



中原銀行股份有限公司

ZHONGYUAN BANK CO., LTD.

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

Stock Code: 1216

Preference Shares Stock Code: 4617

2021
Annual Report



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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, PRC

Headquarters in China

Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province, 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 Directors²:

Mr. XU Nuojin (Chairman)
Mr. WANG Jiong
Mr. LI Yulin
Mr. WEI Jie

Non-Executive Directors³:

Ms. ZHANG Qiuyun
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 and/or deposit-taking business in Hong Kong.

² Due to work adjustments, Mr. DOU Rongxing, an executive Director and the chairman of the Board of the Bank, tendered his resignation to the Board on August 25, 2021, and resigned as an executive Director and the chairman and a member of the Strategy and Development Committee of the Bank. For more details, please refer to the Bank's announcement dated August 25, 2021. On September 6, 2021, the Bank convened the 32th meeting of the second session of the Board and proposed to appoint Mr. XU Nuojin as an executive Director of the second session of the Board of the Bank. On September 28, 2021, the Bank convened the 2021 First Extraordinary General Meeting, at which Mr. XU Nuojin was elected as an executive Director of the second session of the Board of the Bank. On September 29, 2021, the Bank convened the 33th meeting of the second session of the Board, and elected Mr. XU Nuojin as the Chairman and the chairman of the Strategy and Development Committee of the Bank. Qualification of Mr. XU Nuojin as a Director and the Chairman were approved by the China Banking and Insurance Regulatory Authority on November 12, 2021. For more details, please refer to the Bank's announcements dated September 6, 2021, September 28, 2021, September 29, 2021 and November 16, 2021, and the circular dated September 6, 2021.

³ Mr. LI Xipeng, a non-executive Director of the Board of the Bank, tendered his resignation to the Board on June 2, 2021 for personal reason of having to focus on his other personal job commitments, and resigned as a non-executive Director and a member of the Strategy and Development Committee of the Bank. For more details, please refer to the Bank's announcements dated June 2, 2021 and June 16, 2021. The directorship qualification of Ms. ZHANG Qiuyun as a non-executive Director of the Board of the Bank was approved by the China Banking and Insurance Regulatory Authority on January 21, 2021. For more details, please refer to the Bank's announcement dated January 25, 2021.

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Independent non-executive Directors:

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

Legal Representative⁴

Mr. XU Nuojin

Authorized Representatives

Mr. JIA Tingyu
Mr. ZHANG Ke

Joint Company Secretaries⁵

Mr. ZHANG Ke
Ms. CHAN Yin Wah

Unified Social Credit Code

9141000031741675X6

Financial License 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

⁴ With the approval of the Administration for Market Regulation Henan Province, the Bank will complete the registration of change of business license on November 29, 2021.

⁵ Ms. LEUNG Wing Han Sharon resigned as a joint company secretary of the Bank since March 30, 2022, and Ms. CHAN Yin Wah has been appointed as a joint company secretary since March 30, 2022. For more details, please refer to the Bank's announcement dated March 30, 2022.

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Legal Advisors as to PRC Laws

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

Legal Advisors as to Hong Kong Laws

Paul Hastings
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:

dongshihui@zybank.com.cn

Chapter 1 Corporate Information

2. Company Profile

Established on December 23, 2014, Zhongyuan Bank is the bank of people in central China and the only provincial corporate bank with institutions and outlets covering the whole Henan province and with high expectations from Henan Provincial Committee and the provincial government. 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, and actively conducted strategies of “Internetization and Ruralization of Banking Services (上網下鄉)”, “Digitalized Transformation” and “Strengthening the Bank with Talents”, achieving good results in development. As of the end of 2021, the Bank had total assets of RMB768.233 billion, operated 18 branches and 2 direct sub-branches with a total of 474 outlets. As a main promoter, it sponsored 9 county banks and 1 consumer finance company in Henan Province, and controlled AB Leasing Co., Ltd.. Zhongyuan Bank was awarded “Ten Best City Commercial Banks of the Year (年度十佳城市商業銀行)”, “Top Ten Iron-horse Banks (鐵馬十佳銀行)”, “Best Listed Company (最佳上市公司)”, “Outstanding City Commercial Bank of the Year (年度卓越城商行)” and other honors. Zhongyuan Bank ranked 185th amongst the top 1,000 banks in the world by The Banker (UK) in 2021 and was on Fortune’s list of China’s top 500 enterprises in 2021, ranking the 24th amongst the commercial banks on the list.

Looking forward, Zhongyuan Bank will give full play to the role of leadership of party building, escorting mechanism and cultural driving. Focusing on the strategic objectives of “achieving one trillion yuan of total assets or more, relisting on A-shares market, and building up our brand strengths (突破萬億、回歸A股、打響品牌)” and “making Zhongyuan Bank a century-old brand (打造百年基業、百年中原)”, with the business philosophy of “pursuing cooperation and win-win as a considerate professional (貼心、專業、合作、共贏)” and the brand image of “delivering services, pricing, and efficiency as best as we can (服務最好、定價最優、效率最高)”, Zhongyuan Bank will fully fulfill the solemn commitment of “serving strategies, entities, enterprises, and people (服務戰略、服務實體、服務企業、服務人民)” through the strategic path of “Internetization and Ruralization of Banking services, shaping our digital intelligence future, keeping to the right path while making innovations, and forging ahead (上網下鄉、數智未來、守正創新、砥礪前行)”, making the corporate culture of “treating the Bank as family, doing our best, becoming the best of ourselves; being considerate to customers, creating value, becoming the best bank; being employee-oriented, fair and decent, becoming the best leader (視行如家、盡心盡力·做最好的自己；貼心客戶、創造價值·做最好的銀行；員工為本、公道正派·做最好的領導)” deeply planted in central China, inspiring generations of Zhongyuan Bank staff to continue to strive towards the ambitious goal of “a century-old Zhongyuan Bank (百年中原)”.

Chapter 1 Corporate Information

3. Major Awards in 2021

- (1) On January 4, 2021, China Foreign Exchange Trading System & National Inter-bank Funding Center published the list of “the Result of Excellence Selection in Inter-bank Local Currency Markets (Institutional) for 2020”. The Bank won four awards in the inter-bank market in 2020, including “Core Trader”, “Outstanding Trader in Currency Market”, “Outstanding Bond Market Traders” and “Excellent Institution Participating in CFETS Interbank Deposits”.
- (2) On February 23, 2021, the Bank’s cross-border RMB clearing business was awarded the “Advanced Institution in ICIPIS User Community Promotion” by the Cross-Border Clearing Corporation of the People’s Bank of China (CIPS), which is the first time the Bank has received this award for its cross-border clearing business.
- (3) On March 27, 2021, the Bank was awarded the Urban Commercial Bank for 2020 in 14th “Golden Cicada Award”.
- (4) On May 27 to 28, 2021, the Bank’s “Zhongyuan Bank – Original Trust Series Property Rights Trust” project won the “Annual Award for Structured Financing” and “Annual Award for Innovative Institutions” of the 7th China Asset Securitization Forum.
- (5) On June 28, 2021, Zhongyuan Bank ranked 185th amongst the Top 1,000 World Banks 2021 by The Banker (UK).
- (6) On June 30, 2021, the Party Committee of the Bank was awarded the honorary title of “Advanced Enterprise Party Committee” by the State-owned Assets Supervision and Administration Commission of the People’s Government of Henan Province of the CPC.
- (7) On July 20, 2021, the Bank was included in the 2021 Fortune China 500 List, ranking 24th among the commercial banks listed.
- (8) On July 22, 2021, the Bank was included in the list of “Top 30 Best Practice Cases of Mobile Banking in 2021” jointly released by O1 Think Tank of O1 Caijing and China Retail Finance Think Tank.
- (9) On September 16, 2021, the Bank was awarded the “Golden Reputation Award (GRA)” for Excellent Asset Management Urban Commercial Banks.
- (10) On October 23, 2021, the Bank was awarded the “Top 10 Small and Medium Bank” of the Fourth “IRON-HORSE” small and medium bank selection by Modern Bankers.
- (11) On October 29, 2021, the Bank was awarded the “Gamma Award of Bank for Inclusive Financial Service in 2021”.

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- (12) On November 28, 2021, the Bank's financial solution for the construction industry, "Yuan Building Chain", won the "China Treasury Awards – Best Industry Solution Award" at the 2021 China Treasury Annual Conference.
- (13) On December 14, 2021, the Bank was awarded "Top 10 Outstanding Cases in 2021", "Top 10 Outstanding Cases of Online Influential Banks" and "Outstanding Cases of Channel Construction Innovation" in the "2nd Outstanding Cases Selection of Digital Finance and Payment Innovation of Urban Commercial Banks".
- (14) On December 16, 2021, the Bank was awarded the "Outstanding Regional Commercial Bank of the Year" in annual China E-bank industry selection by China Finance & Economics in 2021.
- (15) On December 29, 2021, the Bank's self-developed model management platform was awarded the "2021 Outstanding Contribution to Innovation in the Application of New Technologies in the Finance Industry" by Financial Computerizing.

Chapter 2 Financial Summary

	For the year ended December 31,					
	2021	2020	2021 vs 2020	2019	2018	2017
<i>(Expressed in millions of Renminbi, except percentages, unless otherwise stated)</i>						
Operating Results			Rate of Change (%)			
Net interest income	16,693.0	16,565.0	0.8	15,707.7	13,744.2	12,201.3
Net fee and commission income	1,932.5	1,786.4	8.2	1,767.5	1,280.2	769.6
Operating income	19,282.8	19,427.8	(0.7)	19,021.8	16,783.6	12,815.5
Operating expenses	(7,143.5)	(7,118.6)	0.3	(7,486.3)	(6,957.5)	(5,759.0)
Impairment losses on assets	(7,640.2)	(7,848.6)	(2.7)	(7,148.3)	(6,851.5)	(2,028.1)
Profit before tax	4,598.4	4,449.0	3.4	4,360.6	2,974.6	5,028.4
Net profit	3,633.3	3,354.7	8.3	3,206.0	2,365.3	3,905.7
Net profit attributable to equity shareholders of the Bank	3,565.0	3,300.8	8.0	3,163.8	2,414.6	3,838.7
Calculated on a per share basis (RMB)			Rate of Change (%)			
Net assets per share attributable to equity shareholders of the Bank ⁽¹⁾	2.57	2.42	6.2	2.35	2.25	2.25
Earnings per share ⁽²⁾	0.15	0.14	7.1	0.13	0.12	0.21
Profitability Indicators (%)			Change			
Return on average total assets ⁽³⁾	0.48	0.46	0.02	0.48	0.41	0.82
Return on average equity ⁽⁴⁾	5.99	5.70	0.29	5.52	5.43	9.57
Net interest spread ⁽⁵⁾	2.13	2.36	(0.23)	2.58	2.81	2.57
Net interest margin ⁽⁶⁾	2.31	2.48	(0.17)	2.67	2.83	2.76
Net fee and commission income to operating income	10.02	9.20	0.82	9.29	7.63	6.01
Cost-to-income ratio ⁽⁷⁾	35.95	35.61	0.34	38.45	40.59	44.00

Chapter 2 Financial Summary

	December 31, 2021	December 31, 2020	2021 vs 2020	December 31, 2019	December 31, 2018	December 31, 2017
<i>(Expressed in millions of Renminbi, except percentages, unless otherwise stated)</i>						
Capital adequacy ratio indicators⁽⁸⁾ (%)			Change			
Calculated based on the Administrative Measures for the Capital of Commercial Banks						
Core Tier-one capital adequacy ratio	8.70	8.59	0.11	8.51	9.44	12.15
Tier-one capital adequacy ratio	10.39	10.35	0.04	10.31	11.49	12.16
Capital adequacy ratio	13.30	13.20	0.10	13.02	14.37	13.15
Total equity to total assets	8.12	7.84	0.28	8.15	8.97	8.83
Asset quality indicators (%)			Change			
Non-performing loans to total loans ⁽⁹⁾	2.18	2.21	(0.03)	2.23	2.44	1.83
Allowance for loan impairment losses to non-performing loans ⁽¹⁰⁾	153.49	153.31	0.18	151.77	156.11	197.50
Allowance for loan impairment losses to total loans ⁽¹¹⁾	3.35	3.39	(0.04)	3.39	3.81	3.62
Other indicators (%)						
Loan-to-deposit ratio	86.56	84.01	2.55	77.71	73.48	64.85
Scale indicators			Rate of Change (%)			
Total assets	768,233.3	757,482.5	1.4	709,885.0	620,444.3	521,989.8
Of which: Net loans and advances to customers	378,116.5	347,656.8	8.8	291,230.1	246,551.7	191,708.8
Total liabilities	705,853.7	698,127.2	1.1	652,054.0	564,766.5	475,899.2
Of which: deposits from customers	455,692.2	431,341.4	5.6	389,731.5	349,387.0	306,708.3
Share capital	20,075.0	20,075.0	–	20,075.0	20,075.0	20,075.0
Equity attributable to equity shareholders of the Bank	61,210.1	58,261.5	5.1	56,744.7	54,857.5	45,268.9
Non-controlling interests	1,169.5	1,093.8	6.9	1,086.3	820.3	821.7
Total equity	62,379.6	59,355.3	5.1	57,831.0	55,677.8	46,090.6

Chapter 2 Financial Summary

Notes:

- (1) Calculated by dividing equity attributable to equity holders 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.
- (2) 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.
- (3) Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.
- (4) 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 shareholders of the Bank for the period as a percentage of weighted average balance attributable to shareholders of the Bank for the period.
- (5) 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.
- (6) Calculated by dividing net interest income by the daily average balance of total interest-earning assets.
- (7) Calculated by dividing operating expenses after deduction of taxes and surcharges by operating income.
- (8) 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.
- (9) 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.
- (10) Calculated by dividing allowance for impairment losses on loans and advances to customers by total non-performing loans. 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.
- (11) 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



In the past year, under the strong leadership of the CPC Central Committee with Comrade XI Jinping as the core, we saluted the CPC centenary, continued our endeavors, and embarked on a new journey of building China into a modern socialist country in an all-round way. The achievements made over the past one hundred years are inspiring, and the experience gained over the past one hundred years is enlightening. As a provincial legal person bank, we have integrated the great founding spirit of the CPC into our corporate culture; amidst risks and challenges, we assumed our share of responsibility and increased our reform efforts to create a new Zhongyuan Bank, new services and new future, with hard work and grit.

