 Report of the Board of Directors

10. Substantial Shareholders

Details of the Bank's substantial Shareholders as at the end of the Reporting Period are set out in "Changes in Share Capital and Information on Shareholders" in Chapter 6.

11. Use of Proceeds

For details of issuance and listing of the Shares conducted by the Bank during the Reporting Period and use of proceeds of the Bank, please refer to the section headed "Important Events".

12. Property and Equipment

Details of the changes in property and equipment of the Bank for the year ended December 31, 2020 are set out in the Note 24 of the financial statement in this annual report.

13. Changes in the Reserves

For the year ended December 31, 2020, the details of changes in the reserves of the Bank are set out in the Consolidated Statement of Changes in Equity in the financial statement of the Bank.

14. Purchase, Sale and Redemption of the Listed Securities of the Bank

During the Reporting Period, the Bank or any of its subsidiary had not purchased, sold or redeemed any listed securities of the Bank.

15. Retirement Benefits

Please refer to Note 34(a) in the financial statements in this annual report for details of the retirement benefits provided to employees of the Bank.

16. Connected and Related Party Transactions

In the ordinary and usual course of business, the Bank provides commercial banking services and products to the public in China, including certain connected persons such as Shareholders, Directors, Supervisors, President and/or their respective associates. Pursuant to the Hong Kong Listing Rules, such transactions, being conducted on normal commercial terms in the ordinary and usual course of the business of the Bank, shall be exempt from reporting, annual review, disclosure and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The Bank has reviewed all its connected transactions and acknowledged that it had complied with the requirements under Chapter 14A of the Hong Kong Listing Rules.

The details of the related party transactions conducted by the Bank in the ordinary and usual course of business during the Reporting Period are set out in Note 42 to the financial statements. The definition of connected persons under Chapter 14A of the Hong Kong Listing Rules is different from the definition of related parties under International Accounting Standard, and its interpretations by the IASB. Certain related party transactions set out in the notes to the financial statements also constitute connected transactions or continuing connected transactions as defined under the Hong Kong Listing Rules, but none of them constitutes any discloseable connected transaction as defined under the Hong Kong Listing Rules.

Chapter 9 Report of the Board of Directors

17. Interests of Directors and Supervisors in Business in Competition with the Bank

As of the end of the Reporting Period, Mr. LI Xipeng, a non-executive Director, indirectly held 9.88% of the equity interests in Fanxian Rural Commercial Bank, a rural commercial bank established in Puyang, Henan Province, the PRC, through Henan Shengrun Group, and Mr. Li has been a director of Fanxian Rural Commercial Bank since January 2017. The Board is of the view that, there is no competition or only minimal potential competition between Fanxian Rural Commercial Bank and our Bank arising from Mr. Li's interests and position in Fanxian Rural Commercial Bank for the following reasons: 1) Fanxian Rural Commercial Bank conducts its business within Puyang, Henan Province, whereas the business of our Bank operates across all 18 provincial cities in Henan Province. Furthermore, Fanxian Rural Commercial Bank, as compared to our Bank, is of a smaller scale, thus the potential competition between Fanxian Rural Commercial Bank and our Bank is minimal; 2) Mr. Li serves as a non-executive director in both our Bank and Fanxian Rural Commercial Bank, and is not involved in the daily management of either our Bank or Fanxian Rural Commercial Bank; and 3) our Bank has appointed four independent non-executive Directors, representing more than one-third of the members of the Board to balance any potential conflict of interest in order to safeguard the interests of our Bank and the Shareholders as a whole.

Save as those disclosed in this annual report, none of the Directors or Supervisors of the Bank holds any interest in any business which competes or is likely to compete, whether directly or indirectly, with that of the Bank.

18. Directors

Please see the section "Directors, Supervisors, Senior Management, Employees and Institutions" for biographies of incumbent directors, as well as information on changes of Directors during the Reporting Period.

19. Directors' and Supervisors' Service Contracts

During the Reporting Period, the Directors and Supervisors of the Bank did not have service contracts which are not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

20. Permitted Indemnity Provisions

According to code provision A.1.8, the Bank shall maintain appropriate insurance to cover the potential legal litigations initiated against the Directors of the Bank. In order to comply with such code provision, the Bank has purchased appropriate liability insurance for the Directors and to provide indemnity for their liabilities incurred during the operations of the Bank for the year 2020.

Save as disclosed above, at no time during the Reporting Period and as of the date of this annual report, there was or is, any permitted indemnity provision being in force for the benefit at any of the Directors or Supervisors (whether made by the Bank or otherwise) or the Directors or Supervisors of an associated corporation of the Bank (if made by the Bank).

21. Directors' and Supervisors' Material Interests in Transactions, Arrangements or Contracts

During the Reporting Period, the Bank or its subsidiary did not have any transaction, arrangement or contract of significance in which the Directors or Supervisors (or entities connected with the Directors or Supervisors) directly or indirectly were materially interested.



Chapter 9 Report of the Board of Directors

22. Arrangements to Purchase Shares or Debentures

At no time during the Reporting Period was the Bank a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

23. Management Contracts

Save for the service contracts entered into with the management of the Bank, the Bank has not entered into any other contract with any individual, company or body corporate in relation to the management or administration of the whole or any substantial part of any business of the Bank.

24. Directors', Supervisors' and Chief Executive's Interest in Shares of the Bank

As of the end of the Reporting Period, the Directors, Supervisors and the chief executive of the Bank and their associates had interests and short positions in the Shares, underlying Shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules (See "Directors, Supervisors, Senior Management, Employees and Institutions – 6. Interests and Short Positions of Directors, Supervisors and Chief Executive Officers in Shares, Underlying Shares and Debentures" in chapter 7). Other than as disclosed above, none of the Directors, Supervisors, or chief executive of the Bank or their associates had any interests or short positions in the shares, underlying shares or debentures of the Bank or its associated corporations as of December 31, 2020.

25. Corporate Governance

We are committed to maintaining high standards in corporate governance. Please refer to the "Corporate Governance Report" in this annual report.

26. Public Float

Based on the information available in the public and so far as our Directors concerned, as of the date of this annual report, the Bank had maintained sufficient public float in compliance with the minimum requirement of the Hong Kong Listing Rules and the exemption granted by the Hong Kong Stock Exchange upon the Bank's listing.

27. Auditors

Please refer to the section "Corporate Governance Report – 13. External Auditors and Auditors' Remuneration" for the information on the auditors of the Bank.

Chapter 9 Report of the Board of Directors

28. Equity Linked Agreement

During the Reporting Period, the Bank did not enter into any other equity-linked agreements. Upon approvals by the former CBRC Henan Office and the CSRC, the Bank issued non-cumulative perpetual Offshore Preference Shares in the amount of USD1,395 million on November 21, 2018 through a non-public offering on the overseas market. Pursuant to regulations including the Measures on Capital Management of Commercial Banks (Trial) and the Trial Administrative Measures on Preference Shares, a commercial bank shall set up the provisions of coercive conversion of preference shares into ordinary shares, under which the commercial bank shall convert the preference shares into ordinary shares as contractually agreed in case of a trigger event. Such trigger event happens when the core tier-one capital adequacy ratio has decreased to 5.125% (or below) and when the China Banking and Insurance Regulatory Commission determines that the Bank will not be able to exist if shares of the Bank are not transferred or written down, or when relevant regulators determine that the Bank will not be able to exist if there is no capital injection from public sectors or supports with coordinative effects. The Bank, according to relevant regulations, has formulated provisions of trigger events under which Offshore Preference Shares shall be coercively converted into H Shares. If such trigger events happen to the Bank and all Offshore Preference Shares need to be coercively converted into H Shares in accordance with their initial conversion price, the total amount of the Offshore Preference Shares which would be converted into H Shares will not exceed 4,416,050,404 H Shares. During the Reporting Period, the Bank did not experience any trigger event in which the Offshore Preference Shares need to be coercively converted into H Shares.

29. Preference Shares Issuance

For the issuance terms and relevant details of the Offshore Preference Shares, please refer to section “Changes in Share Capital and Information on Shareholders – 7. Non-public Issuance of Offshore Preference Shares”.

30. Bond Issuance

During the Reporting Period, the Bank submitted the application of issuing special financial bonds for small and micro enterprises with the scale of no more than RMB4.0 billion (inclusive) and special financial bonds for ecological protection and high-quality development of the yellow river area with the scale of no more than RMB5.0 billion (inclusive) to 2019 Annual General Meeting for consideration and approval.

On March 4, 2021, the Bank issued the financial bonds with an issuing size of RMB2.0 billion in the national interbank bond market in the People’s Republic of China. The issuing price was RMB100 with three years to maturity and a coupon rate of 3.60%. Based on applicable laws and regulatory approvals, the Bank will use the proceeds of the Offering to grant credit facilities for supporting ecological protection and high-quality development of the Yellow River basin, including ecological protection, pollution prevention, efficient use of water resources, high-quality development and cultural tourism.

On April 25, 2018, the Bank publicly issued the first tranche of green financial bonds in the national inter-bank bond market with a size of RMB1.50 billion. The face value of the bond is RMB100 with an issuance price of RMB100 each for a term of three years at a coupon rate of 4.70%. In accordance with the approval from the regulatory authorities, the proceeds will be fully used for lending to green industry projects specified in the Green Bond Endorsed Project Catalogue prepared by the Green Finance Committee of the China Society for Finance and Banking.



Chapter 9 Report of the Board of Directors

On May 23, 2018, the Bank publicly issued financial bonds in the national inter-bank bond market with a size of RMB1.5 billion. The face value of the bond is RMB100 and issuance price is RMB100 each with a term of three years at a coupon rate of 4.79%. The proceeds will be used for lending to innovation and entrepreneurship enterprises(雙創企業) and innovation and entrepreneurship service enterprises (雙創服務企業) in Henan Province.

On September 26, 2018, the Bank issued the Qualified Tier 2 Capital Instruments in the aggregate principal amount of RMB10 billion in the national inter-bank market. The type is fixed rate bonds for a term of 10 years with the coupon rate of 5.20% and the issuer is entitled to redeem the bonds at the end of the fifth year. The proceeds from the issuance of the Qualified Tier 2 Capital Instruments will be used to replenish the tier 2 capital of the Bank in accordance with the applicable laws and the approvals of regulatory authorities.

For the issuance terms and relevant details of the bonds, please refer to the announcements made by the Bank on the website of Hong Kong Stock Exchange (www.hkex.com.hk) and the official website of the Bank (www.zybank.com.cn).

31. Donations

During the Reporting Period, the Bank made donations in a total amount of RMB11,578,900, which mainly used for prevention and control of epidemic, poverty alleviation and assistance in difficulty of special groups and students.

32. Environmental Policy

During recent years, the Bank has proactively borne social responsibility in relation to environment policy. The Bank has sought to proactively develop business in green credit in line with national economic policy and regulatory trends. The Bank formulated the “Administrative Measures of Zhongyuan Bank Co., Ltd. for the Proceeds Raised by Green Financial Bonds” (《中原銀行股份有限公司綠色金融債券募集資金管理辦法》) and successfully issued green financial bonds and the 2021 first tranche of financial bonds.

In addition, the Bank has strictly implemented the management policies after granting of credit and specialized environmental assessment reporting in relation to some projects to identify environmental and social risks. At the same time, the Bank has made efforts to push forward the development of electronic banking, and actively implemented national policies to save energy costs. For more details of our environmental policy and performance, please refer to the “Environmental, Social and Governance Report” that the Bank would issue after the annual report.

33. Consumer Rights Protection

The Bank has always attached great importance to the protection of consumer rights and has established and implemented the “customer-oriented” business development philosophy to protect the legitimate rights and interests of consumers. The Board of the Bank establishes the consumer rights protection Committee, and senior management sets up a leading group for consumer rights protection, coordinate and deploy the Bank’s consumer rights protection work; A dedicated department and professional personnel for consumer rights protection were established to take charge of the protection of consumer rights of the Bank, and to continuously improve the organization and working mechanism for consumer rights protection.

Chapter 9 Report of the Board of Directors

During the Reporting Period, the Board of Directors and the consumer rights protection Committee of the Board of Directors of the Bank operated efficiently and performed their duties conscientiously. According to relevant duties, they respectively listened to the Audit Report on the Implementation of Consumer Rights Protection of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司消費者權益保護工作開展情況審計報告》) and considered and approved reports such as the 2019 Work Report on Consumer Rights Protection of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司2019年度消費者權益保護工作報告》), 2020 Work Plan of Consumer Rights Protection Committee of the Second Session of Board of Directors of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司第二屆董事會消費者權益保護委員會2020年度工作計劃》), three systems, the Administrative Measures for Information Disclosure and Inquiry of Financial Products and Services of Zhongyuan Bank (《中原銀行金融產品和服務信息披露、查詢管理辦法》), the Assessment and Evaluation Measures for Consumer Rights Protection of Zhongyuan Bank (Provisional) (《中原銀行消費者權益保護工作考核評價辦法(試行)》) and the Review Guidelines for Consumer Rights Protection of Zhongyuan Bank (《中原銀行消費者權益保護審查工作指引》). Urging the senior management to continuously optimize the consumer rights protection and continuously improve the comprehensiveness, timeliness and effectiveness of consumer rights protection of the Bank.

During the Reporting Period, the Bank organized and carried out more than 10 theme promotion activities such as “3.15 Financial Consumer Rights Day”, “Popularizing Financial Knowledge and Guarding Your Money Bag”, WeChat, deposit insurance and anti money laundering. The Bank actively participated in the “Excellent Original Works Selection Activity of 2020 Henan Banking and Insurance Financial Knowledge Publicity” organized by Zhengzhou Central Sub Branch of the People’s Bank of China, CBIRC Henan Office, Henan Banking Association and The Insurance Association of Henan Province.

The Bank continuously conducts training on consumer rights protection to improve the protection level and skills of consumer rights of its employees.

34. Compliance with Relevant Laws and Regulations

The Bank has adopted internal control measures to monitor ongoing compliance with relevant laws and regulations, such as the Companies Ordinance (Chapter 622 of the laws of Hong Kong), the SFO, the Hong Kong Listing Rules and other rules and regulations implemented in relevant jurisdictions. During the year, as far as the Board is concerned, the Group has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the financial year ended December 31, 2020. The Bank has continuously endeavored to comply with all relevant laws and regulations.

35. Pledge of Significant Assets

During the Reporting Period, the Bank had not pledged any significant assets.

36. Distributable Reserves

The distributable reserves of the Bank as of December 31, 2020 were RMB3,254 million.



Chapter 9 Report of the Board of Directors

37. Important events since the end of the Reporting Period

The COVID-19 virus outbreak since early 2020 has brought about additional uncertainties in the Bank's operating environment and has impacted the Group's operations. The Bank has been closely monitoring the impact of the developments on the Bank's businesses and has put in place contingency measures. In terms of the Bank's business, although the epidemic has brought a certain impact on the income and asset quality of the Bank, thus affecting the quality and profit of the Bank's credit assets, the Bank actively took measures to enhance the flexibility and elasticity of the business, ensure that customers are not affected by the epidemic, provide convenient, safe and reliable banking services for customers, and make the business scale grow steadily and the operation efficiency remain stable in general.

On March 4, 2021, the Bank issued the financial bonds with an issuing size of RMB2.0 billion in the national interbank bond market in the People's Republic of China. The issuing price was RMB100 with three years to maturity and a coupon rate of 3.60%. Based on applicable laws and regulatory approvals, the Bank will use the proceeds of the offering to grant credit facilities for supporting ecological protection and high-quality development of the Yellow River basin, including ecological protection, pollution prevention, efficient use of water resources, high-quality development and cultural tourism. For details, please refer to the relevant announcement of the Bank dated March 4, 2021.

During the Reporting Period, the Bank had no changes in accounting policies, accounting estimates or major accounting errors.

Except for the above disclosure, there was no significant impact on the Bank since the end of the Reporting Period.

38. Other Matters

As far as the Board is aware, the Bank has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Bank. In the meantime, the Bank is committed to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Bank endeavors to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

As at the date of this report, the Bank was not aware that any Shareholders had waived or agreed to any arrangement to waive dividends.

As at the date of this report, none of the Directors waived or agreed to relevant arrangement to waive remuneration.

During the Reporting Period, the Bank has no controlling Shareholders or de facto controllers, therefore the Bank does not have any controlling shareholder to pledge the Bank's shares to provide guarantee for the Bank's debts or otherwise provide support for the pledge thereof.

The Bank will publish an environmental, social and governance report for the Reporting Period, as and when appropriate, in compliance with the provisions under the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Hong Kong Listing Rules.

On behalf of the Board of Directors
DOU Rongxing
Chairman

Zhengzhou, China
March 29, 2021



Chapter 10 Report of the Board of Supervisors

During the Reporting Period, the Board of Supervisors of the Bank, in accordance with the requirements of relevant laws and regulations including the Company Law, the Guidelines on Corporate Governance of Commercial Bank (《商業銀行公司治理指引》), the Guidelines on the Duties of the Board of Supervisors of Commercial Banks (《商業銀行監事會工作指引》) and the Articles of Association of the Bank, closely focused on the Bank's development strategy and business deployment, and continued to build an all-round and three-dimensional supervision system, playing an active role in improving corporate governance, promoting the Bank's steady operation, preventing and resolving financial risks, and safeguarding Shareholders' interests.

I. Major Works of the Board of Supervisors

1. Continued improving the quality and efficiency of deliberation by overall planning

During the Reporting Period, a total of 6 meetings of the Board of Supervisors and 8 meetings of the special committee under the Board of Supervisors were held, at which 50 proposals were heard and considered; the members of the Board of Supervisors attended 4 sessions of shareholders' general meetings and attended 7 meetings of the Board of Directors as non-voting delegates. The chairman of the Board of Supervisors and employee representative Supervisors also directly participated in various business meetings of the Bank. Through the above meetings, the Board of Supervisors supervised the review and decision-making process of major issues and key matters in relation to the operation and management of the Bank, such as regular reports and profit distribution plans, and issued independent and objective opinions on key issues of concern on the basis of in-depth research and discussion, and exercised its voting rights properly in accordance with the law.

2. Focused on key areas and conducted in-depth supervision and investigation

The Board of Supervisors focused on new issues under the new normal, focused on supervisory concerns, and closely followed the Bank's operational and management priorities and weak links in risk control and management. The Board of Supervisors used investigation as an important means to perform its supervisory functions, focusing on discovering problems and promoting rectification through investigations and improvement through rectification. During the Reporting Period, the Board of Supervisors carried out special research seminars at the head office, such as "Impact of the COVID-19 epidemic on the Bank", "Strengthening Post-loan Management and Continuously Improving Asset Quality Control Level", "Property Confirmation", "Capital Management and Capital Supplement" and other topics, and went to Kaifeng branch, Luohe branch, Xuchang branch, Zhengzhou branch, Lushi Zhongyuan County Bank and the Bank's designated poverty alleviation village, Leijia Village, etc., carried out on-site investigation that focused on grass-roots party building, strategic coordination, key product application and business promotion, non-performing assets management and control, inclusive finance, the implementation of social responsibilities and other matters, and paid attention to strengthening the communication and linkage of internal audit, compliance, risk and other departments in the process of investigation to ensure that the investigation was pragmatic and efficient, earnestly understood the actual situation at the grassroots level, effectively conducted supervision requirements and head office's decision-making deployment, and supervised branches to strictly abide by risks bottom line and operate in a sound and compliant manner.



Chapter 10 Report of the Board of Supervisors

3. Focused on the core and strengthened supervision in key areas

The Board of Supervisors took the fulfillment of statutory supervision responsibilities as the main line, actively gave full play to the joint efforts of internal and external supervision, and further strengthened the supervision of key areas such as strategy, finance, risk and internal control, so as to escort the operation and development of the Bank.

Firstly, the Board of Supervisors has done a good job of strategic supervision and promoted the formulation and implementation of plans. The Board of Supervisors focused on the formulation and implementation of the “Second Five-Year” strategic plan of the Bank. During the Reporting Period, the “Second Five-Year” strategic plan of the Bank opened a new chapter for high-quality development in the next five years. The Board of Supervisors participated in the formulation and review process of the “Second Five-Year” strategic plan of the Bank through studying and judging domestic and foreign macroeconomic situations and financial development trends to conduct in-depth discussion and analysis on the forward-looking, leading and operability of the strategy, and actively put forward relevant opinions and suggestions; during the branch investigation, the Supervisors also focused on branches’ implementation of the strategy of the head office.

Secondly, the Board of Supervisors has deepened financial supervision to promote the implementation of financial work in a standardized manner. The Board of Supervisors paid attention to the Bank’s major financial issues, carefully reviewed the 2019 annual report and the 2020 interim report to ensure that the preparation process, review procedures and content of the reports are legal and compliant, and can truly, accurately and objectively reflect the financial status and operating results of the Bank; strengthened the external audit communication and supervised the external audit to perform duties effectively, focused on and conducted research and discussion on the problems found in the audit process, to enhance the effectiveness of financial supervision.

Thirdly, the Board of Supervisors has strengthened risk supervision and comprehensive risk management. The Board of Supervisors held a meeting of the Board of Supervisors to review proposals such as the 2019 comprehensive risk analysis report, the 2020 risk appetite statement, and the 2019 information technology risk analysis report, and continued to strengthen the supervision of the Board of Directors and senior management in their performance of their duties for comprehensive risk management and control, such as liquidity risks, credit risks, market risks, operation risks and consolidated risks, while focusing on risk stress testing during the epidemic, emphasizing the need to improve risk early-warning management capabilities; focusing on asset quality of branches and the disposal and resolution of non-performing assets in basic-level investigation, and urging branches to correctly understand the relationship between development and risk management, and strictly observe the bottom line of risk.

Fourthly, the Board of Supervisors has implemented internal control and supervision to urge the optimization of business compliance. The Board of Supervisors strengthened the supervision of the internal control system, continued to pay attention to the performance of the “three lines of defense”, the establishment and improvement of the internal control system, and the construction and operation of the case prevention system; guided internal control evaluation work and reviewed the annual internal control evaluation report; focused on anti-money laundering, the investigation of case prevention and employee behaviors and other matters, focused on prompting risks in important areas and key links in investigation, and urged the optimization of business compliance.

Chapter 10 Report of the Board of Supervisors

Fifthly, the Board of Supervisors has optimized the supervision of performance of duties, and urged performance of duties in a loyal and diligent manner. In accordance with the relevant requirements of regulations and in order to regulate and supervise the performance of duties by the Board of Directors and senior management and self-discipline of the Board of Supervisors, the Board of Supervisors organized and carried out the performance evaluation of Directors, Supervisors, and senior managements in the previous year, focusing on the performance information of Directors and Supervisors, such as the participation, investigation, speech, and communication, as well as the annual performance of senior management and the fulfillment of loyalty and diligence obligations. During the evaluation process, the Board of Supervisors paid attention to communication and coordination with all parties, strengthened performance monitoring, enriched and improved performance files, refined performance evaluation standards, optimized self-evaluation and mutual evaluation mechanisms, provided a true and comprehensive basis for performance evaluation, completed the performance evaluation work in a timely and reliable manner, and reported the 2019 performance evaluation results to the shareholders' general meetings and regulatory authorities in a timely manner, and further urged Directors and senior management to perform their duties in compliance with laws and regulations.

4. Strengthened the foundation to improve the operation efficiency of the Board of Supervisors

The Board of Supervisors has fully implemented the requirements for strict governance of the Bank, steadily promoted its own construction, and constantly tightened up its work responsibilities. **Firstly, the Board of Supervisors has revised and improved the system of the Board of Supervisors and optimized its working procedures.** In light of the new regulations of domestic and foreign supervision and the actual work of the Bank, the Board of Supervisors reviewed and revised five basic systems of the Board of Supervisors, including the Rules of Procedures of the Board of Supervisors of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司監事會議事規則》), the Measures of Nomination and Election of Supervisors of Zhongyuan Bank Co., Ltd.(《中原銀行股份有限公司監事提名與選舉辦法》), and the Working Rules for External Supervisors of Zhongyuan Bank Co., Ltd.(《中原銀行股份有限公司外部監事工作規則》) to meet the requirements of regulatory authorities for the work of the Board of Supervisors under the new situation, further consolidate the basis for performance of duties, and better ensure the compliance and effectiveness of the work carried out by the Board of Supervisors. **Secondly, the Board of Supervisors has strengthened training to improve the performance of Supervisors.** The Board of Supervisors organized Supervisors to participate in the Commercial Bank Corporate Governance Training of the PBoC Zhengzhou Training Institute, the small and medium-sized bank corporate governance seminars organized by external institutions, and the 2020 anti-money laundering training, etc. The training content covers corporate governance, financial institution ratings of the central bank, etc., which further enhanced Supervisors' ability to perform their duties and achieved good training effect. **Thirdly, the Board of Supervisors has strengthened communication between all parties to promote the supervision work.** The Board of Supervisors maintained smooth report and communication with regulatory authorities, promptly submitted materials in relation to proposals and resolutions of meetings, and Supervisors' performance of duties to the CBIRC Bureau, actively conveyed the regulatory opinions of the CBIRC Bureau, and urged relevant departments to actively rectify relevant issues to strive for supervision guidance and support; strengthened communication with Directors and management of the Bank, fully understood the operation of the Bank and the performance of Directors and senior management, and effectively performed supervisory duties; carried out in-depth and effective communication in relation to the work on the performance of the Board of Supervisors with Yunnan Hongta Bank to learn the best experience and practices from interbanks at the same time.



Chapter 10 Report of the Board of Supervisors

II. Independent Opinions of the Board of Supervisors issued on Issues

1. Introduction to operation compliance

During the Reporting Period, the Bank has saw sound operations and standardized management, with its operating activities in compliance with the relevant provisions of laws, regulations, and the Articles of Association, its business decision-making procedures being legitimate and its operating results objective and true. As the Directors and senior management members were loyal and diligent, violations and acts that harmed the interests of the Bank and shareholders were not found in the duties performance of our Directors and senior management members.

2. Introduction to the financial report

The 2020 financial report of the Bank was audited by KPMG Huazhen LLP and KPMG engaged by the Board of Directors, which has issued a standard unqualified audit report; the Board of Supervisors are in the opinion that the preparation of the financial report and the audit procedure were in compliance with laws, regulations and regulatory requirements, and its content truly, accurately and completely reflected the financial conditions and operating results of the Bank.

3. Related party transactions

During the Reporting Period, the Board of Supervisors supervised the management on the related party transactions of the Bank and considered that the management thereof was relatively standardized, in compliance with the relevant provisions of national laws and regulations and the Articles of Association of the Bank, no inside tradings and behaviors that damage the interests of shareholders and the Bank's interests were found.

4. Internal control

During the Reporting Period, the Bank paid great attention to the building of the internal control system, and no major deficiencies was found in the internal control system or its implementation.

5. Implementation of information disclosure

During the Reporting Period, the Bank performed its obligation of information disclosure in accordance with the requirements of regulatory policies strictly, conscientiously implemented the management system of information disclosure affairs, disclosed information in a timely and fair manner, and no false records, misleading statements or major omissions in the disclosed information were found.



Chapter 10 Report of the Board of Supervisors

6. Implementation of resolutions of shareholders' meetings

During the Reporting Period, the Board of Supervisors organized its members to attend the meeting. They had no objections to the contents of reports and proposals submitted by the Board of Directors of the Bank to the General Meeting, carried out supervision on the implementation of the General Meeting's resolutions and considered that the relevant resolutions of the General Meeting can be duly implemented by the Board of Directors.

On behalf of the Board of Supervisors

HAO Jingtao

Chairman of the Board of Supervisors

Zhengzhou, China
March 29, 2021

1. Use of Proceeds

On March 4, 2021, the Bank issued the financial bonds with an issuing size of RMB2.0 billion in the national interbank bond market in the PRC. The financial bonds have three years to maturity and a coupon rate of 3.60% with an issuing price of RMB100. Based on applicable laws and regulatory approvals, the Bank will use the proceeds to grant credit facilities for supporting ecological protection and high-quality development of the Yellow River basin, including ecological protection, pollution prevention, efficient use of water resources, high-quality development and cultural tourism. Please refer to the announcement dated March 4, 2021 of the Bank for details.

On November 21, 2018, the Bank issued non-cumulative perpetual Offshore Preference Shares of USD1,395 million. For details of the use of proceeds from this issue of preference shares, please refer to “Changes in Share Capital and Information on Shareholders – 7.1 The Issuance and Listing of Offshore Preference Shares”.

2. Profits and Dividends

The profits and financial position of the Bank for 2020 are set out in the annual financial statements of this annual report.

As approved at the Board meeting of the Bank on March 29, 2021, it is proposed that no final dividend for 2020 be declared to all Shareholders. Such resolution for no distribution of dividend will be subject to Shareholders’ approval at the Bank’s forthcoming 2020 annual general meeting.

3. Material Connected Transactions

As of the end of the Reporting Period, there had not been any material connected transactions entered into between the Bank and its connected persons.

4. Material Litigations and Arbitrations

(I) Litigations against the Xinxiang branch in relation to alleged lending and borrowing

As of December 31, 2020, the Group received 49 cases filed against the Xinxiang branch for alleged lending and borrowing raised by 43 plaintiffs demanding the Xinxiang branch to repay alleged loan principal of approximately RMB219.0 million with accrued interest. Among the 49 cases, 9 cases involved a claim over RMB10.0 million with an aggregate loan principal of approximately RMB123.9 million.

As of December 31, 2020, 34 plaintiffs’ claims had been rejected in effective judgements, and plaintiffs have withdrew the suit of 9 cases, Xinxiang branch assumes 50% responsibility in 2 effective judgements (Xinxiang branch has applied to Henan High People’s Court for retrial), while 4 cases were still pending for first judgements or second judgements.

Chapter 11 Important Events

(II) Property rights dispute of Zhoukou branch

In April 2016, the plaintiff of the case filed a lawsuit against the Zhoukou Branch for property rights dispute. In August 2016, Zhoukou Intermediate People's Court determined that the ownership of the buildings at issue belonged to the plaintiff and ordered the Zhoukou branch to return the property claimed by the plaintiff. The Zhoukou branch appealed to the Henan High People's Court. In December 2017, Henan High People's Court quashed the judgment of first instance and remitted the case to the court of first instance for retrial. In December 2018, Zhoukou Intermediate People's Court re-examined the ownership of the buildings at issue belonged to the plaintiff and ordered the Zhoukou branch to return the property claimed by the plaintiff. Zhoukou branch had once again appealed to the Henan High People's Court. As of December 31, 2020, the Henan High People's Court rejected the plaintiff's claim in the second judgements. The case has been closed.

(III) Litigation against Lushi Zhongyuan County Bank in relation to alleged lending and borrowing

In April 2015, the plaintiff of the case filed a lawsuit against the Lushi Zhongyuan County Bank for alleged lending and borrowing. In April 2016, Luoyang Intermediate People's Court rendered judgment of first instance, in which Lushi Zhongyuan County Bank shall repay the borrowings and the accrued interest to the plaintiff, which later appealed to Henan High People's Court. In May 2017, Henan High People's Court quashed the judgment of first instance and remitted the case to the court of first instance for retrial. In December 2018, Luoyang Intermediate People's Court re-examined and determined that Lushi Zhongyuan County Bank shall repay the borrowings and the accrued interest. Lushi Zhongyuan County Bank had once again appealed to the Henan High People's Court. As of December 31, 2020, the Henan High People's Court rejected the plaintiff's claim in the second judgements. The case has been closed.

5. Penalties for Directors, Supervisors and Senior Management

During the Reporting Period, none of the Bank's Directors, Supervisors or senior management had been subject to any investigation, administrative penalty or public criticism by the CSRC or any public censure by any stock exchange or any punishment by any other regulatory authorities which would have a material impact on the operation of the Bank.

6. Performance of Commitments by the Bank and Shareholders with 5% or more of Shares

The Bank's major Shareholders, their related parties and persons acting in concert have issued to the Bank a statement on the conditions and requirements for investment in the Bank, a statement on the equity relationship, a statement on the tax situation, a statement on the purpose of the shareholding and the source of funds, a statement on non-occurrence of non-compliance related party transactions, a statement on non-significant violations, a statement on the authenticity of materials, a statement on compliance holdings, and a statement on equity status and shareholder performance. They have also made commitment on compliance with laws and regulations, the Bank's Articles of Association and other relevant provisions, legal exercise of rights and performance of obligations and other matters.

7. Implementation of Share Incentive Scheme during the Reporting Period

During the Reporting Period, the Bank had not implemented any share incentive scheme.



Chapter 11 Important Events

8. Material Contracts and their Performance

No material contracts (including provision of relevant services) in relation to the Bank's business to which the Bank or its subsidiaries was a party and in which any of the Directors, the Supervisors of the Bank or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

9. Significant Investment, Material Acquisitions and Disposals of Assets and Business Mergers

During the Reporting Period, the Bank had no significant investments, material acquisitions and disposals of assets and business mergers.

10. Profit Distribution during the Reporting Period

The 2019 profit distribution plan of the Bank was considered and approved at the 2019 annual general meeting of the Bank held on May 18, 2020, which decided to distribute dividends in cash of RMB0.45 (tax included) per ten shares to all of the Shareholders. The 2019 final dividends has been distributed on June 29, 2020.

11. Audit Review

The financial statements for 2020 prepared by the Bank according to the IFRSs has been audited by KPMG, and the auditor's reports were unqualified. The 2020 Annual Report of the Bank has been reviewed and approved by the Audit Committee of the Board and the Board of Directors of the Bank.



Chapter 12 Independent Auditor's Report

Independent auditor's report to the shareholders of Zhongyuan Bank Co., Ltd.

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

Opinion

We have audited the consolidated financial statements of Zhongyuan Bank Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") set out on pages 155 to 280, which comprise the consolidated statement of financial position as at December 31, 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis of opinion

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

Key audit matters

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

Chapter 12 Independent Auditor's Report

Key audit matters (Continued)

Loss allowances of loans and financial investments measured at amortized cost	
<i>Refer to note 20 and 21 to the consolidated financial statements and the accounting policies in note 2(9)(ii).</i>	
The key audit matter	How the matter was addressed in our audit
The determination of loss allowances 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. In particular, the determination of the loss allowances is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses for corporate loans and financial 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. 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. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of loss allowances as at the end of the reporting period. The economic impact of the Covid-19 pandemic has added the degree of estimation uncertainty related to the accounting estimates.	Our audit procedures to assess loss allowances of loans and financial investments measured at amortized cost 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 financial investments measured at amortized cost, the credit grading process and the measurement of provisions for impairment; • assessing the reliability of the expected credit loss model used by management in determining loss allowances, including 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 investment list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan and investment information with the underlying agreements and other related documentation to assess the accuracy amounts and related information of the loan and investment. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources;

Chapter 12 Independent Auditor's Report

Key audit matters (Continued)

Loss allowances of loans and financial investments measured at amortized cost (Continued)	
<i>Refer to note 20 and 21 to the consolidated financial statements and the accounting policies in note 2(9)(ii). (Continued)</i>	
The key audit matter	How the matter was addressed in our audit
We identified the impairment of loans and advances to customers and financial investments measured at amortized cost 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 Group.	• for key parameters involving judgement, critically assessing input parameters. 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. • comparing the forward-looking economic factors used in the models to market information to assess whether they were aligned with market and economic development, with a particular focus on the economic impact of COVID-19 pandemic; • for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the logics and compilation of the overdue information of corporate customers for selected samples; • evaluating the validity of management's assessment on whether the credit risk of the loan has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting samples in industries more vulnerable to the current economic situation and checking the loan overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses; • for selected samples of loans and advances to customers and financial investments measured at amortized cost that are credit-impaired, evaluating management's assessment of the value of any property collateral held by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, challenged the viability of the Group's recovery plans and evaluated other credit enhancements that are integral to the contract terms; and • assessing the reasonableness of the disclosures on impairment of loans and financial investments measured at amortized cost against prevailing accounting standards.

Chapter 12 Independent Auditor's Report

Key audit matters (Continued)

Fair value of financial instruments	
<i>Refer to note 45 to the consolidated financial statements and the accounting policies in note 2(9) (iv).</i>	
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 Group's assets. The effect of fair value adjustments of financial instruments may impact either the profit or loss or other comprehensive income. The valuation of the Group's financial instruments, carried 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 active market readily available data. For level 2 financial instruments in the fair value hierarchy, the valuation techniques use quoted market prices and observable inputs. The Group has developed its own models to value certain financial instruments, which also involve significant management judgement. Global economic uncertainty influenced movements in market rates including interest rates and foreign exchange rates. Increased market volatility resulted in greater ranges of values in management's assessment of the valuation of financial instruments held. 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 because of 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: • understanding and 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; • involving our internal valuation specialists to assist us in performing independent valuations, on a sample basis, of financial instruments and comparing our valuations with the Group's valuations. Our procedures included comparing the valuation models of the Group with our valuation methods, and developing parallel models to revalue; and • assessing the reasonableness of the disclosures in the consolidated financial statements in relation to fair value of financial instruments against prevailing accounting standards.

Chapter 12 Independent Auditor's Report

Key audit matters (Continued)

Consolidation of structured entities	
<i>Refer to note 39 to the consolidated financial statements and the accounting policies in note 2(28).</i>	
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 Group may acquire or retain an ownership interest in, or act as a sponsor to a structured entity through issuing a wealth management product, or act as an investor to a structured entity through investing in 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 Group, management is required to consider the power the Group is able to exercise over the activities of the entity and the Group's exposure to and ability to influence its own returns from the entity. In certain circumstances the Group may be required to consolidate a structured entity even though it has no equity interest therein. We identified the consolidation of structured entities as a key audit matter because it involves significant management judgement to determine whether a structured entity is required to be consolidated by the Group or not and because the impact of consolidating a structured entity on the consolidated statement of financial position and relevant regulatory capital requirements could be significant.	Our audit procedures to assess the consolidation of structured entities 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 Group has a robust process in this regard; • selecting significant structured entities of each key product type and performing the following procedures for each entity selected: – inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity; – reviewing the risk and reward structure of the structured entity to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity; – reviewing management's analyses of the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity; – assessing management's judgement over whether the structured entity should be consolidated or not; • assessing the reasonableness of the disclosures in the consolidated financial statements in relation to structured entities against prevailing accounting standards.



Chapter 12 Independent Auditor's Report

Information other than the consolidated financial statements and our auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

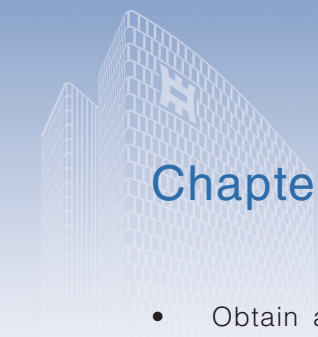
Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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



Chapter 12 Independent Auditor's Report

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Lok Man.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
March 29, 2021

Consolidated statement of profit or loss and other comprehensive income

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

	Note	2020	2019
Interest income		30,946,025	29,352,469
Interest expense		(14,381,033)	(13,644,728)
Net interest income	4	16,564,992	15,707,741
Fee and commission income		2,247,177	2,109,548
Fee and commission expense		(460,770)	(342,119)
Net fee and commission income	5	1,786,407	1,767,429
Net trading (losses)/gains	6	(184,491)	283,579
Net gains arising from investment securities	7	1,135,190	1,111,564
Other operating income	8	125,693	151,532
Operating income		19,427,791	19,021,845
Operating expenses	9	(7,118,645)	(7,486,345)
Impairment losses on assets	12	(7,848,594)	(7,148,283)
Share of losses of joint venture		(11,600)	(26,581)
Profit before tax		4,448,952	4,360,636
Income tax	13	(1,094,218)	(1,154,651)
Net profit for the year		3,354,734	3,205,985
Net profit attributable to:			
Equity shareholders of the Bank		3,300,822	3,163,849
Non-controlling interests		53,912	42,136
		3,354,734	3,205,985
Basic and diluted earnings per share (in RMB)	14	0.14	0.13

The notes on pages 164 to 280 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended December 31, 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2020	2019
Net profit for the year		3,354,734	3,205,985
Other comprehensive income			
<i>Other comprehensive income net of tax attributable to equity shareholders of the Bank</i>			
Items that may be reclassified subsequently to profit or loss:			
– Financial assets at fair value through other comprehensive income:			
net movement in the fair value reserve	36(a)(i)	(364,575)	5,499
– Financial assets at fair value through other comprehensive income:			
net movement in impairment losses	36(a)(ii)	59,470	28,255
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability	36(a)(iii)	459	112
<i>Other comprehensive income net of tax attributable to non-controlling interests</i>		(19,404)	303
Other comprehensive income, net of tax		(324,050)	34,169
Total comprehensive income		3,030,684	3,240,154
Total comprehensive income attributable to:			
Equity shareholders of the Bank		2,996,176	3,197,715
Non-controlling interests		34,508	42,439
		3,030,684	3,240,154

The notes on pages 164 to 280 form part of these financial statements.

Consolidated statement of financial position

as at December 31, 2020
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2020	2019
Assets			
Cash and deposits with the central bank	15	65,336,332	72,118,641
Deposits with banks and other financial institutions	16	13,493,520	10,873,899
Placements with banks and other financial institutions	17	25,280,450	20,038,963
Derivative financial assets	18	30,989	15,138
Financial assets held under resale agreements	19	15,819,524	16,838,550
Loans and advances to customers	20	347,656,832	291,230,110
Financial investments:	21		
Financial investments at fair value through profit or loss		21,480,393	42,185,454
Financial investments at fair value through other comprehensive income		47,301,530	53,475,148
Financial investments at amortised cost		170,615,595	156,407,156
Finance lease receivables	22	30,805,530	27,859,022
Interest in joint venture	23	1,083,967	1,095,567
Property and equipment	24	4,267,878	4,317,284
Deferred tax assets	25	4,832,535	3,650,761
Goodwill	26	970,780	970,780
Other assets	27	8,506,617	8,808,556
Total assets		757,482,472	709,885,029
Liabilities and equity			
Liabilities			
Borrowing from the central bank		44,066,887	16,644,752
Deposits from banks and other financial institutions	29	59,388,708	61,578,074
Placements from banks and other financial institutions	30	31,214,348	28,058,729
Financial liabilities at fair value through profit or loss		—	20,437
Derivative financial liabilities	18	16,961	295,741
Financial assets sold under repurchase agreements	31	46,141,066	66,544,904
Deposits from customers	32	431,341,443	389,731,529
Income tax payable		785,823	799,904
Debt securities issued	33	76,054,620	79,720,418
Other liabilities	34	9,117,355	8,659,477
Total liabilities		698,127,211	652,053,965

The notes on pages 164 to 280 form part of these financial statements.

Consolidated statement of financial position

as at December 31, 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2020	2019
Equity			
Share capital	35	20,075,000	20,075,000
Other equity instruments			
– Preference shares	38	9,632,791	9,632,791
Capital reserve	36(a)	14,715,269	15,022,418
Surplus reserve	36(b)	2,115,521	1,818,292
General reserve	36(c)	9,660,324	8,934,907
Retained earnings	37	2,062,639	1,261,325
Total equity attributable to equity shareholders of the Bank		58,261,544	56,744,733
Non-controlling interests		1,093,717	1,086,331
Total equity		59,355,261	57,831,064
Total liabilities and equity		757,482,472	709,885,029

Approved and authorised for issue by the board of directors on March 29, 2021.

Dou Rongxing

Chairman of the Board of Directors

Executive Director

Wang Jiong

President

Executive Director

Li Yulin

*Vice President in charge of
accounting affairs*

Wang Shanshan

*General Manager of
the Planning and
Finance Department*

(Company chop)

The notes on pages 164 to 280 form part of these financial statements.