We strengthened the leading role of Party building to form a greater booster. In 2021, under the guidance of XI Jinping Thought on Socialism with Chinese Characteristics for a New Era, we had a deeper understanding of how to implement the spirit of the Sixth Plenary Session of the 19th CPC Central Committee, reinforced Party building in all respects, and integrated high-quality Party building with corporate governance, business development, and cadre team building and corporate culture building. In the practices of seeking progress, solidity and excellence while maintaining stability, we gathered powerful strength to embrace a new era, promote new finance, and present new actions. By the end of 2021, we achieved total assets of RMB768.233 billion, operating income of RMB19.283 billion and net profit of RMB3.633 billion, ranked 185th among the Top 1000 World Banks 2021 by The Banker (UK) and was included in the 2021 Fortune China 500 List with a ranking of 24 among the commercial banks listed.

Chapter 3 Chairman's Statement

We started a century-long journey with clear visions and goals. Our mentality points the direction out, which leads the way to our future. There is one thing always on our mind: helping people in central China to pursue a better life through meeting their needs for financial services, which serves as the start and end point of what we do. We kept strategic orientation of rooting in, cultivating, relying on, and serving central China (“扎根中原、深耕中原、依靠中原、服務中原”); outlined our vision of developing better finance, serving better society, and building the most trusted bank for people in central China (“建設美好金融，服務美好社會，做中原人民最信賴的銀行”); determined our aspirations of achieving one trillion yuan of total assets or more, relisting on A-shares market, and building up our brand strengths (“突破萬億、回歸 A 股、打響品牌”) and carving out the course of making Zhongyuan Bank a century-old brand (“打造百年基業、百年中原”); fostered the corporate culture of becoming the best version of oneself whether as an individual, a bank, or a leader (“做最好的自己、最好的銀行、最好的領導”); firmed our market positioning of serving strategies, real economy, enterprises, and people (“服務戰略、服務實體、服務企業、服務人民”) and our service tenet of pursuing cooperation and win-win as a considerate professional (“貼心、專業、合作、共贏”); decided that we would develop through Internetization and ruralization of banking services, shaping our digital intelligence future, keeping to the right path while making innovations, and forging ahead (“上網下鄉、數智未來、守正創新、砥礪前行”); promoted philosophy transformation, business transformation, digital intelligence transformation, and work style transformation (“理念轉型、業務轉型、數智轉型、作風轉型”); made us a bank delivering services, pricing, and efficiency as best as we can (“服務最好、定價最優、效率最高”); and strode confidently forward to build a first-class city commercial bank.

We advanced consolidation by merger to create development opportunities. In 2021, under the strong leadership and support of the provincial party committee and the provincial government, Zhongyuan Bank shouldered the heavy burden of reform by merging with Bank of Luoyang, Bank of Pingdingshan, and Bank of CTS Jiaozuo to promote the establishment of a new Zhongyuan Bank. In a new development phase, we implemented the new development philosophy fully, accurately and comprehensively, structured a new development pattern, and propelled high-quality development. The efforts to consolidation by merger not only marked our glorious initiation into the course of making Zhongyuan Bank a century-old brand, but provided a good chance for Henan Province's financial sector to achieve breakthrough developments. After the consolidation is completed, the total assets of the new Zhongyuan Bank will have exceeded one trillion yuan, and with such significant increase in our capital strength, we will be one of the top city commercial banks in China. This new start will bring us new development opportunities.

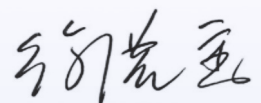
We rooted in central China and served this wonderful land. In 2021, central China suffered from the COVID-19 pandemic and flooding. As a provincial legal person bank, we demonstrated humanity and sense of responsibility when people and enterprises were affected by such disease and disaster. Our development has always aligned with that of the regional economy and our original aspiration and founding mission were manifested in serving the construction of modern Henan. We proactively responded to the major strategies such as the ecological protection and high-quality development of the Yellow River Basin, and facilitating the rise of the central region of China, focused on key areas such as new infrastructure and new urbanization initiatives and major projects (“兩新一重”), industrial transformation and upgrading, and rural revitalization, and provided comprehensive and customized service solutions. We launched standardized products such as distributor support plans and government procurement loans, and made good and flexible use of various national and provincial support policies for micro, small and medium-sized enterprises, and in this way we joined governments' efforts to solve the difficulties facing micro and small businesses. Also, we took the initiative to execute our implementation plan for the “10,000 people helping 10,000 enterprises” activities (“萬人助萬企”) and fully satisfied the funding needs in areas such as post-disaster reconstruction, people's livelihood guarantee, work resumption, and pandemic prevention and control, to fulfill our financial responsibility.

Chapter 3 Chairman's Statement

We fortified risk control to ensure stable development. In 2021, bearing risk prevention and control in mind, we picked up speed to construct a digital risk control system, improved the building of a new credit system covering loan origination, loan servicing and recovery, and enhanced the level of whole-journey intelligent risk control online. We made solid progress in reducing the existing non-performing assets and controlling the new ones by reducing the scale of non-performing assets as much as possible and strictly preventing the new ones from deterioration, thus ensuring stable asset quality. Besides, we proceeded to better the internal control system, take actions proposed by a CBIRC's initiative titled "A Year for Internal Control and Compliance Management Construction", strengthened employee behavior management, and deepened our philosophy of actively complying with laws and regulations, so as to keep our high-quality development far away from risks.

We gathered strength to keep to the right path while making innovations and empowered our future with digital intelligence. In 2021, keeping to the right path while making innovations and orienting to digital intelligence future, we accelerated digital transformation, and continued to invest efforts in digital products creation and design, omni-channel digital operation, and digital risk control system, and through a scenario-driven, technology-enabled, open and win-win operation model, we chipped in building a good ecosystem for financial services. We integrated and optimized mobile banking and other digital channels, created the "Yidiantong (一點通)" brand of Zhongyuan Bank which won us the title of "TOP 30 Best Practice Cases of Mobile Banking in 2021 (2021 年手機銀行最佳實踐案例 TOP30)". In addition, we often engaged in technical exchanges with leading enterprises in the area of new technology innovation, and worked with them to explore the cooperation in "innovative technology + financial business scenarios", and made great strides in the journey of building a technology-enabled and digital intelligence-empowered bank.

We will always stay true to our original aspiration no matter how long the journey ahead is. The 20th National Party Congress of the Chinese Communist Party is going to be convened in 2022 which is also the first year for us to initiate the course of making Zhongyuan Bank a century-old brand. On this new journey, we will progress tirelessly against all odds, follow the overarching leadership of the CPC, commit to the responsibilities of China as a large nation, keep refining the quality of our financial services and make new contributions to ensure Henan province's high-quality building of modernization and high-level realization of modernization ("兩個確保") and facilitate the implementation of Henan province's ten strategies. After the consolidation by merger is completed, the new Zhongyuan Bank will definitely live up to the mission assigned by the times and the expectations of the CPC and the people, and will dedicate outstanding performance to the 20th National Party Congress of the Chinese Communist Party.



XU Nuojin
Chairman

Chapter 4 President's Statement



2021 was a pivotal year for Zhongyuan Bank's reform and development history, during which the "14th Five-Year Plan" and the new journey of fully building a modern socialist country both kicked off. Amid the complicated situation where major changes unseen in a century mingling with the COVID-19 outbreak and flooding, we enhanced operations management, served the real economy, played a role in local development, and promoted reform and transformation with an eye on the future, and all these were grounded in the current situations facing us. In addition, it is the Party Committee and the Board of Directors of the head office that guided us through this remarkable year.

Our gains came from our painstaking efforts to make us stronger on the road ahead, during which our foundation of operations management became far more solid and the favorable factors more significant. As of the end of 2021, our total assets increased by RMB10.750 billion or 1.4% to RMB768.233 billion as compared to the beginning of the year. The balance of deposits (excluding accrued interest) amounted to RMB448.425 billion, representing an increase of RMB23.443 billion or 5.5% as compared to the beginning of the year. The balance of all types of loans (excluding accrued interest) amounted to RMB388.160 billion, representing an increase of RMB31.134 billion, or 8.7% as compared to the beginning of the year. Our operating income achieved RMB19.283 billion, the cost-to-income ratio was 35.95%, within the budget target.

Chapter 4 President's Statement

Taking the initiative to be a part of the big picture, we fully supported local economic construction, served communities and people's livelihood, and strived to build a bank for central China's people, acting on the mission assigned by the times. Our actions were guided by furnishing services in the four areas described as follows. **In terms of serving strategies**, we originated loans of RMB60.81 billion for constructing major projects for the implementation of national strategies such as the ecological protection and high-quality development in the Yellow River basin and promoting the rise of central China. **In terms of serving real economy**, we provided lifecycle support for the high-quality development of the manufacturing industry and primarily for major projects; we delivered financing of RMB54.49 billion in 2021. We created and designed scenario-based products empowered by digitalization to improve the accessibility of loans for small and micro enterprises; in 2021, we financed an aggregate of 50,200 small and medium-sized clients with RMB32.16 billion under inclusive finance. **In terms of serving enterprises**, we participated in the "10,000 people helping 10,000 enterprises" activities, supported post-disaster reconstruction, and fulfilled our share of responsibility as a bank by distributing loans of RMB12.1 billion for the campaign and special loans of RMB19.54 billion for the Post-Disaster Reconstruction and Work Resumption program. **In terms of serving people**, we built a scenario eco-system, worked with the allies from other sectors and leveraged smart communities and smart campuses, etc., to bring convenient "Life + Finance" services to people's finger tips. We established a center for creating and designing debts products, including deposits products related to child growth, youth entrepreneurship, and elderly's retirement which cover a person's life cycle. We also used permanent loans and other products as attractions and enriched the meaning of consumption by credit cards to help release new consumption vitality.

Committed to bettering the financial service environment in rural areas by delivering more inclusive financing services and products, we established 131 county-level sub-branches (including sub-branches targeting at small and micro businesses), 72 township sub-branches, and 7,129 inclusive financial service outlets, which benefitted more than 10 million rural residents. We piloted a project making loan origination accessible to all qualified residents in the villages where our loans were available, and supported the development of agriculture-related industrial chains with an industrial finance and ecosphere view, and the balance of agriculture-related loans reached RMB72.679 billion. We gave full play to the role of financial services in people's life by delivering payroll service to another 110,000 accounts for migrant workers throughout the year. Moreover, we devoted to serving the construction of digital villages and launched Village Online 2.0 whose registered users reached 1.039 million households; we established a payment and settlement system for enterprises engaging in grain procurement and storage, through which the funds generating from grain procurement and storage were transferred to farmers within 24 hours directly without any costs.

We deepened the digital intelligence transformation to achieve empowering, advanced the implementation of our digital transformation strategy with an all-out effort, and built 263 systems covering banking channels, clients' management, and products and services. The application of technologies such as 5G, big data, and artificial intelligence was furthered; the transformation of the enterprise-class technical architecture was accelerated; the construction of our technology middle platform, business middle platform and cloud platform was propelled; the DevOps maturity standards were applied, which markedly improved our R&D efficiency. Based on a scene-based approach, we built "Tianji" and other digital product matrices, enriched the "1+N" product line of joint innovation business, started to develop open banking, and rolled out a collection of debit cards named "Laojia Henan (老家河南)" jointly with Henan province's department of culture and tourism. Our mobile banking "Yidiantong (一點通)" was created with users reaching 9.2152 million.

Chapter 4 President's Statement

We are strictly complying with laws and regulations as the most important step to mitigate risks and thus securing safe development. Compliance with laws and regulations serves as the bottom line of our operations management and an extra effort was made to dispose of non-performing loans, which laid a solid foundation for our development. We strengthened the awareness and implementation of prudent risk preference, adjusted loan origination strategy when appropriate and optimized loan origination structure, to ensure high-quality business development. We got on with promoting the construction of our digital risk control system and successfully launched the functions for the third phase of the next-generation credit system, a model management platform, and an enterprise-class anti-fraud platform and bolster our digital risk control capabilities were bolstered. Furthermore, we fortified the rudimentary management of compliance, continued to improve the internal control system, deepened the fine management of business processes and operational risks, and took actions proposed by a CBIRC's initiative titled "A Year for Internal Control and Compliance Management Construction (內控合規管理建設年)".

Concentrating on reform and development, we implemented the decision and plan of the Henan Provincial Party Committee and Henan provincial government to deepen reform in the financial sector, spared no effort to promote our consolidation of Bank of Luoyang, Bank of Pingdingshan, and Bank of CTS Jiaozuo by mergers, and pooled together the strengths to support Henan province's major strategies, major projects and serve the people in central China, to create a new Zhongyuan Bank, new services, and a new future.

In 2022, Zhongyuan Bank will set off on a new journey and rise to new challenges. Long and bumpy as the road ahead may be, our glorious mission will encourage us to advance philosophy transformation, business transformation, digital intelligence transformation, and work style transformation, make every effort to promote the construction of a first-class city commercial bank, and aspire to become a helper in the life and work and a pillar of entrepreneurship and later life for people in central China. The foregoing work will be based on the course of making Zhongyuan Bank a century-old brand, under the guidance of Party building, during our pursuit of progress, solidity and excellence while maintaining stability, and around our market orientation of serving strategies, real economy, enterprises, and people. Ultimately, we will make Zhongyuan Bank the most trusted bank for people in central China.



WANG Jiong
President

Chapter 5 Management Discussion and Analysis

1. Past Economic and Financial Environment and Future Prospects

During the Reporting Period, the global economic recovery has slowed down since the second half of 2021 due to the recurrence of the epidemic, the supply chain bottlenecks have not yet been fundamentally relieved, overseas inflationary pressure has increased, and structural changes have appeared in the labor markets of developed economies. Looking ahead, there are still great uncertainties in the pandemic situation, inflation trend and macro policy adjustments in developed economies, and the possible accompanying economic and financial risks cannot be ignored.

During the Reporting Period, China's economy continued to recover and develop, reform and innovation were further advanced, living standards were ensured forcefully and effectively, new steps were taken in building a new development pattern, and new results were achieved in high-quality development. The GDP amounted to RMB114,367 billion, representing an increase of 8.1% over last year. The economic growth rate ranked among the top in the world's major economies. Market sales have been expanded. The total retail sales of consumer goods amounted to RMB44,082.3 billion, representing an increase of 12.5% over last year. Investment scale continued to expand. The fixed asset investment (excluding farmers) was RMB54,454.7 billion, representing an increase of 4.9% over last year. The import and export of goods grew rapidly, with a total import and export volume of RMB39,100.9 billion, representing an increase of 21.4% over last year. The consumer price index (CPI) increased moderately, up by 0.9% as compared with last year. The growth in resident income was generally simultaneous with the economic growth, with RMB35,128 of per capita disposable income of residents, representing an actual increase of 8.1%. Faced with the complex and severe economic environment, the fundamentals of China's long-term economic upturn and the favorable conditions for building a new development pattern have not changed. New economic growth points will continue to emerge and are expected to achieve steady progress.

During the Reporting Period, facing the negative impact from the COVID-19, floods and other factors on the economic development, the economic operation in Henan Province showed strong resilience and vitality, and the development quality and efficiency steadily improved. The GDP was RMB5,888,741 million, representing a year-on-year increase of 6.3%. Fixed asset investment saw steady recovery. The fixed asset investment increased by 4.5% year on year. Consumer goods market continued its recovery, with the total retail sales of consumer goods reaching RMB2,438,170 million, up 8.3% year on year. Resident income kept growing and the per capita disposal income of residents was RMB26,811, representing an increase of 8.1%. Foreign trade achieved new breakthroughs, with the total import and export value amounting to RMB820,810 million, representing an increase of 22.9%, which was 1.5 percentage points higher than the national average level. Looking ahead to 2022, Henan Province faces a favorable internal and external environment on the whole, sustained economic recovery, huge growth potential, increasing superimposed effects of major strategies, expanding comprehensive competitive advantages, and economic operation is expected to remain in a reasonable range.

Chapter 5 Management Discussion and Analysis

During the Reporting Period, the Central Bank intensified its efforts in cross-cycle adjustment, the prudent monetary policies were flexible, precise, reasonable and appropriate, and the quality and efficiency of monetary policy in serving the real economy continued to improve. Total monetary credit recorded reasonable growth. The balance of broad money supply (M2) amounted to RMB238.3 trillion, representing a year-on-year increase of 9.0%. The stability of total credit growth has increased significantly, with the balance of RMB and foreign currency loans of financial institutions reaching RMB198.5 trillion, representing a year-on-year increase of 11.3%. Public financing saw a reasonable growth with the scale of existing public financing amounting to RMB314.13 trillion, representing a year-on-year increase of 10.3%. The RMB exchange rate fluctuated in both directions and remained basically stable at an appropriate and balanced level, giving play to the role as an automatic stabilizer of macroeconomics and international payments. In the next step, the Central Bank will insist on highlighting stability and seeking progress while maintaining stability and maintain prudent monetary policies in a flexible and appropriate manner, intensify efforts in cross-cycle adjustment, comprehensively use a variety of monetary policy instruments to maintain reasonably abundant liquidity, enhance the stability of total credit growth, and keep the growth rate of the money supply and social financing scale basically matching the nominal economic growth rate.

2. Overall Operation Overview

During the Reporting Period, faced with multiple challenges such as epidemic, floods and economic downturn, the Bank focused on the three small development goals of “exceeding RMB1 trillion, returning to A shares and building a brand” and one major development goal of “establishing a hundred-year foundation and a hundred-year Zhongyuan”. Centering on the strategic priorities of “serving the strategy, serving the entity, serving the enterprise and serving the people”, the Bank reinforced its responsibility, insisted on the drive of reform and innovation, improved the quality and efficiency of financial services, and fully supported the high-quality development of economy in Henan, thus maintaining a steady development trend.

Chapter 5 Management Discussion and Analysis

Business scale grew steadily with stable and increasing economic benefit. The Bank implemented the concept of “consideration, profession, cooperation and win-win results” for our service, insisted on “seeking improvement in stability, solid foundation and excellence amid stability”, comprehensively enhanced the efficiency of serving the real economy and achieved steady development. Firstly, steady growth was seen in business scale and continuous improvement was made in structure of assets and liabilities. As of December 31, 2021, the Bank’s total assets amounted to RMB768,233 million, representing an increase of RMB10,750 million or 1.4% as compared to the beginning of the year. The total loans (excluding accrued interest) amounted to RMB388,160 million, representing an increase of RMB31,134 million, or 8.7% as compared to the beginning of the year. The balance of deposits (excluding accrued interest) amounted to RMB448,425 million, representing an increase of RMB23,443 million or 5.5% as compared to the beginning of the year. The Bank continuously enhanced support for the real economy, implemented the requirements of regulatory policies and achieved continuous optimization of the structure of assets and liabilities. The total loans with high yield (excluding accrued interest) accounted for 50.5% of the total assets, representing an increase of 3.4 percentage points as compared with the beginning of the year. Low-cost general deposits (excluding accrued interest) accounted for 63.5% of the total liabilities, representing an increase of 2.6 percentage points as compared with the beginning of the year. The high-cost interbank liabilities (including interbank deposits issued) accounted for 24.6% of the total liabilities, representing a decrease of 0.3 percentage point as compared with the beginning of the year. Secondly, business operations remained stable, with the operating quality and efficiency improving amid stability. The Bank recorded net profit of RMB3,633 million, representing a year-on-year increase of RMB278 million or 8.3%. The Bank made full use of the channels, continued to enrich products system and optimize income structure. The net profit of fees and commissions accounted for 10.02% of operating income, representing a year-on-year increase of 0.82 percentage point. The Bank constantly improved differentiated pricing system and strengthened management on duration compatibility to control the cost of liabilities. The net interest margin and net interest spread were 2.31% and 2.13%, respectively, maintaining the good level in industry.

Chapter 5 Management Discussion and Analysis

We actively fulfilled our corporate responsibilities and strongly supported regional development. Adhering to the strategic direction of “serving strategies, serving entities, serving enterprises and serving the people”, the Bank vigorously implemented the decisions and arrangements of national and provincial committees and governments, actively integrated into the general trend of Henan’s economic and social development, solidly served the real economy, fully supported post-disaster reconstruction and enterprises’ resumption of work and production, practiced inclusive finance, and assisted in rural revitalization, which injected financial strength into Henan’s economic development. Firstly, the Bank accurately implemented major national decisions and arrangements. Focusing on the implementation of national strategies including ecological protection and high-quality development of the Yellow River Basin and promotion of the rise of the central region, the Bank invested RMB60.81 billion in major projects, continuously diversified its financial services by issuing the country’s first financial bond of RMB2 billion for the ecological protection and high-quality development of the Yellow River Basin, and provided special support for the “Yellow River strategy”. Secondly, the Bank solidly served the development of the real economy. Insisting on “giving priority to projects”, the Bank supported the full lifecycle high-quality development of the manufacturing industry, empowered the creation of products for small and micro enterprises by technology, successively launched multiple innovative products such as government procurement loans, supermarket loans and dealer supporting schemes, and went live special customer group business models to provide customized financial solutions for small and micro customers. Thirdly, the Bank fully supported post-disaster reconstruction. The Bank took the initiative to assume social responsibility, gave play to its financial advantages, fully supported the capital needs in the areas of post-disaster reconstruction, protection of people’s livelihood, resumption of work and production and epidemic prevention and control, actively participated in the “10,000 people help 10,000 enterprises” campaign, and ensured the implementation of the policies of “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 “Guidance on Financial Support for Economic Restructuring and Transformation and Upgrading”. The Bank accumulatively provided RMB19.54 billion of credit support for post-disaster reconstruction, ranking the first among city commercial banks in the province in terms of total investment. The Bank issued the first debt financing instrument of non-financial enterprises of RMB500 million in the interbank market to provide special support for post-disaster reconstruction. The Bank adopted the measure of deferred repayment of principal and interest to alleviate the difficulties of affected enterprises and individuals, and the total amount of loans with deferred repayment of principal and interest in the affected areas reached RMB3.947 billion. The Bank guided the reduction of loan interest rates, implemented the policy of fee reduction and exemption, and actively issued low-interest loans to support small business and disaster relief loans, accumulatively providing RMB668 million of interest concessions to enterprises throughout the year and effectively reducing corporate financing and operating costs. After the flood disaster, the Bank promptly donated RMB13.32 million and RMB1.37 million of supplies to Henan Charity General Federation to support flood control and disaster relief in the province. Fourthly, the Bank practiced inclusive finance and assisted in rural revitalization. Leveraging the “three-in-one” service system of counties, townships and service stations, the Bank set up 131 county-level sub-branches, 72 township sub-branches and 7,129 service stations. The Bank piloted credit extension to credit villages as a whole, and supported the development of agricultural industry chain with industrial finance and ecosphere thinking. The Bank launched the “Village Online” version 2.0 and continued to improve the functions of “party affairs, government affairs, village affairs, business affairs and civil affairs” in the platform, with registered users amounting to 1.039 million, representing an increase of 819,000 over the beginning of the year, and continuing to promote the construction of digital villages.

Chapter 5 Management Discussion and Analysis

Digital and intelligent transformation was further advanced and technology empowered business development. Focusing on the transformation goal of “deepening the building of the digital application capacity of the whole bank and exploring from operational efficiency improvement to business model innovation”, the Bank continued to promote deep integration of digitalization and business development and entered a new stage of digital and intelligent transformation. Firstly, the management quality and efficiency were constantly improved. The Bank continuously promoted cost refinement apportionment, completed direct apportionment of labor costs in risk, accounting and technology lines, providing guidance for subsequent resource allocation, product pricing and comprehensive appraisal; continued to promote the construction of open bank, independently developed the open API platform to provide universal and standardized API bazaar and realize forward connection to application scenarios and backward docking to internal systems, and completed three scenario collections such as intra-bank supply chain, Internet credit and customer experience, effectively reducing business communication costs. Secondly, business development was steadily advanced. In respect of retail banking business, the Bank solidified the digital marketing system of the linkage between the head office and branches in retail, launched localized use cases of branches, and continued to improve the accuracy of data use cases in the head office and the sales conversion amount was RMB166,537 million. The Bank implemented normalized OKR and QBR management mechanisms to achieve effective coordination between the head office and the branches. In respect of corporate business, the Bank applied blockchain and other technologies to create an open and ecological supply chain platform, launched the dealer support plan to connect with 127 brand owners at the dealer level, obtained a list of more than 4,200 small and micro enterprise dealers in the province in total, and released a cumulative loan of more than RMB200 million. Relying on the mobile operating platform to accurately issue the corporate customer marketing clues, it realized the integration of CRM, new credit and other systems within the Bank, and gave full play to its advantages of mobility, OCR information collection and identification, and real-time positioning to reduce the burden and increase the efficiency of business marketing. In respect of financial market business, the Bank successfully launched the wealth management distribution system, and continuously improved the system layout; it continued to promote the online business and completed the construction of post-investment and early warning functions for interbank customers to realize the online and normalized post-investment and early warning management of interbank customers.

Asset quality remained stable with continuously improved risk prevention and control. The Bank maintained its prudent risk preference and continued to strengthen the construction of a comprehensive risk system and comprehensively promoted the prevention and resolution of financial risks. Firstly, the Bank steadily promoted the strategy of “reducing old and controlling new (降舊控新)”. The Bank took multiple measures including cash collection, litigation preservation and asset promotion to significantly reduce non-performing loans and high-risk assets and continuously optimize asset quality. As of December 31, 2021, the non-performing loan ratio was 2.18%, representing a decrease of 0.03 percentage point from the beginning of the year. Since the establishment of the Bank, the non-performing loan ratio of new loans has maintained a good level of less than 1%. Secondly, the Bank continued to promote the construction of smart risk control. The Bank successfully launched the new post-loan management system, model management platform and anti-fraud platform, and completed data collection and switching of the second-generation credit system. The new post-loan management system includes four modules: post-corporate loan, post-retail loan, retail loan collection and asset preservation, which has initially realized online, automated and smart post-loan management, with effectively improved quality and efficiency of risk control. As a pioneer system for model management of commercial banks nationwide, the Bank’s model management platform won the “Star Award for Digital Transformation in Banking Industry (銀行業數字化轉型星耀獎)” issued by the China Computer Federation, realizing online closed-loop control of the whole life cycle of risk models and providing platform support for comprehensive risk management.

Chapter 5 Management Discussion and Analysis

3. Analysis on Income Statement

For the year ended December 31, 2021, the Bank recorded net profit of RMB3,633 million, representing a year-on-year increase of 8.3%.

	For the year ended December 31,			
	2021	2020	Change	Rate of change
	(in millions of RMB, except percentages)			
Interest income	31,868.4	30,946.0	922.4	3.0%
Interest expense	(15,175.4)	(14,381.0)	(794.4)	5.5%
Net interest income	16,693.0	16,565.0	128.0	0.8%
Fee and commission income	2,478.0	2,247.2	230.8	10.3%
Fee and commission expense	(545.5)	(460.8)	(84.7)	18.4%
Net fee and commission income	1,932.5	1,786.4	146.1	8.2%
Net trading gains/(losses)	132.1	(184.5)	316.6	N/A
Net gains arising from investment securities	468.0	1,135.2	(667.2)	(58.8%)
Other operating income ⁽¹⁾	57.2	125.7	(68.5)	(54.5%)
Operating income	19,282.8	19,427.8	(145.0)	(0.7%)
Operating expenses	(7,143.5)	(7,118.6)	(24.9)	0.3%
Impairment losses on assets	(7,640.2)	(7,848.6)	208.4	(2.7%)
Share of gains/(losses) of joint ventures	99.3	(11.6)	110.9	N/A
Operating profit	4,598.4	4,449.0	149.4	3.4%
Profit before taxation	4,598.4	4,449.0	149.4	3.4%
Income tax	(965.1)	(1,094.3)	129.2	(11.8%)
Net profit	3,633.3	3,354.7	278.6	8.3%
Net profit attributable to				
Equity shareholders of the Bank	3,565.0	3,300.8	264.2	8.0%
Non-controlling interests	68.3	53.9	14.4	26.7%

Note:

- (1) 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, 2021, the Bank recorded net interest income of RMB16,693 million, representing an increase of RMB128 million or 0.8% as compared to last year. Particularly, a growth of net interest income of RMB2,307 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 RMB2,179 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, 2020 and 2021.