Consolidated statement of changes in equity

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

Note	Attributable to equity shareholders of the Bank							Non-controlling interests	Total
	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Subtotal		
Balance at January 1, 2020	20,075,000	9,632,791	15,022,418	1,818,292	8,934,907	1,261,325	56,744,733	1,086,331	57,831,064
Changes in equity for the year:									
Net profit for the year	-	-	-	-	-	3,300,822	3,300,822	53,912	3,354,734
Other comprehensive income	-	-	(304,646)	-	-	-	(304,646)	(19,404)	(324,050)
Total comprehensive income	-	-	(304,646)	-	-	3,300,822	2,996,176	34,508	3,030,684
Purchase of non-controlling interests	-	-	(2,503)	-	-	-	(2,503)	(7,291)	(9,794)
Appropriation to surplus reserve 37	-	-	-	297,229	-	(297,229)	-	-	-
Appropriation to general reserve 37	-	-	-	-	725,417	(725,417)	-	-	-
Cash dividends on common shares 37	-	-	-	-	-	(903,375)	(903,375)	(19,831)	(923,206)
Cash dividends on preference shares 37	-	-	-	-	-	(573,487)	(573,487)	-	(573,487)
Balance at December 31, 2020	20,075,000	9,632,791	14,715,269	2,115,521	9,660,324	2,062,639	58,261,544	1,093,717	59,355,261

The notes on pages 164 to 280 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended December 31, 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank								
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at January 1, 2019		20,075,000	9,632,791	14,981,317	1,500,620	7,884,326	783,400	54,857,454	820,302	55,677,756
Changes in equity for the year:										
Net profit for the year		–	–	–	–	–	3,163,849	3,163,849	42,136	3,205,985
Other comprehensive income		–	–	33,866	–	–	–	33,866	303	34,169
Total comprehensive income		–	–	33,866	–	–	3,163,849	3,197,715	42,439	3,240,154
Loss of control over subsidiary		–	–	7,235	(1,265)	–	1,265	7,235	(195,939)	(188,704)
Acquisition of subsidiary		–	–	–	–	–	–	–	446,980	446,980
Appropriation to surplus reserve	37	–	–	–	318,937	–	(318,937)	–	–	–
Appropriation to general reserve	37	–	–	–	–	1,050,581	(1,050,581)	–	–	–
Cash dividends on common shares	37	–	–	–	–	–	(702,625)	(702,625)	(27,451)	(730,076)
Cash dividends on preference shares	37	–	–	–	–	–	(615,046)	(615,046)	–	(615,046)
Balance at December 31, 2019		20,075,000	9,632,791	15,022,418	1,818,292	8,934,907	1,261,325	56,744,733	1,086,331	57,831,064

The notes on pages 164 to 280 form part of these financial statements.

Consolidated cash flow statement

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

	2020	2019
Cash flows from operating activities		
Profit before tax	4,448,952	4,360,636
Adjustments for:		
– Impairment losses on assets	7,848,594	7,148,283
– Depreciation and amortization	1,053,007	1,136,045
– Depreciation of investment properties	755	4,076
– Unrealized foreign exchange losses/(gains)	1,287,505	(384,589)
– Net gains on disposal of property and equipment	(49,599)	(22,891)
– Net trading losses/(gains)	63,319	(137,658)
– Net (gains)/losses arising from fair value of derivatives	(294,631)	95,615
– Net gains on disposal of investment securities	(1,135,187)	(1,111,564)
– Share of losses of joint venture	11,600	26,581
– Interest expense on debts securities issued	2,495,258	3,062,299
– Interest expense on lease liabilities	60,582	34,011
	15,790,155	14,210,844
<i>Changes in operating assets</i>		
Net decrease in deposits with the central bank	4,214,266	4,953,041
Net (increase)/decrease in deposits and placements with banks and other financial institutions	(7,375,977)	1,960,648
Net decrease/(increase) in financial assets held for trading	1,855,879	(2,394,898)
Net increase in loans and advances to customers	(61,355,828)	(48,267,057)
Net (increase)/decrease in finance lease receivables	(979,543)	287,592
Net increase in other operating assets	(4,021,957)	(3,481,342)
	(67,663,160)	(46,942,016)

The notes on pages 164 to 280 form part of these financial statements.

Consolidated cash flow statement

for the year ended December 31, 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	2020	2019
Cash flows from operating activities		
<i>Changes in operating liabilities</i>		
Net increase in borrowing from central bank	27,252,891	7,380,742
Net (decrease)/increase in deposits from banks and other financial institutions	(2,287,632)	985,960
Net increase/(decrease) in placements from banks and other financial institutions	3,201,533	(5,247,925)
Net (decrease)/increase in financial liabilities at fair value through profit or loss	(20,437)	20,437
Net (decrease)/increase in financial assets sold under repurchase agreements	(20,389,735)	33,006,446
Net increase in deposits from customers	39,936,151	38,856,745
Net increase in other operating liabilities	2,746,788	2,103,280
	50,439,559	77,105,685
Net cash flows (used in)/generated from operating activities before income tax paid	(1,433,446)	44,374,513
Income tax paid	(2,290,073)	(1,540,839)
Net cash flows (used in)/generated from operating activities	(3,723,519)	42,833,674
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	2,050,354,332	1,475,037,270
Proceeds from disposal of property and equipment, intangible assets and other assets	135,181	168,478
Payments on acquisition of investments	(2,040,310,505)	(1,471,040,558)
Payments on acquisition of subsidiary	(263,699)	(4,261,500)
Payments on capital injection to joint venture	—	(414,000)
Payments on acquisition of property and equipment, intangible assets and other assets	(851,143)	(1,123,166)
Net cash flows generated from/(used in) investing activities	9,064,166	(1,633,476)

The notes on pages 164 to 280 form part of these financial statements.

Consolidated cash flow statement

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

	Note	2020	2019
Cash flows from financing activities			
Proceeds from issued debt securities		132,013,203	113,494,761
Acquisition of non-controlling interests		(9,794)	–
Repayment of debts securities issued		(137,004,630)	(131,190,186)
Interest paid on debts securities issued		(1,169,629)	(2,111,456)
Dividends paid		(1,510,031)	(1,524,852)
Capital element of lease liabilities paid		(260,069)	(292,882)
Interest element of lease liabilities paid		(45,345)	(44,594)
Net cash flows used in financing activities		(7,986,295)	(21,669,209)
Effect of foreign exchange rate changes on cash and cash equivalents		(528,188)	81,735
Net (decrease)/increase in cash and cash equivalents	41(a)	(3,173,836)	19,612,724
Cash and cash equivalents as at January 1		75,325,152	55,712,428
Cash and cash equivalents as at December 31	41(b)	72,151,316	75,325,152
Interest received		29,941,327	28,069,588
Interest paid (excluding interest expense on debts securities issued)		(10,112,455)	(9,364,731)

The notes on pages 164 to 280 form part of these financial statements.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 Background information

The Bank was established in Zhengzhou, Henan Province, the People's Republic of China (the "PRC") on December 23, 2014 with the approval of the former China Banking Regulatory Commission (the former "CBRC"). Prior to its establishment, the banking business (the "Business") was carried out by thirteen city commercial banks (the "Predecessor Entities"), each being located in Henan Province.

Pursuant to the reorganization initiated by the People's Government of Henan Province (the "Henan Government"), the Bank was established through the merger and reorganization of the Predecessor Entities.

The Bank obtained its financial institution license No. B0615H241010001 from the former CBRC, and obtained its business license with unified social credit code 9141000031741675X6 from the State Administration for Industry and Commerce of the PRC. The Bank is regulated by China Banking Insurance Regulatory Commission (the "CBIRC") authorized by the State Council.

In July 2017, the Bank's H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 01216).

As at December 31, 2020, the Bank has one head office and 18 branches across Henan Province, 10 subsidiaries including 9 county banks and 1 financial leasing company and 1 joint venture which is consumer finance company. The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, financial market business, financial leasing and other financial services as approved by the former CBRC.

2 Significant accounting policies

(1) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (the "IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirement of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(3) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(2) Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2020 comprise the Bank and its subsidiaries and the Group's interest in a joint venture.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future years if the revision affects both current and future years.

Judgments made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2(28).

The measurement basis used in the preparation of the financial statements is the historical basis, except that the financial instruments classified as fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL) and derivative financial instruments (see Note 2(9)(iii)) are stated at their fair value as explained in the accounting policies.

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of the Group.

(3) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. The principal effects of new and revised IFRSs (including International Accounting Standards ("IASs")) are as follows:

Amendments to IFRS 3, Definition of a Business

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The adoption will not have any material impact on the financial position and the financial result of the Group.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(3) Changes in accounting policies (Continued)

Amendment to IFRS 16, Covid-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The adoption will not have any material impact on the financial position and the financial result of the Group.

(4) Subsidiaries and non-controlling interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income between non-controlling interests and the equity shareholders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(4) Subsidiaries and non-controlling interests (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(5)).

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(18)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(5) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(18)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

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



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(5) Associates and joint ventures (Continued)

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(9)).

In the Bank's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(6) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase. Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(18)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(7) Translation of foreign currencies

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

A spot exchange rate is quoted by the PBoC, the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of each reporting period. The resulting exchange differences are recognized in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognized in profit or loss, except for the exchange differences arising from the translation of non-monetary financial investments at fair value through other comprehensive income which are recognized in capital reserve.

(8) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, financial assets held under resale agreements and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(9)(ii).

(9) Financial instruments

(i) Recognition and measurement of financial assets and liabilities

A financial asset or financial liability is recognized in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument. The financial instruments are initially stated at fair value plus directly attributable transaction costs, except for those financial instruments measured at FVTPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 45. These financial instruments are subsequently accounted for as follows, depending on their classification.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(i) Recognition and measurement of financial assets and liabilities (Continued)

Financial instruments other than equity investments

Non-equity financial instruments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the financial instrument is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the financial instrument is calculated using the effective interest method (see note 2(23)(a)).
- fair value through other comprehensive income (FVOCI) (recycling), if the contractual cash flows of the financial instrument comprise solely payments of principal and interest and the financial instrument is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial instrument is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value through profit or loss (FVTPL), if the financial instrument does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the financial instrument (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI, are recognised in profit or loss.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(ii) Credit losses and impairment of financial assets

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, loans and advances to customers, and financial investments at amortised cost);
- debt securities measured at FVOCI (recycling);
- loan commitments issued, which are not measured at FVTPL.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVTPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

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

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

Measurement of ECLs (Continued)

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

Significant increases in credit risk (Continued)

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting 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 a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 2(23)(a) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(ii) Credit losses and impairment of financial assets (Continued)

Basis of calculation of interest income (Continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. 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.

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.

(iii) 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.

Certain derivatives embedded in financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value through profit or loss.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(iii) Derivative financial instruments (Continued)

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

For less complex derivative products, the fair values are principally determined by valuation models which are commonly used by market participants. Inputs to valuation models are determined from observable market data wherever possible, including foreign exchange spot and forward rates and interest rate yield curves. For more complex derivative products, the fair values are mainly determined by quoted prices from dealers.

(iv) Fair value measurement principles

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

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, it is the current asking price. The quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each reporting period. Where other pricing models are used, inputs are based on market data at the end of each reporting period.

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

The Group obtains market data from the same market where the financial instrument was originated or purchased.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(9) Financial instruments (Continued)

(v) *Derecognition of financial assets and financial liabilities*

Financial assets (or a part of a financial asset or group of financial assets) are derecognized when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognize the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognized only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized in profit or loss.

(vi) *Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(10) Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortized cost. Financial assets held under resale agreements are assessed for ECLs in accordance with the policy set out in note 2(9)(ii).

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortized cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognized respectively as interest income and interest expense over the life of each agreement using the effective interest method.

(11) Preference share

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.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy as accounting for the convertible bonds only with liability component.

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

(12) Investment in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(4).

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognized at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note 2(18)) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognizes its share of the cash dividends or profit distribution declared by the investees as investment income.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(13) Investment property

Investment property is a property held either for earning rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(18)). Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	20 years	3%	4.85%

(14) Property and equipment and construction in progress

Property and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(18)). Construction in progress is stated in the statements of financial position at cost less impairment loss (Note 2(18)).

The cost of a purchased property and equipment comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. Construction in progress is transferred to property and equipment when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognized as a separate property and equipment.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(14) Property and equipment and construction in progress (Continued)

Property and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	20 years	3%	4.85%
Motor vehicles	4 years	3%	24.25%
Others	3 – 10 years	3%	9.70% – 32.33%

Useful lives, residual values and depreciation methods are reviewed at least at each year-end.

(15) Leases

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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability. Lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(15) Leases (Continued)

(i) As a lessee (Continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses (Note 2(18)), if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(ii) As a lessor

When the Group acts as a lessor, it 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. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis.

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head 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.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(15) Leases (Continued)

(ii) As a lessor (Continued)

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 2(9). 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.

(16) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortization and impairment loss (Note 2(18)). The cost of intangible assets less residual value and impairment loss is amortized on the straight-line method over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

Land use rights	30 – 50 years
Computer software	5 years

(17) Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(18) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of each reporting period based on the internal and external sources of information to determine whether there is any indication of impairment:

- property and equipment;
- construction in progress;
- right-of-use asset;
- intangible assets;
- investment property measured using a cost model;
- investments in subsidiaries and joint ventures; and
- goodwill.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A cash-generating unit (“CGU”) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group’s operations and how management makes decisions about continuing or disposing of the Group’s assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called “asset”) is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

An asset’s fair value less costs to sell is the amount determined by the price of a sale agreement in an arm’s length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(18) Provision for impairment losses on non-financial assets (Continued)

An impairment loss is recognized in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognized accordingly.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognized, the previously recognized impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior periods.

(19) Employee benefits

(i) **Short – term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The defined contribution retirement plans of the Group include the social pension schemes.

Social pension schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for the employees arranged by local government labour and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Housing fund and other social insurances

In addition to the retirement benefits above, the Group has joined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(19) Employee benefits (Continued)

(ii) **Supplementary retirement benefits**

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire early for the period from the date of early retirement to the regulated retirement date. The benefit is discounted to determine the present value based on certain assumptions. The calculation is performed by a qualified actuary using the projected unit credit method. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees. The Group's obligations in respect of the supplementary retirement plan are calculated by estimating the present value of the total amount of future benefits that the Group is committed to pay to the employees after their retirement. The calculation is performed by a qualified actuary using the projected unit credit method. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date. The related service cost and net interest from the retirement plan are recognised in profit or loss, and the actuarial gains and losses arising from remeasurements are recognised in other comprehensive income.

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits". Except for the above mentioned, the Group has no significant responsibilities to pay any other retirement benefits to employees.

(20) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(20) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(20) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Bank or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(21) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (“holder”) for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognized as deferred income in other liabilities. The deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognized in the statements of financial position as stated in Note 2(21)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(21) Financial guarantees, provisions and contingent liabilities (Continued)

(ii) Other provisions and contingent liabilities

A provision is recognized for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

(22) Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Group, and the Group grants loans to third parties ("entrusted loans") under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

(23) Income recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(a) 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.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(23) Income recognition (Continued)

(a) Interest income (Continued)

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:

- (i) 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; and
- (ii) 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.

(b) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. The fee and commission income recognised by the Group reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring promised services to customers, and income is recognised when its performance obligation in contracts is satisfied.

- (i) The Group recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:
 - The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
 - The customer controls the service provided by the Group in the course of performance; or
 - The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.
- (ii) In other cases, the Group recognises revenue at a point in time at which a customer obtains control of the promised services.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(23) Income recognition (Continued)

(c) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(d) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities that are held for trading.

(e) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(24) Expenses recognition

(i) Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognized on an accrual basis.

(25) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of each reporting period are not recognized as a liability at the end of each reporting period but disclosed separately in the notes to the financial statements.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(26) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (Continued)

(27) Segment reporting

Operating segments are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(28) 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.

Except for accounting estimates relating to depreciation and amortisation of assets such as property and equipment and intangible assets (see Notes 24 and 27(b)) and provision for impairment of various types of assets (see Notes 16, 17, 19, 20, 21(b), 21(c), 22, 24, 26 and 27). Other significant accounting estimates and judgements are as follows:

- Note 25: Recognition of deferred tax assets;
- Note 34(a): Supplementary retirement benefits payable;
- Note 39: Equity in a structured entity not included in the consolidation scope; and
- Note 45: Fair value measurements of financial instruments.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Taxes

The Group's main applicable taxes and tax rates are as follows:

Tax type	Tax basis	Tax rate
Value-added tax (VAT)	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period	3% – 6%
City maintenance and construction tax	Based on VAT paid	5% – 7%
Corporate income tax	Based on taxable profits	25%

4 Net interest income

	2020	2019
Interest income arising from		
Deposits with the central bank	517,531	643,755
Deposits with banks and other financial institutions	171,989	218,842
Placements with banks and other financial institutions	768,552	705,949
Loans and advances to customers		
– Corporate loans and advances	8,238,815	8,317,826
– Personal loans and advances	8,996,183	8,341,259
– Discounted bills	976,837	1,020,012
Financial assets held under resale agreements	371,200	482,559
Financial investments	8,588,233	9,257,880
Finance lease receivables	2,316,685	364,387
Sub-total	30,946,025	29,352,469
Interest expenses arising from		
Borrowing from the central bank	(758,503)	(304,142)
Deposits from banks and other financial institutions	(1,420,259)	(1,278,889)
Placements from banks and other financial institutions	(890,663)	(723,961)
Deposits from customers	(8,091,084)	(7,354,723)
Financial assets sold under repurchase agreements	(725,266)	(920,714)
Debts securities issued	(2,495,258)	(3,062,299)
Sub-total	(14,381,033)	(13,644,728)
Net interest income	16,564,992	15,707,741

The interest income and expenses are related to financial instruments which are not measured at fair value through profit or loss.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

5 Net fee and commission income

	2020	2019
Fee and commission income		
Underwriting fees	530,707	299,720
Wealth management business fees	442,365	365,996
Bank card services fees	429,708	278,429
Settlement and clearing services fees	234,707	385,415
Custodial services fees	218,580	448,978
Advisory and consulting fees	162,218	123,917
Agency services fees	118,090	108,628
Acceptance and guarantee services fees	110,802	98,465
Sub-total	2,247,177	2,109,548
Fee and commission expense	(460,770)	(342,119)
Net fee and commission income	1,786,407	1,767,429

6 Net trading (losses)/gains

	Note	2020	2019
Net gains from debt securities	(a)	61,263	244,607
Net foreign exchange (losses)/gains	(b)	(258,715)	40,412
Net gains/(losses) from interest rate swaps		12,961	(1,440)
Total		(184,491)	283,579

- (a) Net gains from debt securities include gains arising from the buying and selling of, and changes in the fair value of debt securities held for trading.
- (b) Net foreign exchange (losses)/gains mainly included (losses)/gains from foreign currency derivatives, the purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into Renminbi.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

7 Net gains arising from investment securities

	Note	2020	2019
Net gains of financial investments at fair value through profit or loss	(a)	907,422	1,001,942
Net gains of financial investments at fair value through other comprehensive income		227,773	110,008
Net losses on disposal of financial investments at amortised cost		—	(387)
Others		(5)	1
Total		1,135,190	1,111,564

(a) Net gains of financial investments at fair value through profit or loss include the investment income and fair value changes of financial investments at fair value through profit or loss except for debt securities held for trading.