	For the year ended December 31,					
	2021			2020		
	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	377,806.3	19,516.2	5.17%	328,175.2	18,211.8	5.55%
Investment securities and other financial assets ⁽²⁾	210,339.5	7,780.4	3.70%	213,261.0	8,588.2	4.03%
Finance lease receivables	34,148.3	2,570.6	7.53%	30,597.0	2,316.7	7.57%
Deposits with the Central Bank	36,047.6	497.1	1.38%	37,056.7	517.5	1.40%
Deposits with banks and other financial institutions	12,468.6	116.6	0.94%	12,449.0	172.0	1.38%
Financial assets held under resale agreements	17,814.7	352.5	1.98%	19,383.8	371.2	1.92%
Placements with banks and other financial institutions	34,556.6	1,035.0	3.00%	26,754.2	768.6	2.87%
Total interest-earning assets	723,181.6	31,868.4	4.41%	667,676.9	30,946.0	4.63%
Interest-bearing liabilities						
Deposits from customers	430,528.5	8,387.8	1.95%	408,663.2	8,091.1	1.98%
Financial assets sold under repurchase agreements	28,602.0	718.9	2.51%	34,319.1	725.3	2.11%
Placements from banks and other financial institutions	33,778.7	1,026.5	3.04%	31,664.6	890.7	2.81%
Borrowings from the Central Bank	40,668.1	1,063.2	2.61%	25,667.8	758.5	2.96%
Deposits from banks and other financial institutions	54,119.1	1,552.0	2.87%	53,016.7	1,420.3	2.68%
Debt securities issued ⁽³⁾	77,020.1	2,427.0	3.15%	79,100.2	2,495.1	3.15%
Total interest-bearing liabilities	664,716.5	15,175.4	2.28%	632,431.6	14,381.0	2.27%
Net interest income		16,693.0			16,565.0	
Net interest spread⁽⁴⁾			2.13%			2.36%
Net interest margin⁽⁵⁾			2.31%			2.48%

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, 2021 vs 2020		
	Reasons for increase/(decrease)		
	Volume⁽¹⁾	Rate⁽²⁾	Net increase/ (decrease)⁽³⁾
	(in millions of RMB)		
Interest-earning assets			
Loans and advances to customers	2,754.2	(1,449.8)	1,304.4
Investment securities and other financial assets	(117.7)	(690.1)	(807.8)
Finance lease receivables	268.9	(15.0)	253.9
Deposits with the Central Bank	(14.1)	(6.3)	(20.4)
Deposits with banks and other financial institutions	0.3	(55.7)	(55.4)
Financial assets held under resale agreements	(30.0)	11.3	(18.7)
Placements with banks and other financial institutions	224.1	42.3	266.4
Changes in interest income	3,085.7	(2,163.3)	922.4
Interest-bearing liabilities			
Deposits from customers	432.9	(136.2)	296.7
Financial assets sold under repurchase agreements	(120.8)	114.4	(6.4)
Placements from banks and other financial institutions	59.5	76.3	135.8
Borrowings from the Central Bank	443.3	(138.6)	304.7
Deposits from banks and other financial institutions	29.5	102.2	131.7
Debt securities issued	(65.6)	(2.5)	(68.1)
Changes in interest expense	778.8	15.6	794.4

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, 2021, the Bank recorded an interest income of RMB31,868 million, representing an increase of RMB922 million or 3.0% 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, 2021, the Bank's interest income from loans and advances to customers recorded RMB19,516 million, representing an increase of RMB1,304 million or 7.2% 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 post-disaster reconstruction 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 RMB328,175 million to RMB377,806 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	2021 Interest income	Average yield	Average balance	2020 Interest income	Average yield
	(in millions of RMB, except percentages)					
Corporate loans	158,023.0	8,375.2	5.30%	144,568.6	8,238.8	5.70%
Discounted bills	40,850.1	1,025.7	2.51%	30,226.3	976.8	3.23%
Personal loans	178,933.2	10,115.3	5.65%	153,380.3	8,996.2	5.87%
Total	377,806.3	19,516.2	5.17%	328,175.2	18,211.8	5.55%

3.2.2 Interest income from investment securities and other financial assets

For the year ended December 31, 2021, the Bank's interest income from investment securities and other financial assets decreased by RMB808 million or 9.4% to RMB7,780 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 0.33 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.

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3.2.3 Interest income from finance lease receivables

For the year ended December 31, 2021, the Bank's interest income from finance lease receivables was RMB2,571 million, representing an increase of RMB254 million or 11.0% as compared with the same period of last year, primarily attributable to the increase in investment of assets 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, 2021, the Bank's interest income from deposits with the Central Bank decreased by RMB20 million or 3.9% to RMB497 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, 2021, the Bank's interest income from deposits with banks and other financial institutions decreased by RMB55 million or 32.2% to RMB117 million as compared with the same period of last year, primarily attributable to a decrease in the average yield 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, 2021, interest income from financial assets held under resale agreements decreased by RMB19 million or 5.0% to RMB353 million as compared with the same period of last year, primarily due to a decrease in the average balance of financial assets held under resale agreements.

3.2.7 Interest income from placements with banks and other financial institutions

For the year ended December 31, 2021, interest income from placements with banks and other financial institutions increased by RMB266 million or 34.7% to RMB1,035 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.

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3.3 Interest Expense

For the year ended December 31, 2021, the Bank's interest expense increased by RMB794 million or 5.5% to RMB15,175 million as compared with the same period of last year, primarily attributable to the increase in the volume of deposits from customers.

3.3.1 Interest expense on deposits from customers

For the year ended December 31, 2021, the Bank's interest expense on deposits from customers increased by RMB297 million or 3.7% to RMB8,388 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. 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.

	For the year ended December 31,					
	Average balance	2021 interest expense	Average cost	Average balance	2020 interest expense	Average cost
(in millions of RMB, except percentages)						
Corporate deposits						
Demand	121,405.8	898.8	0.74%	126,717.2	923.6	0.73%
Time	99,828.8	2,160.8	2.16%	91,477.6	2,114.5	2.31%
Sub-total	221,234.6	3,059.6	1.38%	218,194.8	3,038.1	1.39%
Personal deposits						
Demand	53,814.0	218.7	0.41%	47,687.2	202.4	0.42%
Time	155,479.9	5,109.5	3.29%	142,781.2	4,850.6	3.40%
Sub-total	209,293.9	5,328.2	2.55%	190,468.4	5,053.0	2.65%
Total deposits from customers	430,528.5	8,387.8	1.95%	408,663.2	8,091.1	1.98%

3.3.2 Interest expense on deposits from banks and other financial institutions

For the year ended December 31, 2021, the Bank's interest expense on deposits from banks and other financial institutions increased by RMB132 million or 9.3% to RMB1,552 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 average yield of deposits from banks and other financial institutions.

3.3.3 Interest expense on debt securities issued

For the year ended December 31, 2021, the Bank's interest expense on debt securities issued decreased by RMB68 million or 2.7% to RMB2,427 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.

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3.3.4 Net interest spread and net interest margin

The Bank's net interest spread decreased from 2.36% in last year to 2.13% in this year, while the Bank's net interest margin decreased from 2.48% for last year to 2.31% for the current year. The decreases in net interest spread and net interest margin were primarily attributable to (i) 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 (ii) 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, 2021, the Bank's net fee and commission income increased by RMB146 million or 8.2% to RMB1,933 million as compared to the same period last year. The main reason is that the Bank expanded business channels, enriched wealth management products system, and the scale effect of credit cards gradually emerged, and the net fee and commission income grew steadily as compared to the same period last year.

	For the year ended December 31,			
	2021	2020	Change	Rate of change
	(in millions of RMB, except percentages)			
Fee and commission income				
Bank card service fees	523.6	429.7	93.9	21.9%
Settlement and clearing service fees	333.5	234.7	98.8	42.1%
Agency service income	136.9	118.1	18.8	15.9%
Underwriting service income	513.3	530.7	(17.4)	(3.3%)
Acceptance and guarantee service fees	128.4	110.8	17.6	15.9%
Advisory and consulting fees	181.9	162.2	19.7	12.1%
Custodial service fees	72.5	218.6	(146.1)	(66.8%)
Wealth management business fees	587.9	442.4	145.5	32.9%
Sub-total	2,478.0	2,247.2	230.8	10.3%
Fee and commission expenses	(545.5)	(460.8)	(84.7)	18.4%
Net fee and commission income	1,932.5	1,786.4	146.1	8.2%

For the year ended December 31, 2021, the Bank realized bank card service fees income of RMB524 million, representing an increase of RMB94 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, 2021, the Bank realized wealth management business fees of RMB588 million, representing an increase of RMB146 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.

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For the year ended December 31, 2021, the Bank realized agency service income of RMB137 million, representing an increase of RMB19 million as compared to the same period last year, primarily due to the Bank's in-depth promotion of the construction of the wealth management system to meet the increasingly diversified asset allocation needs of customers and the rapid growth of agency sales service income from agency sales of insurance and asset management plans.

3.4.2 Net trading gains/(losses)

For the year ended December 31, 2021, the Bank's net trading gains were RMB132 million, representing an increase of RMB317 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, 2021, the Bank's net gains arising from investment securities amounted to RMB468 million, representing a decrease of RMB667 million as compared to the same period last year, primarily attributable to the decrease in the gains and losses from changes in fair value from financial investments at fair value through other comprehensive income for the current period.

3.5 Operating expenses

The Bank insisted on improving quality and efficiency, promoting income increase and reducing expenditures, kept strengthening the fine cost management and effectively controlled the cost and expenditure. For the year ended December 31, 2021, the Bank's operating expenses increased by RMB25 million or 0.3% to RMB7,144 million as compared to the same period last year.

	For the year ended December 31,			
	2021	2020	Change	Rate of change
	(in millions of RMB, except percentages)			
Staff costs				
Salaries, bonuses and allowances	2,849.6	2,995.1	(145.5)	(4.9%)
Staff welfare	275.7	296.3	(20.6)	(7.0%)
Social insurance and annuity	562.8	233.2	329.6	141.3%
Housing fund	240.9	211.6	29.3	13.8%
Employee education expenses and labor union expenses	99.8	104.9	(5.1)	(4.9%)
Others ⁽¹⁾	228.9	47.4	181.5	382.9%
Sub-total of staff costs	4,257.7	3,888.5	369.2	9.5%
Taxes and surcharges	211.2	199.8	11.4	5.7%
Depreciation and amortisation	979.5	1,053.0	(73.5)	(7.0%)
Other general and administrative expenses	1,695.1	1,977.3	(282.2)	(14.3%)
Total	7,143.5	7,118.6	24.9	0.3%

Note:

(1) Primarily included supplementary retirement benefits and dispatched labor fees.

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For the year ended December 31, 2021, staff costs increased by RMB369 million or 9.5% to RMB4,258 million as compared to the same period last year, primarily attributable to the lower social insurance premiums for staff due to the implementation of the policies on temporary reduction and exemption of social insurance premiums by the Bank last year. Staff costs represented the largest component of the Bank's operating expenses, and accounted for 59.6% and 54.6% of the total operating expenses for the year ended December 31, 2021 and for the year ended December 31, 2020, respectively.

For the year ended December 31, 2021, depreciation and amortization expenses decreased by RMB74 million or 7.0% to RMB980 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, 2021, tax and surcharges amounted to RMB211 million, representing an increase of RMB11 million or 5.7% as compared to the same period last year, which was primarily due to the increase in the Bank's value-added tax as compared to the same period last year.

For the year ended December 31, 2021, other general and administrative expenses decreased by RMB282 million or 14.3% to RMB1,695 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, 2021, the Bank's impairment losses decreased by RMB208 million or 2.7% to RMB7,640 million as compared to the same period last year, primarily due to the decrease in the Bank's non-performing loan ratio by 0.03 percentage point as compared to the end of the previous year.

	For the year ended December 31,			
	2021	2020	Change	Rate of change
	(in millions of RMB, except percentages)			
Loans and advances to customers	4,347.7	4,885.0	(537.3)	(11.0%)
Investment securities and other financial assets ⁽¹⁾	1,489.7	1,835.2	(345.5)	(18.8%)
Finance lease receivables	501.4	617.9	(116.5)	(18.9%)
Other assets ⁽²⁾	1,301.4	510.5	790.9	154.9%
Total impairment losses	7,640.2	7,848.6	(208.4)	(2.7%)

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.

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3.7 Income tax expense

For the year ended December 31, 2021, the Bank's income tax expense decreased by RMB129 million to RMB965 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,			
	2021	2020	Change	Rate of change
	(in millions of RMB, except percentages)			
Current income tax	1,833.0	2,148.0	(315.0)	(14.7%)
Deferred income tax	(867.9)	(1,053.7)	185.8	(17.6%)
Total income tax expenses	965.1	1,094.3	(129.2)	(11.8%)

4 Analysis on Key Items of Assets and Liabilities

4.1 Assets

As of December 31, 2021, the Bank's total assets increased by RMB10,750 million or 1.4% to RMB768,233 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 49.2% and 28.0% of the Bank's total assets as of December 31, 2021, respectively.

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

	As of December 31, 2021		As of December 31, 2020	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Gross loans and advances to customers	390,647.1	50.8%	359,375.8	47.4%
Allowance for impairment losses	(12,530.6)	(1.6%)	(11,719.0)	(1.5%)
Net loans and advances to customers	378,116.5	49.2%	347,656.8	45.9%
Finance lease receivables	33,862.3	4.4%	30,805.5	4.1%
Investment securities and other financial assets	215,114.3	28.0%	239,397.5	31.6%
Financial assets held under resale agreements	11,794.4	1.5%	15,819.5	2.1%
Cash and deposits with Central Bank	63,641.6	8.3%	65,336.3	8.6%
Deposits with banks and other financial institutions	10,696.5	1.4%	13,493.5	1.8%
Placements with banks and other financial institutions	34,354.0	4.5%	25,280.5	3.3%
Derivative financial assets	31.5	0.0%	31.0	0.0%
Interest in joint venture	1,183.2	0.2%	1,084.0	0.1%
Other assets ⁽¹⁾	19,439.0	2.5%	18,577.9	2.5%
Total assets	768,233.3	100.0%	757,482.5	100.0%

Note:

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

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4.1.1 Loans and advances to customers

As of December 31, 2021, the Bank's gross loans and advances to customers (excluding accrued interest) increased by RMB31,134 million or 8.7% to RMB388,160 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, 2021		As of December 31, 2020	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate loans	173,651.4	44.5%	150,371.0	41.8%
Personal loans	184,113.0	47.1%	170,501.3	47.4%
Discounted bills	30,395.1	7.8%	36,153.6	10.1%
Sub-total	388,159.5	99.4%	357,025.9	99.3%
Accrued interest	2,487.6	0.6%	2,349.9	0.7%
Total loans and advances to customers	390,647.1	100.0%	359,375.8	100.0%

(1) Corporate loans

As of December 31, 2021, the Bank's corporate loans increased by RMB23,280 million or 15.5% to RMB173,651 million as compared to the end of last year, representing 44.7% 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, 2021		As of December 31, 2020	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Unsecured loans	22,465.4	12.9%	17,978.6	11.9%
Guaranteed loans	74,798.2	43.1%	61,475.5	40.9%
Collateralized loans	41,573.9	23.9%	39,392.1	26.2%
Pledged loans	34,813.9	20.1%	31,524.8	21.0%
Total corporate loans	173,651.4	100.0%	150,371.0	100.0%

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(2) Personal loans

As of December 31, 2021, the Bank's personal loans increased by RMB13,612 million or 8.0% to RMB184,113 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, 2021		As of December 31, 2020	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Personal residential mortgage loans	89,511.9	48.6%	85,418.4	50.1%
Personal business loans	44,907.5	24.4%	42,535.7	24.9%
Personal consumption loans	30,763.4	16.7%	29,359.2	17.2%
Credit card loans	18,930.2	10.3%	13,188.0	7.8%
Total personal loans	184,113.0	100.0%	170,501.3	100.0%

(3) Discounted bills

As of December 31, 2021, the Bank's discounted bills decreased by RMB5,759 million or 15.9% to RMB30,395 million as compared to the end of last year, which was primarily due to the Bank's adjustment of the size of discounted bills according to customers' financing demand.

4.1.2 Investment securities and other financial assets

As of December 31, 2021, the Bank's net investment securities and other financial assets decreased by RMB24,283 million or 10.1% to RMB215,114 million as compared to the end of last year, primarily attributable to a deduction in our investments in 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, 2021		As of December 31, 2020	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Financial investments at fair value through profit or loss	22,036.4	10.1%	21,480.4	8.9%
Financial investments at fair value through other comprehensive income	55,370.3	25.4%	46,579.7	19.4%
Financial investments at amortised cost	140,822.1	64.5%	172,373.9	71.7%
Total investment securities and other financial assets	218,228.8	100.0%	240,434.0	100.0%
Add: accrued interest	2,530.1		2,909.8	
Less: impairment loss	(5,644.6)		(3,946.3)	
Net investment securities and other financial assets	215,114.3		239,397.5	

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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, 2021		As of December 31, 2020	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Debt Securities				
Debt securities issued by PRC government	81,581.3	37.9%	65,628.6	27.4%
Debt securities issued by PRC policy banks and other financial institutions	47,811.2	22.2%	57,425.1	24.0%
Debt securities issued by PRC corporate issuers	9,487.7	4.4%	13,350.5	5.6%
Sub-total	138,880.2	64.5%	136,404.2	57.0%
Other financial assets				
Wealth management products issued by other PRC commercial banks	—	—	203.4	0.1%
Asset management plans	2,718.1	1.3%	2,447.0	1.0%
Trust plans	22,412.3	10.4%	47,876.0	20.0%
Others	48,573.6	22.6%	49,557.1	20.7%
Sub-total	73,704.0	34.3%	100,083.5	41.8%
Accrued interest	2,530.1	1.2%	2,909.8	1.2%
Net investment securities and other financial assets	215,114.3	100.0%	239,397.5	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, 2021, the financial assets held under resale agreements decreased by RMB4,025 million or 25.4% to RMB11,794 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, 2021, the total cash and deposits with the Central Bank decreased by RMB1,695 million or 2.6% to RMB63,642 million as compared to the end of last year, primarily because the Central Bank lowered the required reserve ratio.

As of December 31, 2021, the total deposits with banks and other financial institutions decreased by RMB2,797 million or 20.7% to RMB10,697 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 and the allocation demand of assets and liabilities.

As of December 31, 2021, the total placements with banks and other financial institutions increased by RMB9,074 million or 35.9% to RMB34,354 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, 2021, the balance of finance lease receivables increased by RMB3,057 million or 9.9% to RMB33,862 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.

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4.2 Liabilities

As of December 31, 2021, the Bank's total liabilities increased by RMB7,727 million or 1.1% to RMB705,854 million as compared to the end of last year.

	As of December 31, 2021		As of December 31, 2020	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Deposits from customers	455,692.2	64.6%	431,341.4	61.8%
Deposits from banks and other financial institutions	27,400.3	3.9%	59,388.7	8.5%
Debt securities issued	96,843.9	13.7%	76,054.6	10.9%
Financial assets sold under repurchase agreements	34,014.3	4.8%	46,141.1	6.6%
Placements from banks and other financial institutions	33,229.7	4.7%	31,214.3	4.5%
Borrowings from the Central Bank	47,654.0	6.8%	44,066.9	6.3%
Income tax payable	858.6	0.1%	785.8	0.1%
Derivative financial liabilities	31.0	0.0%	17.0	0.0%
Other liabilities ⁽¹⁾	10,129.7	1.4%	9,117.4	1.3%
Total liabilities	705,853.7	100.0%	698,127.2	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, 2021, the Bank's total deposits from customers (excluding accrued interest) increased by RMB23,443 million or 5.5% to RMB448,425 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.

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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, 2021		As of December 31, 2020	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate deposits				
Demand	133,060.2	29.2%	136,046.5	31.5%
Time	97,163.2	21.3%	88,443.2	20.5%
Sub-total	230,223.4	50.5%	224,489.7	52.0%
Personal deposits				
Demand	65,627.6	14.4%	58,665.7	13.6%
Time	152,573.6	33.5%	141,826.4	32.9%
Sub-total	218,201.2	47.9%	200,492.1	46.5%
Accrued interest	7,267.6	1.6%	6,359.6	1.5%
Total deposits from customers	455,692.2	100.0%	431,341.4	100.0%

4.2.2 Deposits from banks and other financial institutions

As of December 31, 2021, the Bank's balance of deposits from banks and other financial institutions decreased by RMB31,988 million or 53.9% to RMB27,400 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 capital demands.

4.2.3 Placements from banks and other financial institutions

As of December 31, 2021, the Bank's balance of placements from banks and other financial institutions increased by RMB2,015 million or 6.5% to RMB33,230 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, 2021, the Bank's balance of debt securities issued increased by RMB20,789 million or 27.3% to RMB96,844 million as compared to the end of last year, primarily due to an increase in the balance of interbank certificates of deposit issued by the Bank at the end of the Reporting Period compared with the end of the previous year.

4.2.5 Financial assets sold under repurchase agreements

As of December 31, 2021, the Bank's balance of financial assets sold under repurchase agreements decreased by RMB12,127 million or 26.3% to RMB34,014 million as compared to the end of last year, primarily due to the decrease in the balance of the Bank's central bank under reverse repurchase agreements at the end of the Reporting Period as compared to the end of last year.

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4.3 Shareholders' Equity

As of December 31, 2021, the Bank's total shareholders' equity increased by RMB3,025 million or 5.1% to RMB62,380 million as compared to the end of last year; the total equity attributable to shareholders of the Bank increased by RMB2,948 million or 5.1% to RMB61,210 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, 2021		As of December 31, 2020	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Share capital	20,075.0	32.2%	20,075.0	33.8%
Other equity instrument	9,632.8	15.4%	9,632.8	16.2%
Capital reserve	14,318.0	23.0%	14,315.3	24.1%
Surplus reserve	2,424.7	3.9%	2,115.5	3.6%
General reserve	9,705.7	15.6%	9,660.3	16.3%
Re-evaluation and impairment reserve	343.8	0.5%	400.0	0.7%
Retained earnings	4,710.1	7.5%	2,062.6	3.5%
Equity attributable to shareholders of the Bank	61,210.1	98.1%	58,261.5	98.2%
Non-controlling interests	1,169.5	1.9%	1,093.8	1.8%
Total shareholders' equity	62,379.6	100.0%	59,355.3	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 date indicated.

	As of December 31, 2021	As of December 31, 2020
(in millions of RMB)		
Credit commitments		
Loan commitments	12,231.6	8,339.9
Bank acceptance	59,432.2	46,445.8
Letters of credit	12,547.9	9,238.0
Letters of guarantees	3,854.2	4,400.3
Total	88,065.9	68,424.0

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6. Analysis on Loan Quality

In 2021, in face of the complicated economic and financial situation, 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, 2021, the balance of non-performing loans of the Bank amounted to RMB8,476 million, representing an increase of RMB593 million as compared to the end of last year. The non-performing loan ratio was 2.18%, representing a decrease of 0.03 percentage point as compared to the end of last year. Special mention loan accounted for 2.84%, representing an increase of 0.21 percentage point as compared to 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, 2021		As of December 31, 2020	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Normal	368,642.5	94.98%	339,745.1	95.16%
Special mention	11,040.6	2.84%	9,397.9	2.63%
Substandard	3,412.0	0.87%	3,134.2	0.88%
Doubtful	2,352.0	0.61%	3,146.4	0.88%
Loss	2,712.4	0.70%	1,602.3	0.45%
Total loans and advances to customers	388,159.5	100.00%	357,025.9	100.00%
Non-performing loans and non-performing loan ratio	8,476.4	2.18%	7,882.9	2.21%

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

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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 type.

	As of December 31, 2021				As of December 31, 2020			
	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⁾	80,734.9	20.8%	2,921.8	3.62%	76,530.4	21.4%	3,041.5	3.97%
Medium-to-long-term loans ⁽²⁾	92,916.5	23.9%	3,384.3	3.64%	73,840.6	20.7%	2,661.7	3.60%
Sub-total	173,651.4	44.7%	6,306.1	3.63%	150,371.0	42.1%	5,703.2	3.79%
Personal loans								
Personal residential mortgage loans	89,511.9	23.1%	222.1	0.25%	85,418.4	24.0%	193.7	0.23%
Personal consumption loans	30,763.4	7.9%	456.5	1.48%	29,359.2	8.2%	384.7	1.31%
Personal business loans	44,907.5	11.6%	1,094.4	2.44%	42,535.7	11.9%	887.9	2.09%
Others ⁽³⁾	18,930.2	4.9%	397.3	2.10%	13,188.0	3.7%	239.4	1.82%
Sub-total	184,113.0	47.5%	2,170.3	1.18%	170,501.3	47.8%	1,705.7	1.00%
Discounted bills	30,395.1	7.8%	–	–	36,153.6	10.1%	474.0	1.31%
Total	388,159.5	100.0%	8,476.4	2.18%	357,025.9	100.0%	7,882.9	2.21%

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.

At the end of 2021, the balance of corporate non-performing loans of the Bank amounted to RMB6,306 million, representing an increase of RMB603 million as compared with the end of last year. The non-performing loan ratio was 3.63%, representing a decrease of 0.16 percentage point as compared with the end of last year. The increase in corporate non-performing loans 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 90 days as non-performing loans month by month, resulting in an increase in the balance of corporate non-performing loans; the Bank's total corporate loans increased and corporate non-performing loan ratio decreased.

The balance of personal non-performing loans of the Bank amounted to RMB2,170 million, representing an increase of RMB464 million as compared with the end of last year. The non-performing loan ratio was 1.18%, representing an increase of 0.18 percentage point as compared with the end of last year. The increase in personal non-performing loans was mainly because the Bank implemented more prudent five-category loan

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classification system in this year and categorized all loans overdue for more than 90 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) 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) 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, 2021				As of December 31, 2020			
	Loan amount	% of total	NPL Amount	NPL ratio	Loan amount	% of total	NPL Amount	NPL ratio
(in millions of RMB, except percentages)								
Manufacturing	23,774.5	6.1%	2,026.6	8.52%	27,547.5	7.7%	2,460.9	8.93%
Leasing and business services	49,190.7	12.7%	162.1	0.33%	38,382.3	10.8%	55.8	0.15%
Wholesale and retail ⁽ⁱ⁾	16,816.1	4.3%	1,797.4	10.69%	14,876.3	4.2%	1,676.8	11.27%
Real estate	17,157.1	4.4%	551.9	3.22%	18,276.6	5.1%	382.2	2.09%
Construction	15,627.6	4.0%	514.2	3.29%	12,834.8	3.6%	186.2	1.45%
Water, environment and public facility management	14,369.1	3.7%	50.2	0.35%	11,145.9	3.1%	–	0.00%
Electricity, gas and water production and supply ⁽ⁱⁱ⁾	6,200.7	1.6%	661.3	10.66%	5,326.2	1.5%	59.9	1.12%
Agriculture, forestry, animal husbandry and fishery ⁽ⁱⁱⁱ⁾	2,899.3	0.7%	330.7	11.41%	3,149.8	0.9%	462.9	14.70%
Accommodation and catering	2,613.4	0.7%	52.6	2.01%	2,829.8	0.8%	162.4	5.74%
Education	4,774.6	1.2%	8.7	0.18%	3,272.2	0.9%	48.3	1.48%
Health, social security and social welfare	4,888.2	1.3%	–	0.00%	3,783.7	1.1%	–	0.00%
Mining	3,446.1	0.9%	52.1	1.51%	2,159.2	0.6%	15.5	0.72%
Transportation, storage and postal services	6,218.5	1.6%	57.9	0.93%	3,554.8	1.0%	139.2	3.92%
Others	5,675.5	1.5%	40.4	0.71%	3,231.9	0.8%	53.1	1.64%
Total corporate loans	173,651.4	44.7%	6,306.1	3.63%	150,371.0	42.1%	5,703.2	3.79%
Total personal loans	184,113.0	47.5%	2,170.3	1.18%	170,501.3	47.8%	1,705.7	1.00%
Discounted bills	30,395.1	7.8%	–	–	36,153.6	10.1%	474.0	1.31%
Total	388,159.5	100.0%	8,476.4	2.18%	357,025.9	100.0%	7,882.9	2.21%

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.