8 Other operating income

	2020	2019
Government grants	16,911	19,244
Rental income	27,144	33,430
Net gains on disposal of property and equipment	49,599	22,891
Others	32,039	75,967
Total	125,693	151,532

9 Operating expenses

	2020	2019
Staff costs		
– Salaries, bonuses and allowances	2,995,093	3,055,051
– Social insurance and annuity	233,217	510,659
– Staff welfares	296,271	299,152
– Housing allowances	211,616	191,496
– Employee education expenses and labor union expenses	104,939	108,944
– Supplementary retirement benefits	3,990	(3,006)
– Others	43,411	51,108
Sub-total	3,888,537	4,213,404
Office expenses	1,007,727	1,282,279
Depreciation and amortization	767,401	852,316
Depreciation charge for the right-of-use assets	285,606	283,729
Taxes and surcharges	199,755	171,662
Interest expense on lease liabilities	60,582	34,011
Rental and property management expenses	31,575	30,612
Other general and administrative expenses	877,462	618,332
Total	7,118,645	7,486,345

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Directors' and supervisors' emoluments

Directors' and supervisors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Note	2020							
	Fees	Salaries	Discretionary bonus	Actual amount of salaries, discretionary bonus and fees payable (pre-tax)	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total	Of which payment deferred	Actual amount of remuneration paid (1)
Executive directors								
Dou Rongxing (2)	-	-	-	-	-	-	-	-
Wang Jiong	-	1,314	2,838	4,152	51	4,203	1,445	2,758
Li Yulin	-	1,061	2,097	3,158	51	3,209	1,068	2,141
Wei Jie	-	801	1,234	2,035	51	2,086	617	1,469
Non-executive directors								
Li Xipeng	35	-	-	35	-	35	-	35
Mi Hongjun	45	-	-	45	-	45	-	45
Li Qiaocheng (3)	30	-	-	30	-	30	-	30
Independent non-executive directors								
Pang Hong	395	-	-	395	-	395	-	395
Li Hongchang	455	-	-	455	-	455	-	455
Jia Tingyu	445	-	-	445	-	445	-	445
Chan Ngai Sang	370	-	-	370	-	370	-	370
Supervisors								
Hao Jingtao (2)	-	-	-	-	-	-	-	-
Jia Jihong	-	691	1,122	1,813	51	1,864	561	1,303
Zhang Yixian	-	456	1,002	1,458	51	1,509	401	1,108
Li Weizhen	55	-	-	55	-	55	-	55
Li Wanbin	45	-	-	45	-	45	-	45
Li Xiaojian	240	-	-	240	-	240	-	240
Han Wanghong	220	-	-	220	-	220	-	220
Sun Xuemin	225	-	-	225	-	225	-	225
Pan Xinmin	230	-	-	230	-	230	-	230
Total	2,790	4,323	8,293	15,406	255	15,661	4,092	11,569

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Directors' and supervisors' emoluments (Continued)

2019								
Note	Fees	Salaries	Discretionary bonus	Actual amount of salaries, discretionary bonus and fees payable (pre-tax)	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total	Of which payment deferred	Actual amount of remuneration paid (1)
Executive directors								
Dou Rongxing	–	363	1,655	2,018	157	2,175	1,277	898
Wang Jiong	–	1,300	3,354	4,654	151	4,805	1,609	3,196
Wei Jie	–	730	1,683	2,413	145	2,558	735	1,823
Li Yulin	–	990	2,489	3,479	145	3,624	1,189	2,435
Non-executive directors								
Li Xipeng	30	–	–	30	–	30	–	30
Mi Hongjun	40	–	–	40	–	40	–	40
Li Qiaocheng (3)	45	–	–	45	–	45	–	45
Independent non-executive directors								
Pang Hong	400	–	–	400	–	400	–	400
Li Hongchang	440	–	–	440	–	440	–	440
Jia Tingyu	440	–	–	440	–	440	–	440
Chan Ngai Sang	400	–	–	400	–	400	–	400
Supervisors								
Hao Jingtao	–	990	2,148	3,138	145	3,283	894	2,389
Jia Jihong	–	620	1,525	2,145	133	2,278	639	1,639
Zhang Yixian	–	353	1,257	1,610	134	1,744	432	1,312
Li Weizhen	60	–	–	60	–	60	–	60
Li Wanbin	35	–	–	35	–	35	–	35
Li Xiaojian	235	–	–	235	–	235	–	235
Han Wanghong	240	–	–	240	–	240	–	240
Sun Xuemin	225	–	–	225	–	225	–	225
Pan Xinmin	137	–	–	137	–	137	–	137
Total	2,727	5,346	14,111	22,184	1,010	23,194	6,775	16,419

Notes:

- (1) The total amount includes contribution by the employer to social insurance and welfare plans, housing allowance, etc.
- (2) The final remunerations for Dou Rongxing, the chairman of the Bank and Hao Jingtao, the Chief Supervisor of the Bank, are still pending relevant regulatory approval. The amount of the remunerations are not expected to have any significant impact on the Group's consolidated financial statements for the year ended December 31, 2020.
- (3) Li Qiaocheng resigned as non-executive director of the Bank from October 20, 2020.

There was no amount paid during the years ended December 31, 2020 and 2019 to the directors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join the Group. There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the years ended December 31, 2020 and 2019.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

11 Individuals with highest emoluments

For the year ended December 31, 2020, the five individuals with highest emoluments included 2 directors of the Bank (2019: 2 directors and 1 supervisor). Their emoluments are disclosed in Note 10. The emoluments for the other highest paid individuals is as follows:

	2020	2019
Salaries and other emoluments	2,808	1,980
Discretionary bonuses	5,394	5,178
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	202	265
Total	8,404	7,423

The individual's emoluments before individual income tax is within the following bands:

	2020	2019
RMB2,500,001 – 3,000,000	2	–
RMB3,000,001 – 3,500,000	1	–
RMB3,500,001 – 4,000,000	–	2
Total	3	2

12 Impairment losses on assets

	2020	2019
Loans and advances to customers	4,884,998	3,714,284
Financial investments	1,835,170	2,631,067
Credit commitments	24,494	(18,920)
Deposits with banks and other financial institutions	1,323	223
Placements with banks and other financial institutions	5,434	1,936
Financial assets held under resale agreements	12	673
Finance lease receivables	617,860	193,872
Others	479,303	625,148
Total	7,848,594	7,148,283

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

13 Income tax

(a) Income tax:

	Note	2020	2019
Current tax		2,147,999	1,266,964
Deferred tax	25(b)	(1,053,781)	(112,313)
Total		1,094,218	1,154,651

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2020	2019
Profit before tax		4,448,952	4,360,636
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		1,112,238	1,090,159
Non-deductible expenses			
– Staff welfare expenses		4,069	6,668
– Unauthorized write-offs		439,597	326,757
– Others		27,316	22,079
Non-taxable income	(i)	(489,291)	(291,012)
Changes in deductible temporary differences or deductible losses for which no deferred tax assets was recognized		289	–
Income tax		1,094,218	1,154,651

- (i) The non-taxable income mainly represents the interest income from the PRC government bonds.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

14 Basic and diluted earnings per share

	Note	2020	2019
Net profit attributable to ordinary shareholders of the Bank		2,727,335	2,548,803
Weighted average number of ordinary shares (in thousands)	(i)	20,075,000	20,075,000
Basic and diluted earnings per share attributable to ordinary shareholders of the Bank (in RMB)		0.14	0.13

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year.

(i) Weighted average number of ordinary shares (in thousands)

	2020	2019
Number of ordinary shares as at January 1	20,075,000	20,075,000
New added weighted average number of ordinary shares	–	–
Weighted average number of ordinary shares	20,075,000	20,075,000

15 Cash and deposits with the central bank

	Note	2020	2019
Cash on hand		1,268,037	1,426,013
Deposits with the central bank			
– Statutory deposit reserves	(a)	29,051,271	33,010,179
– Surplus deposit reserves	(b)	34,492,657	36,900,408
– Fiscal deposits		508,015	763,373
Sub-total		64,051,943	70,673,960
Accrued interest		16,352	18,668
Total		65,336,332	72,118,641

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

15 Cash and deposits with the central bank (Continued)

- (a) The Group places statutory deposit reserves with the PBoC in accordance with relevant regulations. As at December 31, 2020, the statutory deposit reserve ratios applicable to the Bank were as follows:

	2020	2019
Reserve ratio for RMB deposits	7.00%	8.50%
Reserve ratio for foreign currency deposits	5.00%	5.00%

The statutory deposit reserves are not available for the Bank's daily business. The subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBoC.

- (b) The surplus deposit reserves are maintained with the PBoC for the purpose of clearing.

16 Deposits with banks and other financial institutions

Analyzed by type and location of counterparty

	2020	2019
Deposits in mainland China		
– Banks	6,391,104	7,521,518
– Other financial institutions	2,128,292	457,473
Sub-total	8,519,396	7,978,991
Deposits outside mainland China		
– Banks	4,913,283	2,878,613
Total	13,432,679	10,857,604
Accrued interest	63,841	17,972
Less: Provision for impairment losses	(3,000)	(1,677)
Net carrying amount	13,493,520	10,873,899

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

17 Placements with banks and other financial institutions

Analyzed by type and location of counterparty

	2020	2019
Placements in mainland China		
– Banks	209,816	2,705,643
– Other financial institutions	22,894,958	17,083,221
Sub-total	23,104,774	19,788,864
Outside mainland China		
– Banks	1,892,221	–
Sub-total	1,892,221	–
Accrued interest	312,379	273,589
Less: Provision for impairment losses	(28,924)	(23,490)
Net carrying amount	25,280,450	20,038,963

18 Derivative financial instruments

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Group uses derivative financial instruments mainly including forwards and swaps.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in any orderly transaction between market participants at measured date.

	Notional amount	2020 Fair value	
		Assets	Liabilities
Interest rate swaps	6,420,000	22,674	16,961
Foreign exchange forwards	9,043,511	–	–
Currency swaps	1,903,919	8,315	–
Total		30,989	16,961

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Derivative financial instruments (Continued)

	Notional amount	2019	
		Fair value Assets	Liabilities
Interest rate swaps	25,340,000	15,136	15,504
Foreign exchange forwards	8,453,529	–	279,084
Currency swaps	1,565,032	2	1,153
Total		15,138	295,741

19 Financial assets held under resale agreements

(a) Analyzed by type and location of counterparty

	2020	2019
In mainland China		
– Banks	13,841,531	8,288,174
– Other financial institutions	1,972,041	8,540,736
Total	15,813,572	16,828,910
Accrued interest	7,494	11,170
Less: Provision for impairment losses	(1,542)	(1,530)
Net carrying amount	15,819,524	16,838,550

(b) Analyzed by type of security held

	2020	2019
Debt securities	15,813,572	16,828,910
Accrued interest	7,494	11,170
Less: Provision for impairment losses	(1,542)	(1,530)
Net carrying amount	15,819,524	16,838,550

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers

(a) Analyzed by nature

	2020	2019
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	149,639,100	141,798,952
Personal loans and advances		
– Residential mortgage	85,418,323	69,705,223
– Personal consumption loans	29,359,244	25,209,888
– Personal business loans	42,535,656	27,311,686
– Others	13,188,041	9,197,924
Sub-total	170,501,264	131,424,721
Accrued interest	2,349,930	1,796,820
Less: Provision for loans and advances to customers measured at amortised cost	(11,718,971)	(9,771,416)
Sub-total	310,771,323	265,249,077
Loans and advances to customers measured at fair value through other comprehensive income		
Corporate loans and advances	731,880	9,766
Discounted bills	36,153,629	25,971,267
Sub-total	36,885,509	25,981,033
Net loans and advances to customers	347,656,832	291,230,110

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(b) Analyzed by economic sector

	2020		
	Amount	Percentage	Loans and advances secured by collaterals
Renting and business activities	38,382,314	10.75%	16,634,827
Manufacturing	27,547,538	7.72%	10,014,112
Real estate	18,276,599	5.12%	16,271,943
Wholesale and retail trade	14,876,265	4.17%	7,420,368
Construction	12,834,825	3.59%	6,034,804
Water, environment and public utility	11,145,945	3.12%	4,946,966
Production and supply of electric power, gas and water	5,326,189	1.49%	1,232,707
Agriculture, forestry, animal husbandry and fishery	3,149,849	0.88%	952,336
Education	3,272,158	0.92%	1,626,270
Accommodation and catering	2,829,797	0.79%	1,806,945
Transportation, storage and postal services	3,554,759	1.00%	1,601,148
Mining	2,159,179	0.60%	648,926
Others	7,015,563	1.97%	1,725,506
Sub-total of corporate loans and advances	150,370,980	42.12%	70,916,858
Personal loans and advances	170,501,264	47.75%	143,409,923
Discounted bills	36,153,629	10.13%	32,631,159
Gross loans and advances to customers	357,025,873	100.00%	246,957,940

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(b) Analyzed by economic sector (Continued)

	2019		Loans and advances secured by collaterals
	Amount	Percentage	
Renting and business activities	33,807,955	11.30%	15,851,618
Manufacturing	26,563,655	8.88%	9,656,899
Real estate	20,485,388	6.85%	16,325,217
Wholesale and retail trade	16,748,101	5.60%	8,047,350
Construction	11,638,608	3.89%	5,621,160
Water, environment and public utility	7,672,265	2.56%	2,890,940
Production and supply of electric power, gas and water	4,537,692	1.52%	929,998
Agriculture, forestry, animal husbandry and fishery	3,765,138	1.26%	933,438
Education	3,186,381	1.06%	1,464,844
Accommodation and catering	3,081,157	1.03%	1,748,247
Transportation, storage and postal services	2,602,926	0.87%	1,033,553
Mining	2,178,506	0.73%	689,547
Others	5,540,946	1.85%	1,854,044
Sub-total of corporate loans and advances	141,808,718	47.40%	67,046,855
Personal loans and advances	131,424,721	43.92%	112,235,118
Discounted bills	25,971,267	8.68%	22,594,057
Gross loans and advances to customers	299,204,706	100.00%	201,876,030

(c) Analysed by type of collateral

	2020	2019
Unsecured loans	39,026,278	22,520,387
Guaranteed loans	71,041,655	74,808,289
Collateralised	182,357,997	151,601,062
Pledged	64,599,943	50,274,968
Gross loans and advances to customers	357,025,873	299,204,706
Accrued interest	2,349,930	1,796,820
Less: Provision for loans and advances to customers measured at amortised cost	(11,718,971)	(9,771,416)
Net loans and advances to customers	347,656,832	291,230,110

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(d) Overdue loans analyzed by overdue period

	2020				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	116,286	194,853	97,127	4,082	412,348
Guaranteed loans	1,861,207	1,916,410	1,226,635	223,815	5,228,067
Collateralised	1,359,420	1,267,639	1,169,795	322,914	4,119,768
Pledged	719,714	31,381	220,990	476,953	1,449,038
Total	4,056,627	3,410,283	2,714,547	1,027,764	11,209,221
As a percentage of gross loans and advances to customers	1.14%	0.95%	0.76%	0.29%	3.14%

	2019				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	76,848	64,250	16,402	1,044	158,544
Guaranteed loans	2,536,835	1,567,259	939,284	149,585	5,192,963
Collateralised	394,873	1,186,649	864,780	283,125	2,729,427
Pledged	1,125,741	23,145	227,090	485,306	1,861,282
Total	4,134,297	2,841,303	2,047,556	919,060	9,942,216
As a percentage of gross loans and advances to customers	1.38%	0.95%	0.68%	0.31%	3.32%

Overdue loans represented loan, of which the whole or part of the principal or interest were overdue for one day or more.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(e) Loans and advances and provision for impairment losses

	2020			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	303,331,756	9,168,054	7,640,554	320,140,364
Accrued interest	2,349,930	—	—	2,349,930
Less: Provision for impairment losses	(4,406,550)	(2,295,558)	(5,016,863)	(11,718,971)
Carrying amount of loans and advances to customers measured at amortised cost	301,275,136	6,872,496	2,623,691	310,771,323
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	36,411,528	—	473,981	36,885,509
Total carrying amount of loans and advances to customers	337,686,664	6,872,496	3,097,672	347,656,832

	2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	256,508,329	9,241,145	7,474,199	273,223,673
Accrued interest	1,796,820	—	—	1,796,820
Less: Provision for impairment losses	(3,141,812)	(1,938,267)	(4,691,337)	(9,771,416)
Carrying amount of loans and advances to customers measured at amortised cost	255,163,337	7,302,878	2,782,862	265,249,077
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	25,506,802	250	473,981	25,981,033
Total carrying amount of loans and advances to customers	280,670,139	7,303,128	3,256,843	291,230,110

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(f) Movements of provision for impairment losses

- (i) Movements of provision for impairment of loans and advances to customers measured at amortised cost:

	2020			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	3,141,812	1,938,267	4,691,337	9,771,416
Transferred:				
– to expected credit losses over the next 12 months	818,662	(380,973)	(437,689)	–
– to lifetime expected credit losses: not credit-impaired loans	(56,951)	386,953	(330,002)	–
– to lifetime expected credit losses: credit-impaired loans	(36,195)	(481,265)	517,460	–
Charge for the year	539,222	832,576	3,511,064	4,882,862
Recoveries	–	–	397,084	397,084
Write-offs	–	–	(3,332,391)	(3,332,391)
As at December 31	4,406,550	2,295,558	5,016,863	11,718,971

	2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	3,198,320	2,267,952	3,847,689	9,313,961
Transferred:				
– to expected credit losses over the next 12 months	483,381	(220,301)	(263,080)	–
– to lifetime expected credit losses: not credit-impaired loans	(230,294)	599,175	(368,881)	–
– to lifetime expected credit losses: credit-impaired loans	(121,085)	(567,094)	688,179	–
(Release)/Charge for the year	(145,167)	28,643	3,841,822	3,725,298
Recoveries	–	–	330,371	330,371
Write-offs	–	–	(3,216,629)	(3,216,629)
Loss of control over subsidiary	(43,343)	(170,108)	(168,134)	(381,585)
As at December 31	3,141,812	1,938,267	4,691,337	9,771,416

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers (Continued)

(f) Movements of provision for impairment losses (Continued)

- (ii) Movements of provision for impairment of loans and advances to customers measured at fair value through other comprehensive income:

	2020			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	8,989	—	355,486	364,475
Charge for the year	2,136	—	—	2,136
As at December 31	11,125	—	355,486	366,611

	2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	20,003	—	355,486	375,489
Release for the year	(11,014)	—	—	(11,014)
As at December 31	8,989	—	355,486	364,475

(g) Disposal of loans and advances to customers

In 2016, the Group disposed certain loans having credit enhancement support from the Henan Government as part of the Reorganization with gross amount of RMB8,623.80 million to asset management companies and institutional investors at a consideration of RMB8,270.01 million. As at December 31, 2020, the Group has received cash of RMB7,068.27 million, and the remaining consideration was recorded as other assets after discounting based on the repayment schedule.

In 2020, the Group disposed loans and advances with gross amount of RMB1,945.87 million to third parties. The total consideration received by the Group amounted to RMB1,081.13 million.

In 2019, the Group disposed loans and advances with gross amount of RMB491.23 million to third parties. The total consideration received by the Group amounted to RMB499.85 million.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments

	Note	2020	2019
Financial investments at fair value through profit or loss	(a)	21,480,393	42,185,454
Financial investments at fair value through other comprehensive income	(b)	47,301,530	53,475,148
Financial investments at amortised cost	(c)	170,615,595	156,407,156
Total		239,397,518	252,067,758

(a) Financial investments at fair value through profit or loss

	Note	2020	2019
Debt securities	(i)		
– Government		42,478	246,640
– Policy banks		551,597	121,332
– Banks and other financial institutions		5,783,979	8,631,819
– Corporate		181,570	–
Sub-total		6,559,624	8,999,791
Listed		42,478	31,914
Unlisted		6,517,146	8,967,877
Sub-total		6,559,624	8,999,791
Wealth management products issued by financial institutions		203,389	11,147,729
Investment management products managed by securities companies		609,252	4,107,510
Investment fund managed by public fund manager		14,018,371	17,337,105
Sub-total		14,831,012	32,592,344
Equity investments		89,757	593,319
Total		21,480,393	42,185,454

- (i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 28(a)). No other investment was subject to material restrictions in the realization.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(b) Financial investments at fair value through other comprehensive income

	Note	2020	2019
Debt securities	(i)		
– Government		23,639,431	19,940,934
– Policy banks		17,242,734	22,416,047
– Banks and other financial institutions		2,097,871	7,585,729
– Corporate		2,804,352	2,400,054
Sub-total		45,784,388	52,342,764
Listed		11,601,702	13,005,332
Unlisted		34,182,686	39,337,432
Sub-total		45,784,388	52,342,764
Investment portfolio managed by financial institutions		771,461	305,593
Sub-total		771,461	305,593
Accrued interest		721,785	802,895
Equity investments	(ii)	23,896	23,896
Total		47,301,530	53,475,148

- (i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 28(a)). No other investment was subject to material restrictions in the realization.
- (ii) The Group designates non-trading equity investments as financial investments at fair value through other comprehensive income. The Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earnings during the reporting period.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(b) Financial investments at fair value through other comprehensive income (Continued)

(iii) Movements of provision for impairment of financial investments at fair value through other comprehensive income are as follows:

	2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	
Balance at January 1	10,900	–	110,776	121,676
Charge for the year	26,931	13,678	16,725	57,334
Balance at December 31	37,831	13,678	127,501	179,010

	2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	
Balance at January 1	6,916	–	75,491	82,407
Charge for the year	3,984	–	35,285	39,269
Balance at December 31	10,900	–	110,776	121,676

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(c) Financial investments at amortised cost

	Note	2020	2019
Debt securities	(i)		
– Government		41,957,350	26,472,872
– Policy banks		28,655,674	23,042,280
– Banks and other financial institutions		3,101,098	8,650,440
– Corporate		10,957,245	10,997,397
Sub-total		84,671,367	69,162,989
Listed		28,363,574	12,016,058
Unlisted		56,307,793	57,146,931
Sub-total		84,671,367	69,162,989
Investment management products managed by trust plans		50,062,840	58,160,616
Investment fund managed by private fund manager		8,153,843	12,088,200
Investment management products managed by securities companies		2,238,000	4,361,702
Debt investment plans		26,530,041	11,761,843
Investment fund managed by financial institutions		717,739	1,116,192
Sub-total		87,702,463	87,488,553
Accrued interest		2,188,032	1,716,573
Less: Provision for impairment losses	(ii)	(3,946,267)	(1,960,959)
Total		170,615,595	156,407,156

- (i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 28(a)). No other investment was subject to material restrictions in the realization.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments (Continued)

(c) Financial investments at amortised cost (Continued)

- (ii) Movements of provision for impairment of financial investments at amortised cost are as follows:

	2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	
Balance at January 1	139,946	27,019	1,793,994	1,960,959
Transfers:				
– to lifetime expected credit losses: not credit-impaired	(2,192)	2,192	–	–
– to lifetime expected credit losses: credit-impaired	(8,339)	(27,019)	35,358	–
Charge for the year	3,206	210,578	1,564,052	1,777,836
Recoveries	–	–	258,997	258,997
Write-offs	–	–	(51,525)	(51,525)
Balance at December 31	132,621	212,770	3,600,876	3,946,267

	2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	
Balance at January 1	247,138	91,295	3,663,190	4,001,623
Transfers:				
– to expected credit losses over the next 12 months	43,197	(43,197)	–	–
– to lifetime expected credit losses: credit-impaired	(2,403)	(48,098)	50,501	–
(Release)/charge for the year	(147,986)	27,019	2,712,765	2,591,798
Recoveries	–	–	176,032	176,032
Write-offs	–	–	(4,808,494)	(4,808,494)
Balance at December 31	139,946	27,019	1,793,994	1,960,959

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Finance lease receivables

	Note	2020	2019
Minimum finance lease receivables	(i)	36,168,487	32,514,168
Less: unearned finance lease income	(i)	(3,978,816)	(3,848,657)
Present value of finance lease receivables	(i)	32,189,671	28,665,511
Less: provision for impairment losses	(ii)	(1,384,141)	(806,489)
Total		30,805,530	27,859,022

- (i) Finance lease receivables, unearned finance leases income and minimum finance lease receivables analysed by remaining period are listed as follows:

	2020		
	Minimum finance lease receivables	Unearned finance leases income	Present value of finance lease receivables
Less than 1 year	2,717,431	(239,922)	2,477,509
1 year to 2 year	8,063,592	(646,400)	7,417,192
2 year to 3 year	11,287,658	(1,177,449)	10,110,209
3 year to 5 year	13,752,818	(1,846,446)	11,906,372
More than 5 year	346,988	(68,599)	278,389
Total	36,168,487	(3,978,816)	32,189,671

	2019		
	Minimum finance lease receivables	Unearned finance leases income	Present value of finance lease receivables
Less than 1 year	1,607,605	(103,201)	1,504,404
1 year to 2 year	3,581,642	(264,815)	3,316,827
2 year to 3 year	12,119,611	(1,173,027)	10,946,584
3 year to 5 year	15,205,310	(2,307,614)	12,897,696
Total	32,514,168	(3,848,657)	28,665,511

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Finance lease receivables (Continued)

(ii) Movements of provision for impairment losses:

	2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	
Balance at January 1	521,976	166,745	117,768	806,489
Transfers:				
– to expected credit losses over the next 12 months	201,426	(153,866)	(47,560)	–
– to lifetime expected credit losses: not credit-impaired	(28,078)	28,078	–	–
– to lifetime expected credit losses: credit-impaired	(5,460)	(9,263)	14,723	–
Charge for the year	283,553	181,972	152,335	617,860
Write-offs	–	–	(40,208)	(40,208)
Balance at December 31	973,417	213,666	197,058	1,384,141

For the period from acquisition date to December 31, 2019

	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Acquisition of subsidiary	457,195	83,582	71,840	612,617
Transfers:				
– to lifetime expected credit losses: not credit-impaired	(10,416)	38,756	(28,340)	–
– to lifetime expected credit losses: credit-impaired	–	(7,570)	7,570	–
Charge for the period	75,197	51,977	66,698	193,872
Balance at December 31	521,976	166,745	117,768	806,489

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Investments in subsidiaries and interest in joint venture

(a) Investment in subsidiaries

The Group's subsidiaries as at the end of the reporting period are as follows:

	Note	2020	2019
Xiping Zhongyuan County Bank Co., Ltd. ("西平中原村鎮銀行股份有限公司")	(i)	176,686	176,686
Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. ("信陽平橋中原村鎮銀行股份有限公司")	(ii)	38,341	38,341
Qixian Zhongyuan County Bank Co., Ltd. ("淇縣中原村鎮銀行股份有限公司")	(iii)	41,531	41,531
Xinxiang Zhongyuan County Bank Co., Ltd. ("新鄉中原村鎮銀行股份有限公司")	(iv)	150,306	150,306
Linzhou Zhongyuan County Bank Co., Ltd. ("林州中原村鎮銀行股份有限公司")	(v)	29,771	29,771
Puyang Zhongyuan County Bank Co., Ltd. ("濮陽中原村鎮銀行股份有限公司")	(vi)	30,736	30,736
Lushi Zhongyuan County Bank Co., Ltd. ("盧氏中原村鎮銀行股份有限公司")	(vii)	32,497	32,497
Xiangcheng Huipu County Bank Co., Ltd. ("襄城匯浦村鎮銀行股份有限公司")	(viii)	38,044	28,250
Suiping Zhongyuan County Bank Co., Ltd. ("遂平中原村鎮銀行股份有限公司")	(ix)	35,084	35,084
AB Leasing Co., Ltd. ("邦銀金融租賃股份有限公司")	(x)	4,525,199	4,525,199
Total		5,098,195	5,088,401

Notes:

- (i) Xiping Zhongyuan County Bank Co., Ltd. ("Xiping Zhongyuan", formerly known as Xiping Fortune County Bank Co., Ltd.) was incorporated on December 17, 2009 at Zhumadian, Henan Province, with registered capital of RMB208.52 million. The principal activities of Xiping Zhongyuan are the provision of corporate and retail banking services. The Bank holds 43.69% of equity interest of Xiping Zhongyuan as at December 31, 2020 (2019: 43.69%). According to the acting in concert arrangement between the Bank and certain other shareholders with 23.95% equity interest of Xiping, Xiping Zhongyuan was deemed to be controlled by the Bank and was a subsidiary of the Bank since 2014.
- (ii) Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. ("Xinyang Pingqiao", formerly known as Xinyang Pingqiao Hengfeng County Bank Co., Ltd.) was incorporated on December 13, 2010 at Xinyang, Henan Province, with registered capital of RMB83.52 million. The principal activities of Xinyang Pingqiao are the provision of corporate and retail banking services. The Bank holds 51.72% of equity interest and voting rights of Xinyang Pingqiao as at December 31, 2020 (2019: 51.72%).
- (iii) Qixian Zhongyuan County Bank Co., Ltd. ("Qixian Zhongyuan", formerly known as Qixian Heyin County Bank Co., Ltd.) was incorporated on December 23, 2010 at Hebi, Henan Province, with registered capital of RMB50.00 million. The principal activities of Qixian Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Qixian Zhongyuan as at December 31, 2020 (2019: 51%).

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Investments in subsidiaries and interest in joint venture (Continued)

(a) Investment in subsidiaries (Continued)

Notes: (Continued)

- (iv) Xinxiang Zhongyuan County Bank Co., Ltd. ("Xinxiang Zhongyuan", formerly known as Henan Xinxiang Xinxing County Bank Co., Ltd.) was incorporated on March 23, 2010 at Xinxiang, Henan Province, with registered capital of RMB130.00 million. The principal activities of Xinxiang Zhongyuan are the provision of corporate and retail banking services. After purchased a portion of minority shareholders' right and interest amounting to RMB91.50 million in November 26, 2018, the Bank holds 78.46% of equity interest and voting rights of Xinxiang Zhongyuan as at December 31, 2020 (2019: 78.46%). According to the acting in concert arrangement between the Bank and certain other shareholders with 21.92% equity interest of Xinxiang Zhongyuan, Xinxiang Zhongyuan was deemed to be controlled by the Bank and was a subsidiary of the Bank since 2014, prior to the purchase of minority interests in 2018.
- (v) Linzhou Zhongyuan County Bank Co., Ltd. ("Linzhou Zhongyuan", formerly known as Linzhou Defeng County Bank Co., Ltd.) was incorporated on September 30, 2011 at Linzhou, Henan Province, with registered capital of RMB75.00 million. The principal activities of Linzhou Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Linzhou Zhongyuan as at December 31, 2020 (2019: 51%).
- (vi) Puyang Zhongyuan County Bank Co., Ltd. ("Puyang Zhongyuan", formerly known as Puyang Heyin County Bank Co., Ltd.) was incorporated on March 16, 2012 at Puyang, Henan Province, with registered capital of RMB58.75 million. The principal activities of Puyang Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Puyang Zhongyuan as at December 31, 2020 (2019: 51%).
- (vii) Lushi Zhongyuan County Bank Co., Ltd. ("Lushi Zhongyuan", formerly known as Lushi Defeng County Bank Co., Ltd.) was incorporated on May 15, 2012 at Sanmenxia, Henan Province, with registered capital of RMB60.00 million. The principal activities of Lushi Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Lushi Zhongyuan as at December 31, 2020 (2019: 51%).
- (viii) Xiangcheng Huipu County Bank Co., Ltd. ("Xiangcheng Huipu") was incorporated on October 27, 2011 at Xuchang, Henan Province, with registered capital of RMB61.00 million. The principal activities of Xiangcheng Huipu are the provision of corporate and retail banking services. After purchased a portion of minority shareholders' right and interest amounting to RMB9.79 million on December 30, 2020, the Bank holds 51% of equity interest of Xiangcheng Huipu as at December 31, 2020 (2019: 41%). According to the acting in concert arrangement between the Bank and certain other shareholders with 10% equity interest of Xiangcheng Huipu, Xiangcheng Huipu was deemed to be controlled by the Bank and became a subsidiary of the Bank since 2015.
- (ix) Suiping Zhongyuan County Bank Co., Ltd. ("Suiping Zhongyuan", formerly known as Suiping Hengsheng County Bank Co., Ltd.) was incorporated on March 12, 2012 at Zhumadian, Henan Province, with registered capital of RMB56.15 million. The principal activities of Suiping Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51.02% of equity interest of Suiping Zhongyuan as at December 31, 2020 (2019: 51.02%).
- (x) AB Leasing Co., Ltd. ("AB Leasing") was incorporated on August 16, 2013 at Tianjin City, with registered capital of RMB3,000.00 million. The Bank acquired equity interest in AB Leasing on February 19, 2019. The above acquisition was completed on October 12, 2019 (the "acquisition date") with the approval of the CBIRC, and the Bank holds 90% of equity interest and voting rights of AB Leasing as at December 31, 2020 (2019: 90%).

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Investments in subsidiaries and interest in joint venture (Continued)

(b) Interest in joint venture

	Note	2020	2019
Interest in joint venture	(i)	1,083,967	1,095,567

Note:

- (i) Henan Zhongyuan Consumer Finance Co., Ltd. ("Consumer Finance") is a joint venture in which the Bank has joint control and a 49.25% ownership interest. Consumer Finance is not publicly listed.

Name	Percentages of equity/voting rights%		Place of incorporation/registration	Business sector
	2020	2019		
Consumer Finance	49.25%	49.25%	Zhengzhou, China	Consumer credit

The following table illustrates the aggregate information of the Bank's joint venture:

	2020	2019
Aggregate carrying amount of the joint venture in the consolidated statements of financial position of the Bank	1,083,967	1,095,567
Aggregate amounts of the Bank's share of results of the joint venture		
– Loss from continuing operations	(11,600)	(26,581)
– Other comprehensive income	–	–
– Total comprehensive income	(11,600)	(26,581)

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Property and equipment

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
Cost							
At January 1, 2019	4,937,363	72,890	1,175,510	24,672	448,174	620,073	7,278,682
Acquisition of subsidiary	–	–	678	–	2,098	40,865	43,641
Additions	203,777	–	153,443	146	32,346	454,649	844,361
Disposals	(164,955)	(62,795)	(25,579)	(5,042)	(6,707)	–	(265,078)
Transfers out of construction in progress	–	–	–	–	–	(93,813)	(93,813)
Loss of control over subsidiary	–	–	(29,676)	–	(5,034)	–	(34,710)
As at December 31, 2019	4,976,185	10,095	1,274,376	19,776	470,877	1,021,774	7,773,083
Additions	264,212	–	86,793	7,871	53,066	236,502	648,444
Disposals	(67,231)	–	(44,795)	(1,095)	(6,824)	–	(119,945)
Transfers out of construction in progress	–	–	–	–	–	(238,992)	(238,992)
As at December 31, 2020	5,173,166	10,095	1,316,374	26,552	517,119	1,019,284	8,062,590
Accumulated depreciation							
At January 1, 2019	(1,933,523)	(39,495)	(898,087)	(21,448)	(259,488)	–	(3,152,041)
Acquisition of subsidiary	–	–	(583)	–	(437)	–	(1,020)
Additions	(277,144)	(4,076)	(167,025)	(1,880)	(44,465)	–	(494,590)
Disposals	121,174	37,030	25,346	5,037	4,040	–	192,627
Loss of control over subsidiary	–	–	9,278	–	1,096	–	10,374
As at December 31, 2019	(2,089,493)	(6,541)	(1,031,071)	(18,291)	(299,254)	–	(3,444,650)
Additions	(272,102)	(755)	(130,001)	(1,067)	(49,633)	–	(453,558)
Disposals	64,595	–	43,240	471	5,779	–	114,085
As at December 31, 2020	(2,297,000)	(7,296)	(1,117,832)	(18,887)	(343,108)	–	(3,784,123)
Impairment							
At January 1, 2019	(6,670)	–	(2,400)	(229)	(1,933)	–	(11,232)
Disposals	–	–	10	–	73	–	83
As at December 31, 2019	(6,670)	–	(2,390)	(229)	(1,860)	–	(11,149)
Disposals	44	–	499	–	17	–	560
As at December 31, 2020	(6,626)	–	(1,891)	(229)	(1,843)	–	(10,589)
Net book value							
As at December 31, 2019	2,880,022	3,554	240,915	1,256	169,763	1,021,774	4,317,284
As at December 31, 2020	2,869,540	2,799	196,651	7,436	172,168	1,019,284	4,267,878

The carrying amount of the premises with incomplete title deeds as December 31, 2020 was RMB871.87 million (2019: RMB834.79 million). The Group is still in the progress of application for the outstanding title deeds for the above premises. The directors of the Group are of the opinion that there would be no significant cost in obtaining the title deeds.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Property and equipment (Continued)

The net book values of premises as at December 31 are analyzed by the remaining terms of the leases as follows:

	2020	2019
Held in mainland China		
– Long-term leases (over 50 years)	782,142	779,955
– Medium-term leases (10 – 50 years)	1,591,400	1,539,297
– Short-term leases (less than 10 years)	495,998	560,770
Total	2,869,540	2,880,022

The net book value of investment properties as at December 31 are analyzed by the remaining terms of the leases as follows:

	2020	2019
Held in mainland China		
– Medium-term leases (10 – 50 years)	2,799	3,554

25 Deferred tax assets

(a) Analyzed by nature

	2020		2019	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets/(liabilities):				
Allowance for impairment losses	17,824,704	4,456,176	13,715,876	3,428,969
Accrued staff cost payable	1,326,132	331,533	1,451,668	362,917
Supplemental retirement benefits	77,064	19,266	88,376	22,094
Fair value changes of financial assets	299,008	74,752	21,312	5,328
Deferred income	712,672	178,168	549,004	137,251
Assets appraisal and related depreciation	(1,420,040)	(355,010)	(1,569,604)	(392,401)
Others	510,600	127,650	346,412	86,603
Net balances	19,330,140	4,832,535	14,603,044	3,650,761

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Deferred tax assets (Continued)

(b) Movements of deferred tax assets

	Allowance for impairment losses	Staff cost payable	Supplemental retirement benefits	Change in fair value	Deferred income	Assets appraisal and related depreciation	Others	Net balance of deferred tax assets
January 1, 2019	3,600,690	265,195	28,052	(153,464)	147,344	(444,110)	58,941	3,502,648
Loss of control over subsidiary	(59,330)	–	–	–	–	–	–	(59,330)
Acquisition of subsidiary	80,150	17,011	–	(97)	–	–	–	97,064
Recognized in profit or loss	(192,541)	80,711	(5,958)	160,823	(10,093)	51,709	27,662	112,313
Recognized in other comprehensive income	–	–	–	(1,934)	–	–	–	(1,934)
December 31, 2019 and January 1, 2020	3,428,969	362,917	22,094	5,328	137,251	(392,401)	86,603	3,650,761
Recognized in profit or loss	1,027,207	(31,384)	(2,828)	(58,569)	40,917	37,391	41,047	1,053,781
Recognized in other comprehensive income	–	–	–	127,993	–	–	–	127,993
December 31, 2020	4,456,176	331,533	19,266	74,752	178,168	(355,010)	127,650	4,832,535

26 Goodwill

	Goodwill
Cost:	
At January 1, 2019	468,397
Addition through acquisition of a subsidiary	502,383
At December 31, 2019 and December 31, 2020	970,780
Accumulated impairment losses:	
At January 1, 2019, December 31, 2019 and December 31, 2020	–
Carrying amount:	
At December 31, 2020	970,780
At December 31, 2019	970,780

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Goodwill (Continued)

Impairment testing on goodwill

For the purpose of impairment testing, goodwill has been allocated to three individual cash generating units (CGUs), including corporate banking, retail banking and financial markets business. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	2020	2019
Corporate banking	811,602	811,602
Retail banking	97,029	97,029
Financial markets business	62,149	62,149
Total	970,780	970,780

The recoverable amounts of corporate banking unit, retail banking unit and financial markets business unit have been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 9.07% at December 31, 2020 (2019: 9.17%). Cash flows beyond five-year period are extrapolated using an estimated weighted average growth rate of 3%. The cash flows are discounted using a discount rate which is used are pre-tax and reflect specific risks relating to the CGUs.

At the end of the reporting period, the directors of the Bank determine that there is no impairment of any of its CGUs containing goodwill.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of each of these CGUs to exceed its recoverable amount.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

27 Other assets

	Note	2020	2019
Intangible assets	(b)	1,585,362	1,459,178
Repossessed assets		1,516,134	1,765,038
Receivables from disposal of loans		884,243	974,542
Continuing involvement assets	(d)	830,928	–
Interests receivable	(a)	821,400	592,025
Right-of-use assets	(c)	812,944	968,634
Leasehold improvements		442,353	520,288
Payment and collection clearance accounts		190,765	–
Advances for fiscal payments		–	1,422,505
Other receivables		1,422,488	1,106,346
Total		8,506,617	8,808,556

(a) Interests receivable

	2020	2019
Interests receivable arising from:		
Investments	369,007	127,331
Loans and advances to customers	561,981	532,869
Total	930,988	660,200
Less: Provision for impairment losses	(109,588)	(68,175)
Net carrying amount	821,400	592,025

Interest receivable only includes interest that has been due for the relevant financial instruments but not yet received at the balance sheet date. Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

27 Other assets (Continued)

(b) Intangible assets

	Land use rights	Computer software	Leasing license	Total
Cost				
As at January 1, 2019	1,192,029	647,497	–	1,839,526
Acquisition of subsidiary	–	2,749	173,305	176,054
Additions	64	288,052	–	288,116
Disposals	(2,306)	(42)	–	(2,348)
Loss of control over subsidiary	–	(61,333)	–	(61,333)
As at December 31, 2019 and January 1, 2020	1,189,787	876,923	173,305	2,240,015
Additions	–	390,531	–	390,531
Disposals	(12,165)	(78,206)	–	(90,371)
As at December 31, 2020	1,177,622	1,189,248	173,305	2,540,175
Accumulated amortization				
As at January 1, 2019	(165,078)	(405,382)	–	(570,460)
Acquisition of subsidiary	–	(1,329)	–	(1,329)
Additions	(32,796)	(180,643)	–	(213,439)
Disposals	2,295	37	–	2,332
Loss of control over subsidiary	–	12,466	–	12,466
As at December 31, 2019 and January 1, 2020	(195,579)	(574,851)	–	(770,430)
Additions	(34,797)	(149,268)	–	(184,065)
Disposals	4,783	3,442	–	8,225
As at December 31, 2020	(225,593)	(720,677)	–	(946,270)
Impairment				
As at January 1, 2019	(9,097)	(1,310)	–	(10,407)
As at December 31, 2019	(9,097)	(1,310)	–	(10,407)
Disposals	1,864	–	–	1,864
As at December 31, 2020	(7,233)	(1,310)	–	(8,543)
Net book value				
As at December 31, 2020	944,796	467,261	173,305	1,585,362
As at December 31, 2019	985,111	300,762	173,305	1,459,178

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

27 Other assets (Continued)

(c) Right-of-use assets

	Leased properties and buildings	Leased other equipments	Total
Cost			
As at January 1, 2019	925,273	15,812	941,085
Additions	268,323	3,881	272,204
Acquisition of subsidiary	59,978	1,262	61,240
Loss of control over subsidiary	(25,638)	–	(25,638)
As at December 31, 2019	1,227,936	20,955	1,248,891
Additions	126,856	3,060	129,916
As at December 31, 2020	1,354,792	24,015	1,378,807
Accumulated depreciation			
As at January 1, 2019	–	–	–
Additions	(277,967)	(5,762)	(283,729)
Loss of control over subsidiary	3,472	–	3,472
As at December 31, 2019	(274,495)	(5,762)	(280,257)
Additions	(277,823)	(7,783)	(285,606)
As at December 31, 2020	(552,318)	(13,545)	(565,863)
Net book value			
As at January 1, 2020	953,441	15,193	968,634
As at December 31, 2020	802,474	10,470	812,944

(d) Continuing involvement assets

In 2020, the Bank entered into securitization transactions by which it transferred its loans to the structured entities which issued asset-backed securities to investors at China Credit Assets Registration & Exchange Co., Ltd. The total loans amounted to RMB4,870.93 million. The total consideration amounted to RMB4,870.93 million and the Bank held the RMB830.93 million subordinated tranche.

The Bank retains part of interests in the form of subordinated tranche which gives rise to the Bank's continuing involvement in the transferred assets. The financial asset is recognized on the statements of financial position to the extent of the Bank's continuing involvement. The extent of the Bank's continuing involvement is the extent to which the Bank is exposed to the changes in the value of the transferred assets.

As at December 31, 2020, arising from this continuing involvement, the Bank recognized continuing involvement assets and liabilities of RMB830.93 million each.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Pledged assets

(a) Assets pledged as collateral

	Note	2020	2019
For repurchase agreements			
– Discounted bills		4,005,490	8,737,305
– Financial investments at fair value through profit or loss	21(a)	1,850,218	4,327,415
– Financial investments at fair value through other comprehensive income	21(b)	13,064,692	25,612,807
– Financial investments at amortised cost	21(c)	27,211,332	30,176,778
Total		46,131,732	68,854,305

Financial assets pledged by the Group as collaterals for liabilities which are for repurchase agreements.

(b) Received pledged assets

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. As at December 31, 2020, the carrying amounts of the received pledged assets is RMB17,549.05 million (2019: RMB16,828.91 million).