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As of December 31, 2021, the top three industries in terms of the non-performing corporate loans ratio of the Bank were wholesale and retail industry, electricity, gas and water production and supply, and agriculture, forestry, animal husbandry and fishery industry, with non-performing loan ratio of 10.69%, 10.66% and 11.41%, respectively, of which:

- (i) the balance of non-performing loans in the wholesale and retail industry increased by RMB120 million as compared with the end of last year, with a decrease of 0.58 percentage point 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 90 days as non-performing loans month by month, despite the fact that there was an increase in the loan size of the Bank and operation situation of credit clients in wholesale and retail industry deteriorated greatly by the pandemic and economic downside, which resulted in the increase of non-performing loan ratio in the industry.
- (ii) the balance of non-performing loans in the electricity, gas and water production and supply industry increased by RMB601 million as compared with the end of last year, with an increase of 9.54 percentage points 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 90 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.
- (iii) the balance of non-performing loans in the agriculture, forestry, animal husbandry and fishery industry decreased by RMB132 million as compared with the end of last year, with a decrease of 3.29 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, 2021				As of December 31, 2020			
	Loan amount	% of total	NPL Amount	NPL ratio	Loan amount	% of total	NPL Amount	NPL ratio
(in millions of RMB, except percentages)								
Unsecured loans	47,176.5	12.1%	868.2	1.84%	39,026.3	10.9%	796.8	2.04%
Guaranteed loans	84,498.7	21.8%	4,089.4	4.84%	71,041.7	19.9%	3,681.6	5.18%
Collateralised loans	193,717.4	49.9%	3,242.8	1.67%	182,358.0	51.1%	3,149.2	1.73%
Pledged loans	62,766.9	16.2%	276.0	0.44%	64,599.9	18.1%	255.3	0.40%
Total	388,159.5	100.0%	8,476.4	2.18%	357,025.9	100.0%	7,882.9	2.21%

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.

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As of December 31, 2021, the balance of our guaranteed non-performing loans increased by RMB407 million as compared with the end of last year, representing a decrease in non-performing loan ratio of 0.34 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 90 days as non-performing loans month by month; (ii) guaranteed loans of the Bank increased in this year as compared with the end of last year.

As of December 31, 2021, the balance of our collateralised non-performing loans increased by RMB21 million as compared with the end of last year, representing an increase in non-performing loan ratio of 0.04 percentage point, primarily because (i) the Bank implemented more prudent five-category loan classification system in this year and categorized all the loans overdue for more than 90 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.

6.5 Borrowers Concentration

As of December 31, 2021, 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, 2021, the loan balance of the top ten single borrowers (excluding group borrowers) of the Bank.

As of December 31, 2021				
	Industry	Balance	% of total loans	% of net capital
(in millions of RMB, except percentages)				
Borrower A	G—Transportation, storage and postal services	2,779.4	0.7%	3.6%
Borrower B	J—Financing	1,697.3	0.4%	2.2%
Borrower C	L—Leasing and commercial services	1,414.0	0.4%	1.9%
Borrower D	C—Manufacturing	1,287.2	0.3%	1.7%
Borrower E	K—Real estate	1,264.8	0.3%	1.7%
Borrower F	H—Accommodation and catering	1,185.5	0.3%	1.5%
Borrower G	L—Leasing and commercial services	1,109.9	0.3%	1.4%
Borrower H	L—Leasing and commercial services	1,064.6	0.3%	1.4%
Borrower I	N—Water, environment and public facilities management	999.0	0.3%	1.3%
Borrower J	L—Leasing and commercial services	816.7	0.2%	1.1%
Total		13,618.4	3.5%	17.8%

As of December 31, 2021, the loan balance of the largest single borrower of the Bank was RMB2,779 million, accounting for 0.7% of the total amount of loans of the Bank, and the total amount of loans to the top ten single borrowers was RMB13,618 million, accounting for 3.5% of the total amount of loans of the Bank.

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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, 2021		As of December 31, 2020	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Current loans	373,457.4	96.21%	345,816.7	96.86%
Overdue loans				
Up to 3 months	6,857.6	1.77%	4,056.6	1.14%
Over 3 months up to 1 year	3,969.8	1.02%	3,410.3	0.95%
Over 1 years up to 3 years	2,940.2	0.76%	2,714.5	0.76%
Over 3 years	934.5	0.24%	1,027.8	0.29%
Sub-total	14,702.1	3.79%	11,209.2	3.14%
Total loans	388,159.5	100.00%	357,025.9	100.00%

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

As of December 31, 2021, the amount of overdue loans totaled RMB14,702 million, representing an increase of RMB3,493 million as compared with the end of last year. Overdue loans accounted for 3.79% of the total loans, representing an increase of 0.65 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, 2021		For the year ended December 31, 2020	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate banking business	9,367.2	48.6%	10,322.0	53.1%
Retail banking business	6,692.5	34.7%	6,436.7	33.1%
Treasury business	3,165.8	16.4%	2,596.2	13.4%
Other businesses	57.3	0.3%	72.9	0.4%
Total operating income	19,282.8	100.0%	19,427.8	100.0%

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8 ANALYSIS ON CAPITAL ADEQUACY RATIO

As of December 31, 2021, the core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of the Bank were 8.70%, 10.39% and 13.30% respectively, representing an increase of 0.11 percentage point, 0.04 percentage point and 0.10 percentage point respectively, as compared to the numbers at the end of the last year. The Bank strengthened endogenous capital accumulation, enhanced risk resilience 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, 2021	As of December 31, 2020
	(in millions of RMB, except percentages)	
Share capital	20,075.0	20,075.0
Valid portion of capital reserve	14,181.8	14,348.7
Surplus reserve	2,424.7	2,115.5
General reserve	9,705.7	9,660.3
Retained earnings	4,710.1	2,062.6
Valid portion of minority interests	626.0	575.6
Total core tier-one capital	51,723.3	48,837.7
Core tier-one capital deductions	(1,640.5)	(1,611.3)
Net core tier-one capital	50,082.8	47,226.4
Other tier-one capital	9,716.2	9,709.5
Net tier-one capital	59,799.0	56,935.9
Net tier-two capital	16,752.8	15,672.2
Net capital base	76,551.8	72,608.1
Total risk-weighted assets	575,597.0	549,877.8
Core tier-one capital adequacy ratio	8.70%	8.59%
Tier-one capital adequacy ratio	10.39%	10.35%
Capital adequacy ratio	13.30%	13.20%

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9. Business Review

9.1 Corporate banking business

During the Reporting Period, the Bank's corporate business adhered to the basic principle of seeking progress in a stable manner, continuously optimized the business structure, implemented the strategic objectives of corporate business, established the distinctive orientation of "projects first (項目為王)", carried out in-depth activities of Ten thousands People Helping Ten Thousands Enterprises (萬人助萬企), accelerated post-disaster resumption of work and production, and fully supported the high-quality development of the real economy.

9.1.1 Corporate deposits

The Bank focused on building an endogenous growth mechanism for corporate deposits and optimizing the business structure of corporate deposits. The Bank seized opportunities presented by the introduction of local debt policy and capital commitments through providing corporate customers with cash management, active debt and other products, continuously deepened bank-government-enterprise cooperation, strengthened the building of basic customer base, optimized basic settlement services, and improved the competitiveness of the corporate deposit business.

As of the end of the 2021, the time point balance of the Bank's corporate deposits was RMB230,223 million, representing an increase of RMB5,734 million or 2.6% as compared to the end of last year. The daily average balance of corporate deposits was RMB221,235 million, representing an increase of RMB3,040 million or 1.4% as compared to the end of 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 values through professional competence, meet customer needs, improve comprehensive contribution, and improve comprehensive financing service capabilities, in which we have achieved good market performance.

During the Reporting Period, centering on ecological protection and high-quality development of the Yellow River Basin, the rise of central China and other major national strategies, focused on major infrastructure construction projects such as the "982" project, provincial and municipal priorities, and the "ensuring medical treatment to the impoverished with major illnesses, contracted healthcare to the impoverished with chronic diseases, and guaranteed medical services for the impoverished with critical illnesses (三個一批)", the Bank increased asset investment in "Two News and One Key", manufacturing, trade and logistics sectors and other real economies by paying attention to key industries, major projects, key customers and key products.

As of the end of the 2021, the Bank's corporate loan balance was RMB173,651 million, representing an increase of RMB23,280 million or 15.5% as compared to the end of the last year.

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9.1.3 Corporate customers

During the Reporting Period, the Bank actively participated in the implementation of national major strategies and followed regional economic construction demand closely, maintained serving the real economy as its responsibilities and adhered to being customer-oriented, carried out classified policies and category-based operations targeting at strategic customers, institutional customers, and small and micro enterprise customers. Customized service models and business strategies were adopted, and the customer base was reinforced 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 Company.

As of the end of the 2021, the number of corporate customers reached 39,805, representing an increase of 5,064 as compared to the end of last year.

9.1.3.1 Strategic customers

During the Reporting Period, the Bank actively implemented the strategy of category-based operations for corporate customers, maintained list system for strategic clients, and promoted the cooperation among head office, branches and sub-branches, and continuously expanded the breadth and depth of cooperation around the equity and industrial chains of strategic clients to achieve intensive cultivation. Through comprehensive financial services such as chain operations for strategic clients, dynamic circulation of group customer quotas and syndicated matching business, the Bank improved its customer service capabilities and realized in-depth cooperation with strategic customers.

As of the end of the 2021, the strategic customers' coverage at the Bank's head office-level of the Bank was 90%. The balance of credit assets was RMB75,400 million, increased by RMB4,420 million as compared with the end of last year, and the daily average balance of corporate deposits of strategic customers increased by RMB1,780 million as compared with the end of last year.

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9.1.3.2 Institutional customers

During the Reporting Period, the Bank continued to capitalize on its strengths of being the provincial legal entity, explored and captured business opportunities and continuously deepened cooperation with governments at all levels in the province. Firstly, the Bank assisted in smart government affairs and continued to optimize the evolving electronic products of government institutions. We actively advanced the electronization of the Bank's new centralized treasury payment and the optimization, upgradation and promotion of non-tax electronic system, and launched the non-tax code scanning payment system for 74 courts in the province, with a market share of 40%. Secondly, to serve the rural revitalization strategy, the Bank launched the rural production reform and direct connection system for banks and farmers. In order to achieve efficient management of the rural capitals, assets and resources, the Bank developed and provided rural production reform systems for agricultural and rural bureaus in 85 regions, and developed the direct connection system for bank and farmers to provide online support for the application, approval and payment of village funds. Thirdly, the Bank carried out government-bank data docking and participated in the construction of society-bank integrated outlets. Zhongyuan Bank selected 148 outlets in Henan Province and transformed those outlets into society-bank integrated outlets, to facilitate the processing of social security business for general public. Fourthly, the Bank provided financial intelligence services to help the government issue special bonds. The Bank successfully held the 2021 Zhongyuan Bank Provincial Local Government Bonds Exchange Conference (2021年中原銀行省級地方政府債交流會), and also held 106 special bonds training sessions in various cities, counties and districts in the province based on the advantages of outlets, helping to improve the efficiency of packaging and issuance of government special bonds projects at all levels, and the Bank's special bonds services were recognized and praised by the governments of Xinxiang, Shangqiu, Puyang, Kaifeng and other places. The institutional business services of the Bank have made a positive effect on improving the efficiency of government fund management and financing and promoting the smart construction of the government, building a good reputation of being based on local economic development and serving local economic development, and establishing a good relationship of mutual benefit and win-win and sustainable development with governments at all levels.

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9.1.3.3 Small and micro customers

During the Reporting Period, the Bank deepened customer group management, increased product application and promoted the establishment of mechanism and system, with the working goal of “increment of customer base, expansion of customer coverage, cost reduction, and quality improvement” of small and micro financial business, contributing to the development and innovation in private small and micro enterprises of Henan.

The Bank created a five-special mechanism for small and micro customers and increased the loan release. The Bank has set up 17 special teams and a branch with dedicated customer relationship managers and product managers for small and micro enterprises under our jurisdiction, and increased the standard products release to small and micro enterprises. As of the end of 2021, under “small-micro loans and two increasing”, the inclusive small and micro loans newly issued for the year was RMB32,100 million, with a weighted average rate of 5.07%, the small and micro customers at the end of the year amounted to 67,000, representing an increase of over 4,500 as compared to the end of last year. The balance of inclusive small and micro loans reached RMB44,422 million, representing an increase of RMB7,484 million as compared to the end of last year.

The Bank implemented the spirit of document of the Central Authorities and fully helped and assisted small and micro customers. The Bank earnestly implemented the spirit of Central Authorities about increasing financing support for small and micro enterprises, fully supported the resumption of work and production of small and micro enterprises, and ensured the orderly development of epidemic prevention and control, post disaster reconstruction and financial services. The Bank adopted the policy of deferred repayment of principal and interest, without drawing out or suspending loans to enterprises that were experiencing temporary difficulties due to the severe impact of the pandemic, and has helped and assisted over 3,000 inclusive small and micro customers cumulatively, which involved loans amounts of RMB4,300 million; the Bank issued 30 day interest-free coupons to small and micro merchants affected by the floods to resolve the needs of small and micro enterprises owners or owners of individually-owned business to resume production and operation after the disaster, alleviate the liquidity problems, and the Bank accumulatively provided interest-free loans to over 2,000 small and micro merchants, which involves a receipt amount of RMB397 million and an interest-free amount of RMB1.40 million. We continued to implement the policy of fee reduction and profit sharing to small and micro enterprises, reduced or canceled the fees of small and micro enterprises, carried out self-examination and inspection of charging items, and prevented the illegal collection of business expenses of small and micro enterprises.

Focusing on the characteristics of small and micro customers with “small amount, frequent demand, short cycle and fast approval”, we have built a digital, intelligent, scenarized and standardized whole product system. We have successively launched a variety of innovative products such as government procurement loan, perpetual loans for small and micro enterprises, commercial shops loan and distributors/suppliers support plan, and started to build universal products to realize that every merchant can borrow and everyone has a quota. Based on the analysis of the level of regional economic development and market capacity, we gradually released the county-level business authority of small and micro products, formulated the service plan of county-level small and micro customers to further promote the inclusive financial business services.

Adhering to the attitude of external cooperation and open, we promoted the concept of “open and cooperation “. Closely following the direction of economic and industrial development, we introduced special policies and industrial policies for small and micro enterprises, and built a symbiotic and inclusive ecosystem of government-bank-enterprise. Closely following the development trend of digitalization and intelligence, we actively participated in the construction and promotion of a shared platform for financial services in Henan Province, and accumulatively have made 14,066 loans in total to 9,911 enterprises, amounting to RMB21,096 million.

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9.1.4 Bank's products

During the Reporting Period, the Bank adhered to “integrity and innovation”, innovated product strategies, optimized product functions, kept improving comprehensive, all-round and whole cycle product system and service capabilities, and improved customers' experience and satisfaction on the basis of regulatory compliance.