29 Deposits from banks and other financial institutions

Analyzed by type and location of counterparty

	2020	2019
In mainland China		
– Banks	5,575,419	12,001,665
– Other financial institutions	53,510,393	49,371,779
Sub-total	59,085,812	61,373,444
Accrued interest	302,896	204,630
Total	59,388,708	61,578,074

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

30 Placements from banks and other financial institutions

	2020	2019
In mainland China		
– Banks	27,591,011	25,686,083
– Other financial institutions	1,532,000	2,100,000
Sub-total	29,123,011	27,786,083
Outside mainland China		
– Banks	1,864,605	–
Sub-total	30,987,616	27,786,083
Accrued interest	226,732	272,646
Total	31,214,348	28,058,729

31 Financial assets sold under repurchase agreements

(a) Analyzed by type and location of counterparty

	2020	2019
In mainland China		
– POBC	24,870,000	24,380,000
– Banks	19,344,987	34,903,554
– Other financial institutions	1,909,892	7,231,060
Sub-total	46,124,879	66,514,614
Accrued interest	16,187	30,290
Total	46,141,066	66,544,904

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

31 Financial assets sold under repurchase agreements (Continued)

(b) Analyzed by collateral

	2020	2019
Debt securities	42,126,242	57,793,759
Discounted bills	3,998,637	8,720,855
Sub-total	46,124,879	66,514,614
Accrued interest	16,187	30,290
Total	46,141,066	66,544,904

32 Deposits from customers

	2020	2019
Demand deposits		
– Corporate customers	136,308,777	126,729,178
– Individual customers	61,324,243	49,447,126
Sub-total	197,633,020	176,176,304
Time deposits		
– Corporate customers	52,577,269	48,550,580
– Individual customers	139,167,903	124,512,347
Sub-total	191,745,172	173,062,927
Pledged deposits	35,522,993	35,710,667
Inward and outward remittances	80,706	95,842
Sub-total	424,981,891	385,045,740
Accrued interest	6,359,552	4,685,789
Total	431,341,443	389,731,529

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Debt securities issued

	Note	2020	2019
Interbank deposits issued	(a)	62,824,618	63,329,611
Financial bonds	(b)	2,999,894	5,999,351
Tier-two capital bonds	(c)	9,999,538	9,999,491
Trust plan	(d)	—	53,457
Sub-total		75,824,050	79,381,910
Accrued interest		230,570	338,508
Total		76,054,620	79,720,418

Notes:

- (a) In 2020, the Bank issued a number of certificates of interbank deposits with total nominal amount of RMB133,620.00 million and duration between 1-12 months. The coupon rates ranged from 1.2% to 2.92% per annum.

In 2019, the Bank issued a number of certificates of interbank deposits with total nominal amount of RMB115,440.00 million and duration between 1-12 months. The coupon rates ranged from 2.4% to 3.45% per annum.

As at December 31, 2020, the fair value of interbank deposits issued was RMB62,793.00 million (2019: RMB63,370.00 million).

- (b) Fixed rate financial bonds of RMB1.5 billion with a term of three years was issued by the Bank in May 2018. The coupon rate is 4.79% per annum.

Fixed rate green financial bonds of RMB1.5 billion with a term of three years was issued by the Bank in April 2018. The coupon rate is 4.70% per annum.

Fixed rate financial bonds of RMB3 billion with a term of three years was issued by AB Leasing in March 2017 and has been repaid in March 2020. The coupon rate is 4.40% per annum.

As at December 31, 2020, the fair value of financial bonds issued was RMB3,017.84 million (2019: RMB6,066.18 million).

- (c) Fixed rate tier-two capital bonds of RMB10 billion with a term of 10 years was issued by the Bank in September 2018. The coupon rate is 5.20% per annum.

As at December 31, 2020, the fair value of tier-two capital bonds issued was RMB10,151.19 million (2019: RMB10,351.30 million).

- (d) Trust plan

In 2017, AB Leasing transferred credit assets amounting to RMB1,627.52 million to a trust plan which issued shares of trust beneficiary rights to investors. Since AB Leasing acquires all subordinated tranche and part of priority tranche of the trust beneficiary rights shares, it retains almost all the risks and rewards of the transferred credit assets. AB Leasing determined not to derecognise the associated credit assets, and the consideration received from the priority tranche investors except for AB Leasing were recorded as a financial liability. The trust plan has been repaid in December 2020.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Other liabilities

	Note	2020	2019
Finance lease deposits		2,652,483	2,199,651
Accrued staff cost	(a)	2,300,601	2,444,125
Lease liabilities		843,723	973,877
Continuing involvement in liabilities		830,928	–
Other tax payable		534,022	531,996
Dividend payable		299,018	312,356
Provisions	(b)	103,705	79,210
Payment and collection clearance accounts		–	710,683
Other payable		1,552,875	1,407,579
Total		9,117,355	8,659,477

(a) Accrued staff cost

	Note	2020	2019
Salary, bonuses and allowances payable		2,079,263	2,202,856
Labor union fee, staff and workers' education fee		106,858	88,109
Supplementary retirement benefits payable	(1)	79,759	91,748
Social insurance payable		33,001	60,239
Housing allowances payable		1,720	1,173
Total		2,300,601	2,444,125

(1) Supplementary retirement benefits

The supplementary retirement benefits of the Bank include early retirement plan and supplementary retirement plan. The early retirement benefits is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to the Bank's eligible employees.

(i) The balances of supplementary retirement benefits of the Group are as follows:

	2020	2019
Present value of early retirement plan	71,470	82,886
Supplementary retirement plan	8,289	8,862
Total	79,759	91,748

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Other liabilities (Continued)

(a) Accrued staff cost (Continued)

(1) Supplementary retirement benefits (Continued)

(ii) The movements of supplementary retirement benefits of the Group are as follows:

	2020	2019
As at January 1	91,748	115,475
Benefits paid during the year	(15,520)	(20,609)
Defined benefit cost recognized in profit or loss	3,990	(3,006)
Defined benefit cost recognized in other comprehensive income	(459)	(112)
As at December 31	79,759	91,748

(iii) Principal actuarial assumptions of the Group are as follows:

Early retirement plan	2020	2019
Discount rate	3.00%	3.00%
Annual increase rate of internal salary	4.50%	4.50%
Supplementary retirement plan	2020	2019
Discount rate	4.00%	3.75%

(iv) Sensitivity analysis:

Early retirement plan	2020		2019	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(2,450)	2,639	(3,064)	3,311
Supplementary retirement plan	2020		2019	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(1,384)	1,795	(1,566)	2,055

Although the analysis does not take account of the full distribution of cash flows expected under the supplementary retirement benefits, it does provide an approximation of the sensitivity of the assumptions shown.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Other liabilities (Continued)

(b) Provisions

	Note	2020	2019
Litigations and disputes provision		11,993	11,992
Credit commitments provision	(i)	91,712	67,218
Total		103,705	79,210

(i) movements of credit commitments provision are as follows:

	2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	65,560	566	1,092	67,218
Transfers:				
– to expected credit losses over the next 12 months	49	(43)	(6)	–
– to lifetime expected credit losses not credit-impaired	(5)	6	(1)	–
– to lifetime expected credit losses credit-impaired	(15)	(170)	185	–
Charge for the year	22,502	104	1,888	24,494
Balance at December 31	88,091	463	3,158	91,712

	2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	85,798	187	153	86,138
Transfers:				
– to expected credit losses over the next 12 months	223	(86)	(137)	–
– to lifetime expected credit losses not credit-impaired	(13)	13	–	–
– to lifetime expected credit losses credit-impaired	(32)	(2)	34	–
(Release)/charge for the year	(20,416)	454	1,042	(18,920)
Balance at December 31	65,560	566	1,092	67,218

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Share capital

Share capital of the Group as at December 31, 2020 and 2019 represented share capital of the Bank, which is fully paid.

	Note	2020	2019
Ordinary shares in Mainland China		16,280,000	16,280,000
Ordinary shares listed in Hong Kong (H-share)	(a)	3,795,000	3,795,000
Total		20,075,000	20,075,000

Note:

- (a) On July 19, 2017, the Bank issued 3,000.00 million H-shares with a par value of RMB1 at an offering price of HKD2.45 per share (the "H-share offering"). On August 15, 2017, the Bank exercised the over-allotment option and issued 450.00 million H-shares with a nominal value of RMB1.00 at HKD2.45 per share. The capital contribution was verified by KPMG Huazhen LLP.

Immediately following the H-share offering, 345 million ordinary shares in Mainland China shares held by the National Council and Social Security Fund were converted to H-shares pursuant to the relevant PRC regulations relating to the reduction of state-owned shares.

All the above H-shares have been listed on the Stock Exchange of Hong Kong Limited. The H-shares rank pari passu in all respects with the existing ordinary shares in Mainland China including the right to receive all dividends and distributions declared or made.

36 Reserves

(a) Capital reserve

	Note	2020	2019
Share premium		14,477,471	14,477,471
Changes in fair value recognized in other comprehensive income	(i)	(145,619)	218,956
Impairment losses recognized in other comprehensive income	(ii)	545,621	486,151
Changes on remeasurement of defined benefit liabilities	(iii)	(2,696)	(3,155)
Changes in ownership in subsidiaries without changes in control		(159,508)	(157,005)
Total		14,715,269	15,022,418

(i) Investment revaluation reserve

	2020	2019
As at January 1	218,956	213,457
Changes in fair value recognised in other comprehensive income	(125,496)	151,528
Transfer to profit or loss upon disposal	(360,604)	(144,196)
Less: deferred income tax	121,525	(1,833)
Total	(145,619)	218,956

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Reserves (Continued)

(a) Capital reserve (Continued)

(ii) Impairment reserve

	2020	2019
As at January 1	486,151	457,896
Impairment losses recognized in other comprehensive income	59,470	28,255
Total	545,621	486,151

(iii) Deficit on remeasurement of net defined benefit liability

Deficit on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

	2020	2019
As at January 1	(3,155)	(3,267)
Changes in fair value recognised in other comprehensive income	459	112
Total	(2,696)	(3,155)

(b) Surplus reserve

The surplus reserve at the end of reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund. Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

The Bank appropriated an amount of RMB297.23 million to the statutory surplus reserve fund for the year of 2020 (2019: RMB318.94 million).

The Bank may also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

(c) General reserve

Pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The balance of the general reserve of the Bank amounted to RMB9,052.82 million as at December 31, 2020 (2019: RMB8,404.85 million).



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Retained earnings

(a) Appropriation of profits

In accordance with the resolution of the Bank's board of directors meeting held on March 29, 2021, the proposed profit appropriations for the year ended December 31, 2020 is listed as follows:

- Appropriation of statutory surplus reserve amounted to RMB297.23 million;
- Appropriation of general reserve amounted to RMB647.97 million; and
- The Bank will not distribute cash dividend to common shareholders.

The profit appropriation resolution mentioned above has yet to be approved by the Bank's shareholders.

In accordance with the resolution of the Bank's board of directors meeting held on March 27, 2020, the proposed profit appropriations for the year ended December 31, 2019 is listed as follows:

- Appropriation of statutory surplus reserve amounted to RMB318.94 million;
- Appropriation of general reserve amounted to RMB603.31 million; and
- Declaration of cash dividend of RMB0.45 per 10 shares before tax and in aggregation amount of RMB903.38 million to common shareholders.

In accordance with the resolution of the Bank's board of directors meeting held on November 20, 2020, the Bank distributed a dividend of USD86.80 million which is equivalent to RMB573.49 million to preference shareholders at the rate on dividend declared date.

- (b)** As at December 31, 2020, the consolidated retained profits attributable to equity shareholders of the Bank included an appropriation of RMB166.95 million of surplus reserve made by subsidiaries (2019: RMB130.71 million).

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Retained earnings (Continued)

(c) Movements in components of equity

Details of the changes in the Bank's individual components of equity for the year 2020 and 2019 are set out below.

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
Balance at January 1, 2020	20,075,000	9,632,791	15,177,917	1,818,292	8,404,853	1,758,150	56,867,003
Changes in equity for the year:							
Net profit for the year	-	-	-	-	-	2,972,294	2,972,294
Other comprehensive income	-	-	(289,464)	-	-	-	(289,464)
Total comprehensive income	-	-	(289,464)	-	-	2,972,294	2,682,830
Appropriation to surplus reserve	-	-	-	297,229	-	(297,229)	-
Appropriation to general reserve	-	-	-	-	647,964	(647,964)	-
Cash dividends on common shares	-	-	-	-	-	(903,375)	(903,375)
Cash dividends on preference shares	-	-	-	-	-	(573,487)	(573,487)
Balance at December 31, 2020	20,075,000	9,632,791	14,888,453	2,115,521	9,052,817	2,308,389	58,072,971

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
Balance at January 1, 2019	20,075,000	9,632,791	15,144,471	1,500,620	7,801,548	820,077	54,974,507
Changes in equity for the year:							
Net profit for the year	-	-	-	-	-	3,189,377	3,189,377
Other comprehensive income	-	-	33,446	-	-	-	33,446
Total comprehensive income	-	-	33,446	-	-	3,189,377	3,222,823
Loss of control over subsidiary	-	-	-	(1,265)	-	(11,391)	(12,656)
Appropriation to surplus reserve	-	-	-	318,937	-	(318,937)	-
Appropriation to general reserve	-	-	-	-	603,305	(603,305)	-
Cash dividends on common shares	-	-	-	-	-	(702,625)	(702,625)
Cash dividends on preference shares	-	-	-	-	-	(615,046)	(615,046)
Balance at December 31, 2019	20,075,000	9,632,791	15,177,917	1,818,292	8,404,853	1,758,150	56,867,003

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Other equity instruments

(a) Preference shares outstanding at the end of the year:

Financial instrument outstanding	Time issued	Classifications	Dividend yield ratio/ Interest rate	Issue price	Quantities	In original currency million	In RMB million	Maturity	Conversion conditions
Offshore preference shares	21/11/2018	Equity	5.60%	USD20/share	69,750,000	1,395	9,688	None	Mandatory conversion trigger events
Less: issuing cost							(55)		
Book value							9,633		

(b) Main clause

(i) Dividend

Fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. The fixed spread will be equal to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares. Dividends will be paid annually.

If the Bank has distributable after-tax profit after making up for previous years' losses and contributing to the statutory reserve and general reserve, the Bank may pay dividends to the offshore preference shareholders in accordance with the articles of association of the Bank, provided that the capital adequacy ratio of the Bank meets regulatory requirements. The offshore preference shareholders shall rank in priority to the ordinary shareholders in terms of dividend distribution.

Any declaration and payment of all of the dividends on the offshore preference shares by the Bank will be determined by the board in accordance with the authorisation given by the general meeting. Any cancellation of all or part of the dividends on the offshore preference shares shall be subject to the consideration and approval by the general meeting. If the Bank cancels all or part of the distribution of dividends on the offshore preference shares, the Bank shall not distribute any dividends to the ordinary shareholders from the next day following the resolution being approved at the general meeting until the resumption of payment of dividends in full.

(ii) Dividend accumulation

The dividends on the offshore preference shares will be non-cumulative (namely, in the event of any cancellation by the Bank of all or part of the dividends on the offshore preference shares, any amount of dividends not paid to the offshore preference shareholders in full in the current period will not be accumulated to the following dividend periods).

(iii) Distribution of residual profits

After receiving the dividends at the prescribed dividend rate, the offshore preference shareholders shall not be entitled to any distribution of residual profits of the Bank together with the ordinary shareholders.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Other equity instruments (Continued)

(b) Main clause (Continued)

(iv) Mandatory conversion trigger events

Upon the occurrence of an additional tier 1 capital trigger event (namely, the core tier 1 capital adequacy ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all or part of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares in order to restore the core tier 1 capital adequacy ratio of the Bank to above 5.125%. In case of partial conversion, the offshore preference shares shall be converted ratably and on the same conditions. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances.

Upon the occurrence of a tier 2 capital trigger event, the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances. A tier 2 capital trigger event means the earlier of the following events: (1) the former CBRC having concluded that without a conversion or write-off of the Bank's capital, the Bank would become non-viable, and (2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.

(v) Conditional redemption

From the fifth year following the date of issuance of the offshore preference shares, and subject to obtaining the approval of the former CBRC or its affiliates and the compliance with the relevant requirements, the Bank shall have the right to redeem all or part of the offshore preference shares. The redemption price of the offshore preference shares will be an amount equal to the issue price plus the amount of dividend declared but unpaid for the current period.

39 Involvement with unconsolidated structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Involvement with unconsolidated structured entities (Continued)

(a) Structured entities sponsored by third party institutions in which the Group holds an interest (Continued)

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities, as well as an analysis of the line items in the consolidated statements of financial position in which relevant assets are recognized as at December 31:

	2020	
	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	14,831,012	14,831,012
Financial investments at amortised cost	59,057,626	59,057,626
Total	73,888,638	73,888,638

	2019	
	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	32,592,344	32,592,344
Financial investments at amortised cost	74,464,728	74,464,728
Total	107,057,072	107,057,072

As at December 31, 2020 and 2019, the carrying amounts of the unconsolidated structural entities are equal to the maximum exposures.

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at December 31, 2020 and 2019, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at December 31, 2020, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB71,416.83 million (2019: RMB56,623.70 million).



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Involvement with unconsolidated structured entities (Continued)

(c) Unconsolidated structure entities sponsored by the Group during the years which the Group does not consolidate but have an interest in as at December 31:

For the year ended December 31, 2020, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before December 31 amounted to RMB23,716.11 million (2019: RMB39,524.25 million).

40 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the former CBRC. The capital of the Group is divided into core tier-one capital, other tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

The Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the former CBRC.

The former CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Capital management (Continued)

The Group's capital adequacy ratios as at December 31 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

	2020	2019
Total core tier-one capital		
– Share capital	20,075,000	20,075,000
– Qualifying portion of capital reserve	14,348,658	14,657,943
– Surplus reserve	2,115,521	1,818,292
– General reserve	9,660,324	8,934,907
– Retained earnings	2,062,639	1,261,325
– Qualifying portions of non-controlling interests	575,587	523,036
Core tier-one capital deductions		
– Goodwill	(970,780)	(970,780)
– Other intangible assets other than land use rights	(640,566)	(474,067)
Net core tier-one capital	47,226,383	45,825,656
Other tier-one capital	9,709,536	9,702,529
Net tier-one capital	56,935,919	55,528,185
Tier-two capital		
– Instruments issued and share premium	9,999,538	9,999,491
– Surplus provision for loan impairment	5,521,955	4,453,133
– Qualifying portions of non-controlling interests	150,691	139,475
Net capital base	72,608,103	70,120,284
Total risk weighted assets	549,877,844	538,420,776
Core tier-one capital adequacy ratio	8.59%	8.51%
Tier-one capital adequacy ratio	10.35%	10.31%
Capital adequacy ratio	13.20%	13.02%

41 Notes to the consolidated cash flow statement

(a) Net (decrease)/increase in cash and cash equivalents

	2020	2019
Cash and cash equivalents as at December 31	72,151,316	75,325,152
Less: Cash and cash equivalents as at January 1	75,325,152	55,712,428
Net (decrease)/increase in cash and cash equivalents	(3,173,836)	19,612,724

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Notes to the consolidated cash flow statement (Continued)

(b) Cash and cash equivalents

	2020	2019
Cash on hand	1,268,037	1,426,013
Deposits with the central bank	34,492,657	36,900,408
Deposits with banks and other financial institutions	11,490,284	10,447,605
Financial assets held under resale agreements	15,813,572	16,828,910
Placements with banks and other financial institutions	9,086,766	9,722,216
Total	72,151,316	75,325,152

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Debt securities issued	Lease liabilities	Total
At 1 January 2020	79,720,418	973,877	80,694,295
Changes from financing cash flow			
Proceeds received from debt securities issued	132,013,203	—	132,013,203
Interest paid on debt securities issued	(1,169,629)	—	(1,169,629)
Repayment of debt securities issued	(137,004,630)	—	(137,004,630)
Capital element of lease liabilities paid	—	(260,069)	(260,069)
Interest element of lease liabilities paid	—	(45,345)	(45,345)
Total changes from financing cash flows	(6,161,056)	(305,414)	(6,466,470)
Other changes:			
Interest expense	2,495,258	60,582	2,555,840
Increase in lease liabilities	—	114,678	114,678
Total other changes	2,495,258	175,260	2,670,518
At 31 December 2020	76,054,620	843,723	76,898,343

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Notes to the consolidated cash flow statement (Continued)

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities: (Continued)

	Debt securities issued	Lease liabilities	Total
At 1 January 2019	93,277,576	941,085	94,218,661
Changes from financing cash flow			
Proceeds received from debt securities issued	113,494,761	–	113,494,761
Interest paid on debt securities issued	(2,111,456)	–	(2,111,456)
Repayment of debt securities issued	(131,190,186)	–	(131,190,186)
Capital element of lease liabilities paid	–	(292,882)	(292,882)
Interest element of lease liabilities paid	–	(44,594)	(44,594)
Total changes from financing cash flows	(19,806,881)	(337,476)	(20,144,357)
Other changes:			
Interest expense	3,062,299	34,011	3,096,310
Increase in lease liabilities	–	275,016	275,016
Liabilities assumed from acquisition of subsidiary	3,187,424	61,241	3,248,665
Total other changes	6,249,723	370,268	6,619,991
At 31 December 2019	79,720,418	973,877	80,694,295

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Related party relationships and transactions

(a) Relationship of related parties:

(i) Major shareholders

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholding, or with the right to appoint a director in the Bank.

Shareholding in the Bank:

	2020	2019
Henan Investment Group Co., Ltd.	10.25%	7.01%
Piramid Park Co., Ltd. (*)	5.98%	2.09%
Henan Shengrun Holdings Co., Ltd.	3.75%	3.75%
Henan Energy and Chemical Engineering Group Co., Ltd. (*)	0.72%	6.48%
Yongcheng Coal and Electricity Holdings Group Co., Ltd.	—	5.76%
Tian Kun Investment Co., Ltd. (*)	—	3.62%

* As at December 31, 2019, the interest in the Bank owned by Henan Energy and Chemical Engineering Group Co., Ltd. includes interests owned by Yongcheng Coal and Electricity Holdings Group Co., Ltd., Henan Guolong Mineral Construction Co., Ltd., Yongcheng Jingchuang Industry Co., Ltd., Shangqiu Tianlong Investment Co., Ltd., Anyang Chemical Engineering Group Co., Ltd., Henan Energy and Chemical Engineering Group Finance Co., Ltd., and Kaifeng Tietia Rubber (Group) Co., Ltd.. Yongcheng Coal and Electricity Holdings Group Co., Ltd. transferred these shares to third parties in 2020. Henan Energy and Chemical Engineering Group Co., Ltd. and its subsidiaries were not related parties of the Group as at December 31, 2020.

As at December 31, 2020, Tian Kun Investment Co., Ltd. has transferred all its interest in the Bank.

Piramid Park Co., Ltd. acquired 3.89% shares of the Bank in 2020, and held 5.98% shares of the Bank as at December 31, 2020.

(ii) Subsidiaries and joint venture of the Bank

The detailed information of the Bank's subsidiaries and joint venture are set out in Note 23.

(iii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 42 (a) or their controlling shareholders.

(b) Related party transactions and balances:

(i) Transactions between the Bank and major shareholders:

	2020	2019
Transactions during the year:		
Interest income	26,984	46,958
Interest expense	783	660

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Related party relationships and transactions (Continued)

(b) Related party transactions and balances: (Continued)

(i) Transactions between the Bank and major shareholders: (Continued)

	2020	2019
Balances at end of the year:		
Financial investments	600,854	849,946
Deposits from customers	613,010	102,915
Deposits from banks and other financial institutions	—	5,274
	2020	2019
Balances of item off the consolidated statement of financial position outstanding at the end of the year:		
Letters of credit	—	300,000

(ii) Transactions between the Bank and subsidiaries:

The subsidiaries of the Bank are its related parties. The transactions between the Bank and its subsidiaries and among the subsidiaries are eliminated on combination and therefore are not disclosed in this note.

(iii) Transactions between the Bank and other related parties and joint venture:

	2020	2019
Transactions during the year:		
Interest income	314,031	278,744
Interest expense	38,051	94,700
Operating expense	11,565	11,911
Assets disposal	194,134	180,795
	2020	2019
Balances at end of the year:		
Loans and advances to customers	3,177,326	1,066,832
Finance lease receivables	390,000	—
Financial investments	1,668,991	3,052,588
Deposits with banks and other financial institutions	1,832,152	204,123
Placements with banks and other financial institutions	3,019,680	1,727,364
Right-of-use assets	32,934	40,683
Deposits from customers	737,894	2,439,256
Deposits from banks and other financial institutions	526,872	1,639,612
Lease liabilities	35,508	42,039
	2020	2019
Balances of items off the consolidated statement of financial position outstanding at the end of the year:		
Letters of credit	130,000	—
Bank acceptances	792,489	2,948,695
Letters of guarantees	1,500	11,500

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Related party relationships and transactions (Continued)

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) Transactions between the Bank and key management personnel

	2020	2019
Transactions during the year:		
Interest income	721	760
Interest expense	320	206
Balances at end of the year:		
Loans and advances to customers	17,929	12,282
Deposits from customers	14,753	15,037

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	2020	2019
Salaries and other emoluments	12,335	13,303
Discretionary bonuses	17,933	28,391
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	622	1,923
Total	30,890	43,617

(d) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	2020	2019
Aggregate amount of relevant loans outstanding at the end of the year	12,949	12,262
Maximum aggregate amount of relevant loans outstanding during the year	12,949	12,262

There was no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at December 31, 2020 and 2019.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Segment reporting

The Group manages its business by business lines. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, personal wealth management services and remittance services.

Financial markets business

This segment covers the Group's financial markets business operations. The financial markets business enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities. The financial markets business segment also covers management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Segment reporting (Continued)

Others (Continued)

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the year 2020 and 2019 to acquire property and equipment, intangible assets and other long-term assets.

	2020				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Operating income					
External net interest income	10,946,719	4,271,261	1,347,012	–	16,564,992
Internal net interest (expense)/income	(1,823,894)	1,620,283	203,611	–	–
Net interest income	9,122,825	5,891,544	1,550,623	–	16,564,992
Net fee and commission income	929,311	529,243	327,853	–	1,786,407
Net trading gains/(losses)	243,281	–	(427,772)	–	(184,491)
Net (loss)/gains arising from investment securities	(3,990)	–	1,139,180	–	1,135,190
Other operating income	30,621	15,847	6,306	72,919	125,693
Operating income	10,322,048	6,436,634	2,596,190	72,919	19,427,791
Operating expenses	(2,925,796)	(3,056,186)	(607,459)	(529,204)	(7,118,645)
Impairment losses on assets	(5,838,214)	(1,485,022)	(263,221)	(262,137)	(7,848,594)
Share of profits of joint venture	–	–	(11,600)	–	(11,600)
Profit/(loss) before tax	1,558,038	1,895,426	1,713,910	(718,422)	4,448,952
Segment assets	297,152,829	202,685,620	250,734,266	2,077,222	752,649,937
Deferred tax assets	–	–	–	4,832,535	4,832,535
Total assets	297,152,829	202,685,620	250,734,266	6,909,757	757,482,472
Segment liabilities	212,525,791	222,167,212	257,935,472	5,498,736	698,127,211
Total liabilities	212,525,791	222,167,212	257,935,472	5,498,736	698,127,211
Other segment information					
– Depreciation and amortization	529,663	371,501	147,842	4,001	1,053,007
– Capital expenditure	428,125	300,283	119,500	3,235	851,143

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Segment reporting (Continued)

Others (Continued)

	2019				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Operating income					
External net interest income	10,468,811	4,414,265	824,665	–	15,707,741
Internal net interest (expense)/income	(1,061,026)	1,575,404	(514,378)	–	–
Net interest income	9,407,785	5,989,669	310,287	–	15,707,741
Net fee and commission income	1,207,297	343,179	216,953	–	1,767,429
Net trading gains	11,196	–	272,383	–	283,579
Net (loss)/gains arising from investment securities	(368,271)	–	1,479,835	–	1,111,564
Other operating income	40,594	6,510	3,264	101,164	151,532
Operating income	10,298,601	6,339,358	2,282,722	101,164	19,021,845
Operating expenses	(3,291,111)	(3,133,924)	(652,467)	(408,843)	(7,486,345)
Impairment losses on assets	(5,099,634)	(1,549,562)	(369,329)	(129,758)	(7,148,283)
Share of profits of joint venture	–	–	(26,581)	–	(26,581)
Profit/(loss) before tax	1,907,856	1,655,872	1,234,345	(437,437)	4,360,636
Segment assets	356,178,854	175,115,899	172,538,886	2,400,629	706,234,268
Deferred tax assets	–	–	–	3,650,761	3,650,761
Total assets	356,178,854	175,115,899	172,538,886	6,051,390	709,885,029
Segment liabilities	214,334,597	203,617,982	229,711,478	4,389,908	652,053,965
Total liabilities	214,334,597	203,617,982	229,711,478	4,389,908	652,053,965
Other segment information					
– Depreciation and amortization	644,592	323,091	162,000	6,362	1,136,045
– Capital expenditure	637,285	319,428	160,163	6,290	1,123,166



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyze the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The responsible departments for credit risk management include the Credit Approval Department, Credit Management Department, and Risk Management Department. The Risk Management Department is responsible for implementing the Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments of branches carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

Credit business (Continued)

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardized loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

Financial markets business

The Group sets credit limits for financial markets business operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management

The financial assets are categorised by the Group into the following stages to manage its financial assets' credit risk:

Stage 1

Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

Stage 2

Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3

Financial assets that are in default and considered credit-impaired.

Significant increase in credit risk

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial assets has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

- The credit spread increases significantly;
- Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status;
- Application of a grace period or debt-restructuring;
- Significant changes with an adverse effect in the borrower's business conditions;
- Less value of the collaterals (for the collateral loans and pledged loans only);
- Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans;
- The borrower is more than 30 days past due.

The Group uses watch lists to monitor credit risk of financial assets related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

As at December 31, 2020, the Group has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

Stage 3 (Continued)

Definition of “default” and “credit-impaired assets”

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- the disappearance of an active market for a security because of financial difficulties of the issuer; or
- overdue more than 90 days.

The above criteria apply to all financial assets of the Group and they are consistent with the definition of “default” adopted by the internal management of credit risk.

Measurement of expected credit losses (“ECL”)

The Group adopts ECL model to measures provision for loss of financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;
- EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;
- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

Stage 3 (Continued)

The Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, the Group can calculate the ECL for the future months. The results of calculation for each month are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

The Group quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

Both the assessment of the significant increase in credit risk and the measurement of ECL involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and ECL of all asset portfolios, including GDP, industrial added value, CPI, etc.

There has been no significant change in the valuation techniques and key assumptions during the reporting period.

Assessing credit risk of financial assets after the amendment of contractual cash flows

In order to achieve maximum collection, the Group may modify the contractual terms of loans due to business negotiations or financial difficulties of the borrowers at times.

Such rescheduling activities include extended payment term arrangements, payment holidays and payment forgiveness. Rescheduling policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. The restructuring of loans is most common in the management of medium and long-term loans. The risk stage can only be adjusted lower if the rescheduled loans are reviewed for at least 6 consecutive months and the corresponding stage classification criteria is reached.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of each reporting period.

(ii) Financial assets analyzed by credit quality are summarized as follows:

	2020				
	Loans and advances to customers	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments (*)	Finance lease receivables
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Neither overdue nor credit-impaired	339,743,284	38,410,647	15,813,572	205,002,688	30,874,131
Sub-total	339,743,284	38,410,647	15,813,572	205,002,688	30,874,131
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	3,308,797	–	–	710,853	1,014,112
– Neither overdue nor credit-impaired	5,859,257	–	–	1,382,021	–
Sub-total	9,168,054	–	–	2,092,874	1,014,112
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	7,900,424	19,027	–	8,734,135	301,428
– Credit-impaired but not overdue	214,111	–	–	3,099,982	–
Sub-total	8,114,535	19,027	–	11,834,117	301,428
Accrued interest	2,349,930	376,220	7,494	2,909,817	–
Less: Provision for impairment losses	(11,718,971)	(31,924)	(1,542)	(3,946,267)	(1,384,141)
Net value	347,656,832	38,773,970	15,819,524	217,893,229	30,805,530

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (Continued)

	2019				
	Loans and advances to customers	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments (*)	Finance lease receivables
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Neither overdue nor credit-impaired	282,015,131	30,627,441	16,828,910	205,431,367	25,909,393
Sub-total	282,015,131	30,627,441	16,828,910	205,431,367	25,909,393
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	3,237,576	–	–	–	991,324
– Neither overdue nor credit-impaired	6,003,819	–	–	150,000	1,555,564
Sub-total	9,241,395	–	–	150,000	2,546,888
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	6,704,640	19,027	–	3,718,532	209,230
– Credit-impaired but not overdue	1,243,540	–	–	–	–
Sub-total	7,948,180	19,027	–	3,718,532	209,230
Accrued interest	1,796,820	291,561	11,170	2,519,468	–
Less: Provision for impairment losses	(9,771,416)	(25,167)	(1,530)	(1,960,959)	(806,489)
Net value	291,230,110	30,912,862	16,838,550	209,858,408	27,859,022

* Financial investments don't include financial investments at fair value through profit or loss and non-trading equity investments designated as financial investments at fair value through other comprehensive income.

As at December 31, 2020, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB5,237.29 million (2019: RMB4,426.53 million). The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB1,594.06 million (2019: RMB1,682.97 million). The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals was estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

(iii) Amounts due from banks and other financial institutions

The amounts due from banks and non-bank financial institutions including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions. Neither overdue nor impaired amounts due from banks and non-bank financial institutions are rated with reference to major rating agencies accepted by the People's Bank of China.

	2020	2019
Neither overdue nor impaired		
Ratings		
– A to AAA	43,029,412	39,224,592
– unrated	11,564,082	8,526,820
Total	54,593,494	47,751,412

(iv) Debt securities

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analyzed by the rating agency designations as at December 31 are as follows:

	2020	2019
Neither overdue nor impaired		
Ratings		
– AAA	11,247,183	4,145,301
– AA- to AA+	3,473,474	3,126,600
– A- to A+	–	10,106
– BB- to BB+	41,053	–
– B- to B+	461,515	–
– unrated	122,494,660	124,956,299
Overdue and credit impaired		
– unrated	768,403	74,110
Total	138,486,288	132,312,416



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk and Internal Control Management Committee monitors the market risk management process within the scope authorized by the board of directors, which include review and approval of market risk management strategies, policies and procedures. The Group is primarily exposed to market risk in its financial markets business. The Financial Market Department is responsible for carrying out capital investments and transactions, as well as monitoring and managing the foreign exchange risk on a daily basis. The Planning and Finance Department is responsible for monitoring and managing the interest rate risk in bank account. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorizing each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

Repricing risk

Repricing risk, which is also known as “maturity mismatch risk”, is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group’s income or its inherent economic value to vary with the movement in interest rates.

The Planning and Finance Department is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk

Trading interest rate risk mainly arises from the financial markets business’ investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios’ fair value given a 100 basis points (1%) movement in the interest rates.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

- (i) The following tables indicate the assets and liabilities as at December 31 by the expected next repricing dates or by maturity dates, depending on which is earlier:

	2020					Total
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	
Assets						
Cash and deposits with the central bank	64,051,943	–	–	–	1,284,389	65,336,332
Deposits with banks and other financial institutions	11,487,997	1,941,682	–	–	63,841	13,493,520
Placement with banks and other financial institutions	9,066,118	15,901,953	–	–	312,379	25,280,450
Derivative financial assets	–	–	–	–	30,989	30,989
Financial assets held under resale agreements	15,812,030	–	–	–	7,494	15,819,524
Loans and advances to customers (Note (1))	286,242,124	39,803,079	11,628,313	7,633,386	2,349,930	347,656,832
Financial investments (Note (2))	23,801,490	49,914,844	99,700,839	41,566,239	24,414,106	239,397,518
Finance lease receivables (Note (3))	18,752,917	1,033,989	11,018,624	–	–	30,805,530
Others	–	–	–	–	19,661,777	19,661,777
Total assets	429,214,619	108,595,547	122,347,776	49,199,625	48,124,905	757,482,472
Liabilities						
Borrowing from the central bank	13,910,787	29,882,742	–	–	273,358	44,066,887
Deposits from banks and other financial institutions	59,085,812	–	–	–	302,896	59,388,708
Placement from banks and other financial institutions	24,582,611	5,930,005	475,000	–	226,732	31,214,348
Derivative financial liabilities	–	–	–	–	16,961	16,961
Financial assets sold under repurchase agreements	46,124,879	–	–	–	16,187	46,141,066
Deposits from customers	244,668,142	71,301,926	108,811,718	–	6,559,657	431,341,443
Debt securities issued	27,206,224	38,618,288	–	9,999,538	230,570	76,054,620
Others	–	–	–	–	9,903,178	9,903,178
Total liabilities	415,578,455	145,732,961	109,286,718	9,999,538	17,529,539	698,127,211
Asset-liability gap	13,636,164	(37,137,414)	13,061,058	39,200,087	30,595,366	59,355,261

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

(i) (Continued)

	2019					
	Within three months	Three months to one year	One year to five years	More than five years	Non- interest bearing	Total
Assets						
Cash and deposits with the central bank	70,673,960	–	–	–	1,444,681	72,118,641
Deposits with banks and other financial institutions	10,445,927	410,000	–	–	17,972	10,873,899
Placement with banks and other financial institutions	9,726,974	10,038,400	–	–	273,589	20,038,963
Derivative financial assets	–	–	–	–	15,138	15,138
Financial assets held under resale agreements	16,827,380	–	–	–	11,170	16,838,550
Loans and advances to customers (Note (1))	208,767,847	43,015,516	23,916,141	13,733,786	1,796,820	291,230,110
Financial investments (Note (2))	25,089,847	40,298,436	104,586,439	37,364,218	44,728,818	252,067,758
Finance lease receivables (Note (3))	26,882,536	153,296	823,190	–	–	27,859,022
Others	–	–	–	–	18,842,948	18,842,948
Total assets	368,414,471	93,915,648	129,325,770	51,098,004	67,131,136	709,885,029
Liabilities						
Borrowing from the central bank	3,624,288	12,916,351	–	–	104,113	16,644,752
Deposits from banks and other financial institutions	61,373,444	–	–	–	204,630	61,578,074
Placement from banks and other financial institutions	15,846,563	11,939,520	–	–	272,646	28,058,729
Financial liabilities at fair value through profit or loss	–	–	–	–	20,437	20,437
Derivative financial liabilities	–	–	–	–	295,741	295,741
Financial assets sold under repurchase agreements	66,514,614	–	–	–	30,290	66,544,904
Deposits from customers	222,202,532	69,542,216	92,404,576	97,792	5,484,413	389,731,529
Debt securities issued	26,504,105	39,878,712	2,999,602	9,999,491	338,508	79,720,418
Others	–	–	–	–	9,459,381	9,459,381
Total liabilities	396,065,546	134,276,799	95,404,178	10,097,283	16,210,159	652,053,965
Asset-liability gap	(27,651,075)	(40,361,151)	33,921,592	41,000,721	50,920,977	57,831,064



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

(i) (Continued)

Note:

- (1) As at December 31, 2020, for loans and advances to customers, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB5,425.23 million (2019: RMB5,228.06 million).
- (2) As at December 31, 2020, for financial investments, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB6,308.51 million (2019: RMB1,896.07 million).
- (3) As at December 31, 2020, for finance lease receivables, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB904.82 million (2019: RMB981.60 million).

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group’s net profit or loss and equity. As at December 31, 2020, assuming other variables remain unchanged, an increase in estimated interest rate of 100 basis points will cause the Group’s net profit to decrease by RMB115.23 million (2019: decrease by RMB434.47 million), and the Group’s equity to decrease by RMB960.07 million (2019: decrease by RMB1,668.68 million); a decrease in estimated interest rate of 100 basis points will cause the Group’s net profit to increase by RMB115.23 million (2019: increase by RMB434.47 million), and the Group’s equity to increase by RMB1,018.04 million (2019: increase by RMB1,668.68 million).



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

(ii) Interest rate sensitivity analysis (Continued)

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The effect of equity is the effect of the assumed changes in interest rates on the Group's net interest income and other comprehensive income, calculated by revaluing financial investments at fair value through other comprehensive income and loans and advances to customers measured at fair value through other comprehensive income held at year end. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of each of the reporting period apply to non-derivative financial instruments of the Group;
- At the end of each of the reporting period, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

(ii) Interest rate sensitivity analysis (Continued)

Foreign currency risk

The Group's currency risk mainly arises from foreign currency deposits with banks and other financial institutions. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the reporting period are as follows:

	2020				
	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets					
Cash and deposits with the central bank	65,136,869	197,825	214	1,424	65,336,332
Deposits with banks and other financial institutions	7,309,766	4,753,632	1,407,676	22,446	13,493,520
Placement with banks and other financial institutions	23,194,109	2,086,341	–	–	25,280,450
Financial assets held under resale agreements	15,819,524	–	–	–	15,819,524
Loans and advances to customers	341,899,642	5,757,190	–	–	347,656,832
Financial investments	229,753,254	7,319,714	2,324,550	–	239,397,518
Finance lease receivables	30,805,530	–	–	–	30,805,530
Derivative financial assets	30,989	–	–	–	30,989
Others	19,390,613	271,164	–	–	19,661,777
Total assets	733,340,296	20,385,866	3,732,440	23,870	757,482,472
Liabilities					
Borrowing from the central bank	44,066,887	–	–	–	44,066,887
Deposits from banks and other financial institutions	55,120,574	4,253,170	222	14,742	59,388,708
Placement from banks and other financial institutions	29,196,522	2,017,826	–	–	31,214,348
Financial assets sold under repurchase agreements	46,141,066	–	–	–	46,141,066
Deposits from customers	431,341,443	–	–	–	431,341,443
Debt securities issued	76,054,620	–	–	–	76,054,620
Derivative financial liabilities	16,961	–	–	–	16,961
Others	9,645,598	240,790	16,643	147	9,903,178
Total liabilities	691,583,671	6,511,786	16,865	14,889	698,127,211
Asset-liability gap	41,756,625	13,874,080	3,715,575	8,981	59,355,261

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

(ii) Interest rate sensitivity analysis (Continued)

Foreign currency risk (Continued)

	2019				
	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets					
Cash and deposits with the central bank	71,951,437	165,558	211	1,435	72,118,641
Deposits with banks and other financial institutions	6,696,978	2,804,196	1,351,895	20,830	10,873,899
Placement with banks and other financial institutions	17,939,750	2,099,213	–	–	20,038,963
Financial assets held under resale agreements	16,838,550	–	–	–	16,838,550
Loans and advances to customers	287,491,441	3,738,669	–	–	291,230,110
Financial investments	239,172,269	9,761,192	3,134,297	–	252,067,758
Finance lease receivables	27,859,022	–	–	–	27,859,022
Derivative financial assets	15,138	–	–	–	15,138
Others	18,529,568	313,380	–	–	18,842,948
Total assets	686,494,153	18,882,208	4,486,403	22,265	709,885,029
Liabilities					
Borrowing from the central bank	16,644,752	–	–	–	16,644,752
Deposits from banks and other financial institutions	58,290,130	3,276,091	140	11,713	61,578,074
Placement from banks and other financial institutions	27,031,865	1,026,864	–	–	28,058,729
Financial assets sold under repurchase agreements	66,544,904	–	–	–	66,544,904
Deposits from customers	389,731,529	–	–	–	389,731,529
Debt securities issued	79,720,418	–	–	–	79,720,418
Derivative financial liabilities	295,741	–	–	–	295,741
Financial liabilities at fair value through profit or loss	20,437	–	–	–	20,437
Others	9,239,183	208,964	11,087	147	9,459,381
Total liabilities	647,518,959	4,511,919	11,227	11,860	652,053,965
Asset-liability gap	38,975,194	14,370,289	4,475,176	10,405	57,831,064

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

(ii) Interest rate sensitivity analysis (Continued)

Foreign currency risk (Continued)

	2020 Increase/ (decrease)	2019 Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps change of foreign exchange rate	49,273	53,330
Down 100 bps change of foreign exchange rate	(49,273)	(53,330)

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions as set out below:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB based on the closing rate of reporting date;
- The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously;
- All the position will be held and keep unchanged after maturity; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

Due to the assumptions adopted, actual changes in the Group's net profit and equity resulting from the increase or decrease in foreign exchange rates may vary from the estimated results of this sensitivity analysis.