In terms of debt products, the Bank actively follows up on regulatory policies, takes customers as the center, uses a combination of deposit products and wealth management products to customize, taking into account the liquidity and profitability of deposits, creates the Clearing Treasure product, optimizes the transfer function of large-denomination certificates of deposit, and continuously improves the competitiveness of the product market. During the Reporting Period, the amount of contracted Clearing Treasure products was RMB0.15 billion, the landing amount of negotiable large-denomination certificates of deposit was RMB1.33 billion, and the balance of negotiated deposits and call deposits increased by RMB7.991 billion as compared to the end of the previous year.

In terms of asset products, the Bank will continue to innovate and optimize the product system and explore cooperation opportunities for scenarios such as fixed assets to support the financing and operating turnover financing replacement to promote win-win cooperation. During the Reporting Period, the debt-loan portfolio increased by RMB0.2 billion compared with the end of the previous year, and the bank acceptance balance increased by RMB12.986 billion as compared to the end of the previous year.

While the product system has been continuously enriched, the Bank has practiced digital-intelligence transformation, optimized business processes around “online, digital and intelligence”, played the role of digital marketing tools, optimized customer experience externally, empowered front-line marketing internally, and accelerated the onlineization and scenarization of the Company's products and services, and continued to enhance the competitiveness of the Company's products.

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9.1.5 Investment banking

During the Reporting Period, the Bank vigorously promoted the transformation of traditional investment banks to investment banks with integrated service, continued to enrich investment banking business products, actively expanded non-financial corporate debt financing instrument underwriting, asset securitization, and other innovative business products, and successfully issued 16 non-financial corporate debt financing instruments, with a total scale of RMB9.06 billion.

The Bank accurately implemented major national strategies, and issued the first national financial bonds for ecological protection and high-quality development in the Yellow River Basin of RMB2 billion to support the implementation of the national Yellow River Basin development strategy; issued small and micro financial bonds of RMB2 billion to provide small and micro enterprises with better financial services; actively responded to the post-disaster reconstruction needs in Henan Province, and launched the first non-financial corporate debt financing tool “21 Yuneng Holdings SCP001 (21 豫能控股 SCP001)” in the inter-bank market specifically to support post-disaster reconstruction, with an amount of RMB0.5 billion, which strongly supported post-disaster reconstruction work.

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 business, served strategies, embraced professionalization, refinement, specialization and novelty, and supported the real economy. We carried out cooperation around the entire life cycle of enterprises to be listed and listed companies, provided comprehensive product support such as investment and loan linkage, debt optimization, stock pledge, equity incentives, convertible bonds, and increased support for “professionalization, refinement, specialization and novelty” enterprises to deepen the depth of cooperation between listed companies. Focusing on typical scenarios such as asset integration of leading enterprises, transformation and development of urban investment companies, and expansion of production capacity of listed companies, it provides all-around support such as underlying recommendation, consultant matching, and M&A financing.

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 customer to meet their personalized financing needs of high-quality enterprises inside and outside the province. During the Reporting Period, the Bank led the development of innovative businesses in the province through innovative products, and in turn continued to increase its market influence. The Bank successfully registered the first shelf trust beneficiary asset-backed note in the province.

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9.1.6 Transaction banking

During the Reporting Period, the Bank's transaction banking business is customer-centered and market demand-oriented, focusing on key industries and customer groups, and actively promoting the development of online, standardized, industry-based, and scenario-based businesses. The Bank continuously improved the product system of transaction banking, focused on key industries and characteristic scenarios, and formed embedded innovative service solutions. As of the end of 2021, the financing amount of the transaction bank reached RMB81.37 billion, and the intermediary business income was RMB0.284 billion. There were 8,191 valid accounts, representing an increase of 3,040 over the end of the previous year, and the customer base was further expanded. At the same time, in order to solve the financing difficulties and expensive financing of micro, small and medium-sized enterprises, we drove micro and small business financing balance to increase by 239% year-on-year, and the number of accounts to increase by 242% year-on-year through reverse factoring, commercial bill pledge, asset pool, and other products, with remarkable results.

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 including account management, collection and payment management, liquidity management, investment and financing management, and multi-bank fund management, which can provide standardized and personalized cash management service solutions for enterprises, governments and public institutions. As of the end of 2021, the Bank had 14,486 cash management accounts, representing an increase of 7,053 over the end of the previous year; the average daily balance of deposits was RMB59.523 billion, representing an increase of RMB6.148 billion over the end of the previous year.

During the Reporting Period, the Bank continued to create a series of hybrid cash management products with liquidity and profitability, which organically combined customer payment and settlement with investment management to fully meet customer's investment management needs from T+0 to T+N. We strive to build service models for settlement scenarios such as "payment supervision of migrant workers' wages", "revolution on budget unit social insurance contributions" and "pre-sale housing fund supervision" to improve the online management and transparent supervision level of projects that benefit people's livelihood. At the same time, we continued to deepen cooperation in payment and settlement scenarios, helped enterprises build cash management models suitable for their own ecological chain and industrial chain, and improved their capital management level.

9.1.6.2 Supply chain financing and trade financing

The Bank actively promoted the steady development of supply chain finance business provided online, intelligent and scenario-based integrated financial services to enterprises along the industry chain by developing a richer range of supply chain financial products. As of the end of 2021, the supply chain finance business had achieved a cumulative financing amount of RMB63.5 billion, of which asset pool products had been equipped with functions as online submit and automatic loan payment, which annual business volume reaching RMB14.4 billion, representing a year-on-year increase of 103%; for prepayment financing, functions such as market staring alert and smart post-lending were launched, with annual business volume reaching RMB12.2 billion, representing a year-on-year increase of 53%.

During the Reporting Period, in order to facilitate the ecological protection and high-quality development of the Yellow River Basin and the realization of national/provincial economic and social development strategies such as the construction of the Central Plains Economic Zone/City Cluster, the Bank tilted towards infrastructure construction in terms of credit extension and product research and development, focusing on supporting the construction of national/provincial key projects such as Zhengzhou-Jinan High-speed Railway, the National Highway 107/310, Yanhuang Expressway and Zhongyuan Technology City, with the cumulative amount of financing provided exceeding RMB10 billion.

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9.1.6.3 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 the end of 2021, the aggregated number of the Bank's corporate online banking customers was 157,000, representing an increase of 13,000 customers as compared to the end of the previous year. The accumulated transaction amount was RMB3,126.96 billion, and the total number of transactions was 8.438 million, accounting for 92.06% of the total number of transactions conducted by corporate banking customers during the same period. There were 41,111 corporate mobile banking customers in stock, an increase of 13,185 customers as compared to the end of the previous year, with a transaction amount of RMB22.92 billion, representing a penetration rate of 26.18% of Internet banking customers.

During the Reporting Period, in respect of enterprises mobile banking, the Bank continued to expand remote banking services, realized the verification of "enterprises information maintenance" characterized by online audit of legal person, and enhanced the operation experience of enterprise legal person. We supported the online production of electronic invoices for all categories of business to improve the efficiency of business processing. At the same time, enterprise internet banking has implemented super administrator and online certificate upgrade functions to facilitate customers to change information online and enable the rapid development of services.

9.1.6.4 Cross-border finance

As of the end of 2021, the international settlement of the Bank reached USD7.9 billion, with a year-on-year increase of 56%; international financing amounted to RMB17.5 billion, with a year-on-year increase of 2.6%; cross-border RMB business amounted to RMB1 billion, with a year-on-year increase of 64%.

During the Reporting Period, the Bank carried out renovations at various levels, including institution, structure and system, to significantly improve the standard of anti-money laundering management in international business. We implemented system renovations such as personal facilitation and foreign exchange account integration to maximize customer convenience in foreign exchange operations while complying with regulatory requirements. We built an online financial service system with functions such as the online issuance of import credit certificates and the integrated purchase and remittance of corporate online banking, to improve the efficiency of business processing and enhance customer experience. We created a new product for export payment and invested RMB200 million in it, providing effective financing support to export enterprises.

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9.1.6.5 Innovative services for distinctive industries

The Bank insists on focusing on innovative business in supply chain financing for distinctive industries, and has innovated service solutions in coal, food, special cash crops and ICT, which have started to bear fruit. As of the end of 2021, a total of 529 coal industry supply chain facilities were disbursed with an accumulated amount of RMB1.77 billion, which effectively relieved the pressure of raw material procurement payments for thermal power plants and steel enterprises against the backdrop of cyclical commodity increases, and supported the work of coal supply assurance in Henan and surrounding areas. A supply chain financing line of RMB2 billion has been approved for the grain collection and storage sector to provide funding support for grain collection and storage in Henan Province. An order financing facility of RMB1.9 billion was approved for the installation and renewal of ICT equipment in Henan Province, providing a financial boost for the iteration of ICT equipment in the province. In addition, the Bank continued to explore capital support schemes to strengthen the special cash crop industry chains and promote large-scale farming by rural collective economic organizations in various counties around the rural revitalization strategy.

9.2 Retail Banking

During the Reporting Period, the Bank's retail business continuously enriched and improved product systems with market competitiveness and characteristics, further promoted customer operations, strengthened the ability bulk customer acquisition, and improved the digitalization, intelligence, and online operation of the retail business so that to promote coordinated and rapid development of efficiency, quality and scale of the Bank's retail business.

9.2.1 Retail Deposits

During the Reporting Period, the Bank insisted on making progress in a stable manner and achieved steady growth in the scale of its liabilities. We continued to promote the construction of scenarios and open banking and introduce external data with an open mind to enrich the data label and improve the customer profile, thus enabling the acquisition and operation of customers with data. We also strived to implement the "Digital Intelligence Transformation" strategy, continuously enhancing its development momentum, promoting the use of big data on a large scale and facilitating the transformation of the business model of retail customers. As of the end of 2021, 44 big data use cases had been uploaded, involving 145 marketing events, 210 million leads distributed and RMB287.121 billion of AUM sales converted.

As of the end of 2021, the time point balance of savings deposits was RMB218.201 billion, representing an increase of RMB17.709 billion or 8.8% as compared to the end of last year. The daily average balance of savings deposits was RMB209.294 billion, representing an increase of RMB18.826 billion or 9.9% as compared to the end of last year. The balance of asset under management was RMB321.791 billion, representing an increase of RMB47.496 billion or 17.3% as compared with the end of last year.

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9.2.2 Retail Loans

During the Reporting Period, the Bank furthered the digital transformation, strengthened technology leadership and digital empowerment, accelerated innovation and optimization of retail credit products, enriched product marketing strategies, strengthened compliance and risk prevention and control, and accelerated the pace of online business development and risk management to promote the stable and healthy development of its retail credit business.

We continued to optimize our product functions to provide our customers with intimate financing services. The perpetual loan business has continued to promote online business processes throughout the province, realizing the province-wide processing of mortgages for perpetual loans and the online processing of notary in Zhengzhou, and accelerated the interface with the real estate centre systems in various cities. In terms of credit loan business, the “medical treatment before payment” micro-credit consumption product was launched on the Zheng Hao Ban (鄭好辦) APP, opening up a new situation for cooperation with the municipal government platform and bulk customer acquisition.

We strengthened data driving and implemented internet marketing concept. We developed online marketing around key products, and further enhance our user lifecycle online operations through online community marketing activities, MGM activities, as well as regular customer promotion activities and regular customer retention activities. Data use cases are used to improve marketing conversion rates, forming a matrix of use cases covering all aspects of the business, from new customer marketing to inventory prevention. As of the end of 2021, the amount of assets transacted through big data use cases was RMB5.7 billion, accounting for 10.9% of the overall transaction amount of retail loans.

We continuously improve our risk control management capabilities based on the actual business development. We constantly optimize product approval model and formulate differentiate approval strategies for different customers so as to improve the accuracy of approval. The completion of the post-loan management system for retail loans has laid a solid foundation for continued quality control of retail loans products.

As of the end of 2021, the time point balance of the personal loans was RMB184.113 billion, representing an increase of RMB13.612 billion or 8.0% as compared to the end of last year; the daily average balance of personal loans was RMB178.933 billion, representing an increase of RMB25.553 billion or 16.7% as compared to the end of last year.

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9.2.3 Personal customers

As of the end of 2021, the Bank's individual customers reached 19,344,600 in total, representing an increase of 2,239,300 or 13.1% as compared with the end of last year.

9.2.3.1 Mass customers

As of the end of 2021, the size of assets under management (including savings) of the Bank's mass customers was RMB225.561 billion, representing an increase of RMB30.725 billion as compared to the end of previous year, of which the amount of savings deposits was RMB161.747 billion, representing an increase of RMB15.670 billion as compared to the end of previous year. During the Reporting Period, the Bank was customer-centered and customer-oriented, and has made new progress in the operation of agency customers. There were 798,600 new agency customers, of which 252,700 were new continuous agency customers, representing a year-on-year increase of 31.3%; the assets under management (including savings) increased by RMB16.451 billion as compared to the end of last year, accounting for 34.6% of the Bank's total retail assets under management (including savings).

9.2.3.2 Wealth management & private banking customer groups

As of the end of 2021, the amount of assets under management (including savings) of wealth management & private banking customer groups of the Bank was RMB95.733 billion, representing an increase of RMB16.738 billion or 21.2% as compared with the end of previous year, of which the savings deposits of wealth management & private banking customers increased by RMB0.749 billion. The number of customers with a balance exceeding RMB3 million was 6,800, representing an increase of 1,400 or 24.5% as compared with the end of previous year. The balance of off-balance sheet assets was RMB50.427 billion, representing an increase of RMB15.990 billion or 46.4% as compared with the end of previous year. The business scale of high-net-worth exclusive products such as trust and asset management plans continue to grow. The amount of high-net-worth exclusive products sold in 2021 was RMB22.449 billion. According to statistics from regulatory institutions of Henan province, the Bank ranked No.1 among 31 banks in the province in terms of sales of high-net-worth exclusive products in 2021.

9.2.4 Agriculture-related Business

Driven by the two wheels of "village online and inclusive financial service station construction", the Bank continuously strengthened the cooperation between the government and banks to promote the rapid improvement of customer bases of agriculture, rural areas, farmers and migrant workers, and created a new situation of rural revitalization. At the same time, the Bank relied on the service stations to carry out the whole village credit, gradually promoted the mutual improved mechanism of credit and trust, and achieved inclusive credit for farmers, and therefore granted the first inclusive credit in Henan village, Biyang County, Zhumadian City in accordance with the "two no and one have" ("兩無一有").