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(c) Liquidity risk (Continued)

The Asset and Liability Management Committee (“ALMC”) is responsible for managing the Group’s overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximization and cost minimization to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank’s funds.

The Planning and Finance Department takes the lead to execute liquidity management policies and is responsible for formulating and revising the liquidity management strategies, and for identifying, measuring, monitoring and releasing the liquidity risk of the Bank. It is also responsible for managing and forecasting the working capital on a regular basis and ensuring the liquidity of working capital meets management requirements based on the liquidity strategies. The Finance Market Department is responsible for performing the operation following the instructions of the Finance Management Department. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

A substantial portion of the Group’s assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(c) Liquidity risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment as at December 31:

	2020							Total
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	29,559,286	35,760,694	16,352	–	–	–	–	65,336,332
Deposits with banks and other financial institutions	–	4,305,076	4,311,129	2,903,102	1,974,213	–	–	13,493,520
Placements with banks and other financial institutions	–	–	2,392,435	6,779,503	16,108,512	–	–	25,280,450
Derivative financial assets	–	–	527	2,439	6,880	21,143	–	30,989
Financial assets held under resale agreements	–	–	15,819,524	–	–	–	–	15,819,524
Loans and advances to customers	4,595,274	867,559	25,610,128	28,257,334	109,920,349	63,942,216	114,463,972	347,656,832
Financial investments	9,180,104	671,955	2,298,025	17,641,350	52,433,396	110,451,715	46,720,973	239,397,518
Finance lease receivables	575,572	329,243	31,950	368,811	1,371,285	27,859,576	269,093	30,805,530
Others	14,829,242	–	–	331,533	380,570	4,120,432	–	19,661,777
Total assets	58,739,478	41,934,527	50,480,070	56,284,072	182,195,205	206,395,082	161,454,038	757,482,472
Liabilities								
Borrowing from the central bank	–	63,570	4,047,850	9,853,065	30,102,402	–	–	44,066,887
Deposits from banks and other financial institutions	–	4,433,927	11,789,630	27,864,112	15,200,526	100,513	–	59,388,708
Placements from banks and other financial institutions	–	–	7,666,682	6,014,045	17,051,579	482,042	–	31,214,348
Derivative financial liabilities	–	–	18	–	1,527	15,416	–	16,961
Financial assets sold under repurchase agreements	–	–	45,140,213	1,000,853	–	–	–	46,141,066
Deposits from customers	–	213,058,057	13,760,906	21,695,201	72,373,670	110,453,609	–	431,341,443
Debt securities issued	–	–	7,116,310	20,089,914	38,848,858	–	9,999,538	76,054,620
Others	–	2,338,978	49,910	896,054	3,087,334	3,418,998	111,904	9,903,178
Total liabilities	–	219,894,532	89,571,519	87,413,244	176,665,896	114,470,578	10,111,442	698,127,211
Long/(short) position	58,739,478	(177,960,005)	(39,091,449)	(31,129,172)	5,529,309	91,924,504	151,342,596	59,355,261

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(c) Liquidity risk (Continued)

	2019							
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	33,773,552	38,326,421	18,668	–	–	–	–	72,118,641
Deposits with banks and other financial institutions	–	6,825,010	3,086,240	552,649	410,000	–	–	10,873,899
Placements with banks and other financial institutions	–	–	3,624,757	6,102,216	10,311,990	–	–	20,038,963
Derivative financial assets	–	–	655	2,949	11,534	–	–	15,138
Financial assets held under resale agreements	–	–	16,838,550	–	–	–	–	16,838,550
Loans and advances to customers	3,850,759	1,377,298	20,514,051	24,067,583	90,692,288	54,933,538	95,794,593	291,230,110
Financial investments	2,541,754	15,848,816	7,735,254	26,410,748	50,437,563	106,351,631	42,741,992	252,067,758
Finance lease receivables	788,730	207,871	25,661	–	1,274,182	25,562,578	–	27,859,022
Others	15,192,187	–	–	362,917	229,182	3,058,662	–	18,842,948
Total assets	56,146,982	62,585,416	51,843,836	57,499,062	153,366,739	189,906,409	138,536,585	709,885,029
Liabilities								
Borrowing from the central bank	–	–	1,303,302	2,320,986	13,020,464	–	–	16,644,752
Deposits from banks and other financial institutions	–	4,303,195	9,837,433	23,703,135	23,633,047	101,264	–	61,578,074
Placements from banks and other financial institutions	–	–	10,193,980	5,791,431	12,073,318	–	–	28,058,729
Financial liabilities at fair value through profit or loss	–	–	20,437	–	–	–	–	20,437
Derivative financial liabilities	–	–	24,488	223,961	47,292	–	–	295,741
Financial assets sold under repurchase agreements	–	–	62,911,698	3,633,206	–	–	–	66,544,904
Deposits from customers	–	187,959,185	13,188,292	24,659,817	70,355,065	93,470,279	98,891	389,731,529
Debt securities issued	–	–	4,833,147	21,778,897	39,878,712	3,091,980	10,137,682	79,720,418
Others	–	3,908,810	526,330	865,106	2,897,082	1,177,618	84,435	9,459,381
Total liabilities	–	196,171,190	102,839,107	82,976,539	161,904,980	97,841,141	10,321,008	652,053,965
Long/(short) position	56,146,982	(133,585,774)	(50,995,271)	(25,477,477)	(8,538,241)	92,065,268	128,215,577	57,831,064

Note:

- (i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers and finance lease receivables includes all the credit-impaired loans and finance lease receivables, as well as those overdue more than one month. Loans and advances to customers and finance lease receivables with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of investments represents credit-impaired investments or those overdue more than one month. Financial investments with no impairment but overdue within one month are classified into the category of repayable on demand. Equity investments is listed in the category of indefinite.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(c) Liquidity risk (Continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and loan commitments as at December 31:

	2020							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	44,066,887	44,688,821	63,610	4,051,189	9,868,582	30,705,440	–	–
Deposits from banks and other financial institutions	59,388,708	59,787,135	4,435,214	11,808,286	28,014,019	15,422,139	107,477	–
Placements from banks and other financial institutions	31,214,348	31,669,654	–	7,681,425	6,075,166	17,402,968	510,095	–
Financial assets sold under repurchase agreements	46,141,066	46,150,782	–	45,144,440	1,006,342	–	–	–
Deposits from customers	431,341,443	440,897,089	213,085,921	13,802,071	21,834,622	73,576,310	118,598,165	–
Debt securities issued	76,054,620	80,767,756	–	7,150,086	20,191,626	39,786,506	2,080,000	11,559,538
Lease liabilities	843,723	912,415	–	19,663	73,562	212,773	549,729	56,688
Total non-derivative financial liabilities	689,050,795	704,873,652	217,584,745	89,657,160	87,063,919	177,106,136	121,845,466	11,616,226
Loan commitments	–	9,342,671	–	9,342,671	–	–	–	–

	2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	16,644,752	16,959,549	–	1,312,492	2,337,353	13,309,704	–	–
Deposits from banks and other financial institutions	61,578,074	62,613,051	4,431,939	9,846,441	23,986,766	24,235,565	112,340	–
Placements from banks and other financial institutions	28,058,729	28,453,097	–	10,202,681	5,843,185	12,407,231	–	–
Financial liabilities at fair value through profit or loss	20,437	20,442	–	20,442	–	–	–	–
Financial assets sold under repurchase agreements	66,544,904	66,572,805	–	62,927,340	3,645,465	–	–	–
Deposits from customers	389,731,529	398,303,951	188,079,105	13,213,635	24,777,529	71,272,335	100,832,895	128,452
Debt securities issued	79,720,418	86,147,023	–	5,502,393	21,854,110	40,591,494	6,116,686	12,082,340
Lease liabilities	973,877	1,079,451	–	23,262	87,029	251,726	650,370	67,064
Total non-derivative financial liabilities	643,272,720	660,149,369	192,511,044	103,048,686	82,531,437	162,068,055	107,712,291	12,277,856
Loan commitments	–	20,392,315	–	20,392,315	–	–	–	–

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(c) Liquidity risk (Continued)

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

The following tables analyse the Group's contractual undiscounted cash flows of derivative financial instruments to be settled on a net and gross basis as at the end of the reporting period:

	2020							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Derivatives settled on net basis								
Foreign exchange forwards	–	–	–	–	–	–	–	–
Interest rate swaps	5,713	6,428	–	(10)	–	(3)	6,441	–
Derivatives settled on gross basis								
Currency swaps								
– cash outflow	(1,901,185)	(1,903,919)	–	(70,494)	(351,757)	(1,481,668)	–	–
– cash inflow	1,909,500	1,930,953	–	71,107	355,341	1,504,505	–	–
Total	14,028	33,462	–	603	3,584	22,834	6,441	–

	2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Derivatives settled on net basis								
Foreign exchange forwards	(279,084)	(288,371)	–	(24,060)	(226,502)	(37,809)	–	–
Currency swaps	(1,151)	(24,384)	–	(3,911)	(13,774)	(6,699)	–	–
Derivatives settled on gross basis								
Interest rate swaps								
– cash outflow	(15,504)	(15,727)	–	(666)	(3,050)	(12,011)	–	–
– cash inflow	15,136	15,353	–	656	2,965	11,732	–	–
Total	(280,603)	(313,129)	–	(27,981)	(240,361)	(44,787)	–	–

The Group's derivatives include foreign exchange forwards and currency swaps which will be settled on a net basis, and interest rate swaps which will be settled on a gross basis.

This analysis of the derivative financial instruments by contractual undiscounted cash flow might diverge from actual results.



Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

45 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of each reporting period.

(ii) Investments and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period. The Group has established policies and internal controls with respect to the measurement of fair values, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Fair value (Continued)

(a) Methods and assumptions for measurement of fair value (Continued)

(iv) *Derivative financial liabilities*

The fair values of foreign currency forward and swaps contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the reporting period, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows.

(b) Fair value measurement

(i) *Financial assets*

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, finance lease receivables and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers and finance lease receivables are mostly priced at floating rates close to the PBoC rates. Accordingly, the carrying amounts approximate the fair values. The fair values of Loans and advances to customers measured at fair value through other comprehensive income, are based on valuation techniques.

Financial investments at fair value through other comprehensive income and financial investments at fair value through profit or loss are stated at fair value. The carrying amount of financial investments at amortised cost is the reasonable approximations of its fair values because, for example, it is short-term in nature or repriced at current market rates frequently.

(ii) *Financial liabilities*

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers and subordinated debt securities issued.

Financial liabilities designated at fair value through profit or loss is presented with fair value. The book value and fair value of debt securities issued is presented in Note 33. The carrying amounts of other financial liabilities approximate their fair value.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Fair value (Continued)

(c) Fair value hierarchy

The following table presents the fair value of the Bank's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

Level 3: Fair value measured using significant unobservable inputs

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, and credit spreads. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

	2020			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	21,390,636	89,757	21,480,393
Derivative financial assets	–	30,989	–	30,989
Financial investments at fair value through other comprehensive income	–	47,277,634	23,896	47,301,530
Loans and advances to customers measured at fair value through other comprehensive income	–	36,885,509	–	36,885,509
Total	–	105,584,768	113,653	105,698,421
Liabilities				
Derivative financial liabilities	–	16,961	–	16,961
Total	–	16,961	–	16,961

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	2019			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	41,592,135	593,319	42,185,454
Derivative financial assets	–	15,138	–	15,138
Financial investments at fair value through other comprehensive income	–	53,451,252	23,896	53,475,148
Loans and advances to customers measured at fair value through other comprehensive income	–	25,981,033	–	25,981,033
Total	–	121,039,558	617,215	121,656,773
Liabilities				
Financial liabilities at fair value through profit or loss	–	20,437	–	20,437
Derivative financial liabilities	–	295,741	–	295,741
Total	–	316,178	–	316,178

During the reporting period, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

46 Entrusted lending business

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognized in the statement of financial position. Surplus funding is accounted for as deposits from customers.

	2020	2019
Entrusted loans	17,526,010	22,588,712
Entrusted funds	17,526,010	22,588,712

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

47 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	2020	2019
Bank acceptances	46,445,798	45,126,569
Letters of credit	9,238,004	13,298,001
Loan commitments	8,339,988	20,392,315
Letters of guarantees	4,400,256	3,983,305
Total	68,424,046	82,800,190

The Group may be exposed to credit risk in all the above credit businesses. Group Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount

	2020	2019
Credit risk-weighted amount	27,343,162	37,643,903

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the former CBRC.

(c) Capital commitments

As at December 31, the Group's authorized capital commitments are as follows:

	2020	2019
Contracted but not paid for	503,032	231,697
Approved but not contracted for	477	11,825
Total	503,509	243,522

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

47 Commitments and contingent liabilities (Continued)

(d) Outstanding litigations and disputes

As at December 31, 2020, the Group was the defendant in certain pending litigation and disputes with an estimated gross amounts of RMB128.14 million (2019: RMB717.02 million). The Group recognised the related litigation provision, which they believed to be reasonable and sufficient.

48 Company-level statement of financial position

	Note	2020	2019
Assets			
Cash and deposits with the central bank		64,217,759	70,872,293
Deposits with banks and other financial institutions		10,968,884	6,712,491
Placements with banks and other financial institutions		30,108,183	21,976,611
Derivative financial assets		30,989	15,138
Financial assets held under resale agreements		15,819,524	16,838,550
Loans and advances to customers		339,004,653	283,688,087
Financial investments:			
Financial investments at fair value through profit or loss		21,480,393	42,176,421
Financial investments at fair value through other comprehensive income		45,785,194	52,735,645
Financial investments at amortised cost		170,615,595	156,407,156
Investments in subsidiaries and joint venture	23	6,182,162	6,183,968
Property and equipment		4,109,022	4,147,089
Deferred tax assets		4,432,787	3,438,586
Goodwill		468,397	468,397
Other assets		8,071,204	8,382,831
Total assets		721,294,746	674,043,263

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Company-level statement of financial position (Continued)

	2020	2019
Liabilities and equity		
Liabilities		
Borrowing from central bank	43,720,644	16,386,752
Deposits from banks and other financial institutions	61,256,711	62,714,963
Placements from banks and other financial institutions	9,818,418	8,532,085
Financial liabilities at fair value through profit or loss	—	20,437
Derivative financial liabilities	16,961	295,741
Financial assets sold under repurchase agreements	46,081,066	66,544,904
Deposits from customers	419,356,135	379,211,878
Income tax payable	775,376	673,224
Debt securities issued	76,074,593	76,559,274
Other liabilities	6,121,871	6,237,002
Total liabilities	663,221,775	617,176,260
Equity		
Share capital	20,075,000	20,075,000
Other equity instruments		
– Preference shares	9,632,791	9,632,791
Capital reserve	14,888,453	15,177,917
Surplus reserve	2,115,521	1,818,292
General reserve	9,052,817	8,404,853
Retained earnings	2,308,389	1,758,150
Total equity	58,072,971	56,867,003
Total liabilities and equity	721,294,746	674,043,263

49 Subsequent events

The Group had no material events for disclosure subsequent to December 31, 2020 and up to the date of this Financial Statements.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Comparative figurers

Certain comparative figures have been adjusted to conform current year's presentation and to provide comparative amounts in respect of items disclosed in 2020.

51 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2020

Up to the date of issue of these financial statements, a number of amendments, new standards and interpretations are issued which are not yet effective for the year ended December 31, 2020 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting period beginning on or after
Amendments to IFRS 3, Reference to the Conceptual Framework	January 1, 2022
Amendments to IAS 16, Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
Amendments to IAS 37, Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
Annual Improvements to IFRSs 2018-2020 Cycle	January 1, 2022

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Unaudited supplementary financial information

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial report, and is included herein for information purpose only.

1 Liquidity coverage ratio and leverage ratio

	2020	Average for 2020
Liquidity coverage ratio (RMB and foreign currency)	209.76%	193.51%
	2019	Average for 2019
Liquidity coverage ratio (RMB and foreign currency)	158.83%	130.97%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively.

Leverage ratio

	December 31, 2020	December 31, 2019
Leverage ratio	6.94%	7.23%

Pursuant to the Leverage Ratio Management of Commercial Banks issued by the former CBRC and was effective since April 1, 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.

2 Net stable funding ratio

	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Available stable funding	406,771,854	402,580,421	401,390,274	386,988,782	373,261,485
Required stable funding	396,182,378	366,247,665	356,557,463	343,581,430	340,227,052
Net stable funding ratio	102.67%	109.92%	112.57%	112.63%	109.71%

Unaudited supplementary financial information

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Currency concentrations

	December 31, 2020			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	20,385,866	3,732,440	23,870	24,142,176
Spot liabilities	(6,511,786)	(16,865)	(14,889)	(6,543,540)
Net position	13,874,080	3,715,575	8,981	17,598,636

	December 31, 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	18,882,208	4,486,403	22,265	23,390,876
Spot liabilities	(4,511,919)	(11,227)	(11,860)	(4,535,006)
Net position	14,370,289	4,475,176	10,405	18,855,870

The Group has no structural position at the end of Reporting Period.

4 International claims

The Bank is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include amounts due from banks and other financial institutions and financial investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	December 31, 2020			
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	Total
Asia Pacific	6,238,037	—	6,935,374	13,173,411
North America	105,692	—	—	105,692
Others	5,451	—	—	5,451
	6,349,180	—	6,935,374	13,284,554

Unaudited supplementary financial information

(Expressed in thousands of Renminbi, unless otherwise stated)

	December 31, 2019			
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	Total
Asia Pacific	4,452,748	–	8,941,321	13,394,069
North America	4,450	–	–	4,450
Others	4,023	–	–	4,023
	4,461,221	–	8,941,321	13,402,542

5 Gross amount of overdue loans and advances

	December 31, 2019	December 31, 2018
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	1,410,524	1,266,448
– between 6 months and 1 year (inclusive)	1,999,759	1,574,855
– over 1 year	3,742,311	2,966,616
Total	7,152,594	5,807,919
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.39%	0.42%
– between 6 months and 1 year (inclusive)	0.56%	0.53%
– over 1 year	1.05%	0.99%
Total	2.00%	1.94%

Definitions

“Articles of Association”	The articles of association of the Bank as may be amended, supplemented or otherwise modified from time to time
“Bank”, “our Bank”, “we”, “us”, or “Zhongyuan Bank”	Zhongyuan Bank Co., Ltd. (中原銀行股份有限公司), a joint stock company established on December 23, 2014 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches and all subsidiaries
“Board” or “Board of Directors”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“CBIRC”	China Banking and Insurance Regulatory Commission
“CBRC”	China Banking Regulatory Commission, the predecessor of China Banking and Insurance Regulatory Commission
“CIRC”	China Insurance Regulatory Commission, the predecessor of China Banking and Insurance Regulatory Commission
“CSRC”	China Securities Regulatory Commission
“CBIRC Henan Office”	China Banking and Insurance Regulatory Commission Henan Office
“China” or “PRC”	the People’s Republic of China, but for the purpose of this annual report only, excluding Hong Kong, Taiwan and Macau Special Administrative Region of the PRC
“Commercial Banking Law”	the Commercial Banking Law of the PRC (中華人民共和國商業銀行法)
“Consumer Finance Company”	Henan Zhongyuan Consumer Finance Co., Ltd. (河南中原消費金融股份有限公司), a joint stock company established in the PRC on December 29, 2016 and a subsidiary of our Bank
“Corporate Governance Code”	the Code on Corporate Governance and the Report on Corporate Governance under Appendix 14 to the Hong Kong Listing Rules
“Directors”	directors of the Bank
“Domestic Shares”	ordinary shares of RMB1.00 each in the share capital of the Bank, which are subscribed for or credited as paid up in Renminbi

“H Shares”	ordinary shares of RMB1.00 each in the share capital of the Bank, which are listed on the Hong Kong Stock Exchange
“Preference Shares” or “Offshore Preference Shares”	69,750,000 shares of non-cumulative perpetual Offshore Preference Shares with a nominal value of RMB100 each issued by the Bank and listed on the Hong Kong Stock Exchange
“HK\$”	the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Date”	July 19, 2017, the date on which dealings in the H Shares commence on the Main Board of Hong Kong Stock Exchange
“Lushi Zhongyuan County Bank”	Lushi Zhongyuan County Bank Co., Ltd. (盧氏中原村鎮銀行股份有限公司), a joint stock company established in the PRC on May 15, 2012 and a subsidiary of our Bank
“Main Board”	the stock market operated by the Hong Kong Stock Exchange (excluding the option market), independent of and to be operated in parallel with the GEM Board of the Hong Kong Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
“Nine County Banks”	Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司), Linzhou Zhongyuan County Bank Co., Ltd., (林州中原村鎮銀行股份有限公司), Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行股份有限公司), Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行股份有限公司), Xiping Caifu County Bank Co., Ltd. (西平財富村鎮銀行股份有限公司), Suiping Zhongyuan County Bank Co., Ltd. (遂平中原村鎮銀行股份有限公司), Lushi Zhongyuan County Bank (盧氏中原村鎮銀行), Xiangcheng Huipu County Bank Co., Ltd. (襄城匯浦村鎮銀行股份有限公司) and Xinxiang Zhongyuan County Bank Co., Ltd. (新鄉中原村鎮銀行股份有限公司)
“PBoC” or “Central Bank”	The People’s Bank of China (中國人民銀行)
“Reporting Period”	the 12 months ended December 31, 2020

“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as may be amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	shares in the share capital of RMB1.00 each of the Bank, including Domestic Shares and H Shares
“Supervisors”	the supervisors of the Bank
“AB Leasing”	AB Leasing Co., Ltd. (邦銀金融租賃股份有限公司), a joint stock company incorporated in the PRC with limited liability and a subsidiary of our Bank