We successfully launched Village Online 2.0, of which the number of registered users amounted to 1,039,000 and the number of customers who have bound their accounts to the APP was 542,000, or 52.2%. Village Online 2.0 won the award of "Outstanding Achievement in the Category of Inclusive Finance" ("普惠金融類優秀成果") in the 2021 Collection Activities on Digital Transformation Starlight Project of the Bank (2021 年度銀行數字化轉型星耀項目徵集活動) held by China Computer Users Association.

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As of the end of 2021, the Bank had established 131 county-level sub-branches (including second-level sub-branches), 72 township sub-branches, 7,129 inclusive financial service stations and had covered 90% of the towns in 18 cities in Henan Province, benefiting more than 20 million rural residents, and accumulatively accepting 3,612,000 various transactions of rural residents in the province for the year with a cumulative transaction amount of RMB14,110 million. The number of county-level and agriculture-related customers amounted to 6,771,000, representing an increase of 897,000 as compared to the end of last year; the number of valid county-level and agriculture-related customers amounted to 2,029,000, representing an increase of 284,000 as compared to the end of last year.

9.2.5 Scenario Development and Operation Business

During this year, through various forms of merchant operation, the acquiring business optimized the cooperation model between joint acquiring and third-party payment institutions, the Bank accurately acquired high-net-worth merchants, enriched merchant rights and online operation activities, and boosted merchant assets. As of the end of 2021, 615,300 merchants were enrolled in the acquiring business, representing an increase of 109,000 merchants from the end of previous year, and the balance of assets management was RMB27.4 billion, representing an increase of RMB8.5 billion from the end of previous year.

The payment business of the Bank took “industry payment + scene wallet” as the core business direction, and expanded various payment items (education, life, government affairs, party affairs) to acquire customers in batches, and the “Yishoubao” wallet business cooperation realized export to government affairs, medical, transportation, and supermarket industry. As of the end of 2021, there were 1,563 new service agencies, 1,833,200 new registered users, 480,700 monthly active users, and cumulative collection of RMB13.763 billion; 239 of them were cooperative units in the living payment business, with a 56% coverage rate in the province, achieving full coverage of electricity fee collection and after-school extended service charges in the province.

In terms of smart community business, we continued to conduct B-end customer acquisition and C-end online operation through docking with large and medium-sized properties, cooperation of software and hardware service providers, and promotion of branches. As of the end of 2021, Zhongyuan Smart Community Platform accumulated 1,281 online communities, covering 568 property companies, with 5.236 million community users and 4.499 million online registered users.

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The Zhongyuan Foodie Map is built around six lifestyle modules, creating an internal circulation system for online operation, which can realize a non-financial interest platform for any customer group, any channel, any product and any card type in a timely manner. Through docking with real-time data in the Bank, we can realize the issuance of up to standard interests for 90% of the core financial products in real time. As of the end of 2021, the Foodie Map had 1,470,000 registered users, 122,300 monthly active users, 1,101,000 online transactions, and transaction amount of RMB54,134,000, and had built 9 city life circles and 11 specialty pavilions for agricultural and sideline products.

9.2.6 Mass Customer Service

During the Reporting Period, the Bank focused on customers' needs and optimized the open platform of "E-Pay" agency development, paying wages on behalf of the enterprises, and managing a number of convenient functions such as online contract signing by one-click, code scanning for card issuance by WeChat, convenient payroll payment by only one-click, inter-bank payroll support, online information management, and multi-card compatibility. As of the end of 2021, units using the open platform of "E-Pay" agency development increased by 2,786 for the year, representing 40% of the number of new agency units for the year, and acquired 177,800 agency users outside the Bank.

Based on the preferences of elderly customer groups, the Bank built a customer group service system of "exclusive products + exclusive activities + exclusive rights + exclusive channels + exclusive services" and explored a six-step approach to elderly customer group operation. As of the end of 2021, the Bank's scale of assets for elderly customers reached RMB175.421 billion.

We deepened operations through integral mall. With a focus on customer pain points, we enriched customers' rights and interests in online activities, and satisfied customers' daily leisure, entertainment and commuting needs. As of the end of 2021, there were 2,762,000 registered users in total in the integral mall, representing an increase of 596,000 over the end of previous year, and 879,000 cumulative redeemed users, representing an increase of 421,000 over the end of previous year.

9.2.7 Wealth and Private Banking

During the Reporting Period, 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 wealth management service team to continuously optimize customers' asset structure for healthy development, and built an intimate, professional, cooperative and win-win service system for the Bank's high net worth customers to continuously meet the differentiated, professional and localized needs of high net worth customers.

In terms of high-net-worth financial product service system, the Bank improved the line of high-net-worth financial products by building the "3+1+N" product system. Through the three major series of "Perfect Choice – Fixed Income, Best Choice – Pure Bond Investment, and Smart Choice – Fixed Income Enhancement", the Bank realized the preservation and value-added of clients' wealth, and provided customized products to meet clients' special needs for flexible allocation; through the series of Selected Manager – Diversified Strategies, the Bank connected with outstanding managers in the market to help clients' asset allocation with professional investment in equity and derivatives assets; Zhongyuan Family – Family Trust Service helps high net worth customers to realize wealth inheritance.

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In terms of non-financial products and value-added services, the Bank had comprehensive coverage of scarce resources and in-depth maintenance of multi-dimensional activities. During the Reporting Period, 48 online activities and 24 offline activities have been held, covering various fields such as Wealth Forum, Health Seminar, Finance and Tax Seminar and Culture Research and Visit, and various customer care activities were carried out in a timely manner to address the pain points of customers' needs by combining the impact of the epidemic and flood. Meanwhile, the Bank deepened the value-added service system to help our customers' operation in all aspects, combining our nine existing value-added service brands and focusing on the differentiated needs of ultra-high net worth customers. The Bank took advantage of mobile banking and other online platforms to comprehensively promote value-added services online and enhance customers' online experience.

9.2.8 Credit card business

During the Reporting Period, the Bank continued to deepen the digital transformation of the credit card, continuously enhanced its ability of accurate customer acquisition, refined operation and intelligent risk control, and gradually improved the closed loop of digital business. Relying on innovative products in the field, the Bank created the first digital credit card – Youth Boundless Card, which realizes the closed-loop management of “card application, activation, card-tied and card usage” process. Based on local advantages, the Bank focused on the needs and preferences of target customer base, deeply linked to local headquarter brands and consumer scenes, and created a series of local co-branded credit cards. The Bank established a precise marketing system to enhance quality and efficiency, and the customer scale has grown steadily. Focusing on customers, the Bank established a whole life cycle digital management system, created an exquisite life chain, and continued to enhance customer activity and brand image. The refined asset hierarchical management and continued optimization of the installment products provided better consumer credit services for customers. The Bank continuously improved the level of risk control refinement and intelligence, further improved the closed-loop risk management of the credit card in the whole process, established a customer value system, and provided customers with accurate services.

As of the end of 2021, a total of 3,068,500 credit cards were issued, representing an increase of 618,100 as compared with the end of last year. The number of the valid activated cards was 2,077,900, and the transactions amount of the period was RMB101,771 million, representing a year-on-year increase of 25.4%. The total income was RMB1,010 million, representing a year-on-year increase of 43.9%. The loan balance was RMB18,930 million, of which RMB12,600 million was revolving loan and RMB6,330 million was installment-based loan.

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9.3 Financial Market Business

9.3.1 Treasury business

During the Reporting Period, in the face of severe rainstorms and floods and the impact of multiple rounds of the COVID-19 epidemic, the Bank insisted on prioritizing stability while pursuing new progress proactively and actively, adhered to prudently carry out financial market business with compliance, effectively implemented various regulatory requirements, and earnestly fulfilled the market responsibilities as a primary dealer in open market and an interbank bond market maker. By continuously deepening the money market transaction business, rationally using money market tools, effectively conducting monetary policy, and fully enhancing the ability to actively manage funds, the Bank made great contribution to steady operation of interbank market on the basis of ensuring the liquidity security of the Bank. As of the end of 2021, 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 RMB56.845 billion, accounting for 7.4% 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 RMB94.644 billion, accounting for 13.4% of the Bank's total liabilities.

During the Reporting Period, under the continuous influence of the COVID-19 epidemic, the global economic recovery and inflation became the main theme, and the domestic and foreign markets were full of high uncertainty. The Bank closely tracked the policy guideline and market changes, gave full play to its investment and research capabilities, attached importance to the risks, followed the pace of the bond market in the limited time and space, actively adjusted positions, and continued to carry out swing operations at the trading window to effectively increase investment returns. In an uncertain market, the Bank set its strategic goals, adjusted the portfolio duration in a timely manner, continued to improve its trading strategies, and kept optimizing its asset allocation structure, so as to consolidate its development foundation and effectively improve the annual bond investment returns. Facing of global foreign exchange fluctuations under the influence of changes in the U.S. Federal Reserve policy and rising inflation, the Bank strengthened market research and judgment, gave full play to its investment and research capabilities, and actively carried out hedging business through the derivative products based on operation in compliance and risk control, so that to effectively decrease the exchange rate risk.

9.3.2 Interbank business

The interbank business adheres to the business positioning of providing liquidity support for the entire bank, serves interbank customers to conduct product sales, optimizes the asset structure to support the development of the real economy, improves product innovation and customer service capabilities, and effectively promotes the in-depth development and innovation transformation of interbank business.

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During the Reporting Period, the Bank continued to enhance the efforts on promoting and using of interbank online products, expanded product service channels, improved business processing efficiency and market influence, and promoted continuous and steady business growth. Firstly, as one of the first pilot banks to join CFETS interbank deposits in China, the Bank vigorously expanded CFETS interbank deposit business, and was awarded the “Market Innovation Award” in the interbank domestic currency market in 2021. During the Reporting Period, our cumulative turnover of CFETS interbank deposits was RMB53.34 billion, representing a year-on-year increase of 36.5%. Secondly, we realized the online discount of bank’s acceptance bills and commercial bills, deepened the innovative application of financial technology in bills business, improving discount efficiency, enhancing customer experience, and continuously enhancing the ability of our bill products to serve the real economy. During the Reporting Period, the bill discount business of the Bank recorded RMB62.167 billion in aggregate, and the volume of discounted bills ranked first in Henan Province, representing a year-on-year increase of 2.4%. Thirdly, the Bank gave full play to the advantages of inter-bank customers, carried out the circulation of intra-bank assets in Yindeng Centre, and won two awards, namely, “Annual Award for Structured Financing” and “Annual Award for Innovative Institutions” of the 7th China Asset Securitization Forum.

9.3.3 Asset management

During the Reporting Period, the Bank actively practiced its social responsibilities, fulfilled its responsibilities as a wealth management and investment manager, and did a good job in customer wealth management. As of the end of 2021, the Bank had 74 existing wealth management products, with a size of RMB95.598 billion, representing an increase of RMB22.811 billion or 31.3%, as compared to the end of last year, all of which were net-worth products that met the requirements of the new asset management regulations. We completed the reduction of expected income products, and fully realized the transformation of net-worth wealth management.

During the Reporting Period, the Bank continued to improve the types of net-worth wealth management products that meet the needs of customers in each lifecycle, forming a product system with fixed income as the core and fixed income + as a supplement. Product types 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), regular open “Profit” series (盈系列), “Tianyi” series (添益系列), “Tianxin” series (添鑫系列) and Yuekaixin (月開心), dividend-paying product “Hongyi” series (弘益系列), closed type “Stable Profit Increment” series (穩健增利系列) and “Qianjing” series (乾景系列), fixed income + “Anxin” series (安鑫系列) and “Tianxin” series (添鑫系列) and others, to providing investors with various options for asset allocation.

9.4 Distribution Channels

9.4.1 Mobile banking

During the Reporting Period, the Bank achieved a further upgrade of its mobile banking customer service capabilities by building the “Yidiantong (一點通)” brand of mobile banking. We created a digital inclusive financial ecosystem by building a “Rural Revitalization Version” serving for rural customers, a “Simplified Version” serving for young customers, and a senior-friendly construction serving for silver-haired customers. We launched full-life-cycle savings products, scenario credit products, etc., used AI Robo-Advisor capabilities, combined with wealth information, wealth livestreaming and other forms, to build a professional one-stop financial service platform. We built a “Finance + Life” ecological scenario, cooperated with external institutions such as JD.com, built an open and co-constructed platform for life services. We upgraded intelligent search, launched active services, cloud BNAK and other functions, launched the customer voice experience area, and improved the caring service capability of mobile banking. As of the end of 2021, our personal mobile banking users reached 9.2152 million, representing an increase of 1.4903 million as compared to the end of last year. Our active users reached 2.1913 million, representing an increase of 103,400 as compared to the end of last year.

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9.4.2 WeChat banking

Under the guidance of digital transformation strategy, we deepened WeChat ecological customer service. We innovated the content operation mode, and stimulated users' interest with multiple dimensions of "information + video + graphic push + interactive topic". As of the end of 2021, WeChat official account of our Bank has sent 297 tweets in 48 issues, which have been viewed for 6.46 million times. The number of fans of our WeChat banking was 5.7078 million, representing an increase of 1.0253 million as compared to the end of last year. There were 4.0285 million card binding customers, representing an increase of 918,900 as compared to the end of last year.

9.4.3 Personal online banking

As of the end of 2021, the Bank's personal online banking attracted 96,000 new users, with the total number of users reaching 1.0939 million. During the Reporting Period, the total number of transactions reached 3.0359 million, and the total transaction amount reached RMB442.355 billion.

9.4.4 Self-service banking

As of the end of 2021, the Bank had 4,706 self-service devices in total. There were 1,145 ATMs and CRSs, 612 intelligent teller machines, 403 smart cash cabinets, 27 VTM devices, 851 multimedia inquiry machines, 1,560 mobile PADs and 108 receipt printers. During the Reporting Period, the business volume of offline self-service pipelines totalled 33.6363 million, with a total transaction amount of RMB245.087 billion.

9.4.5 Customer service center

The scenarios of smart outbound call continuously innovate, with new application scenarios such as event invitation, credit card promotion and smart collection, and human-computer interactive outbound call are being actively explored to realize multiple rounds of human-computer interaction. During the Reporting Period, the total incoming call volume was 3.45 million, of which the manual incoming call volume was 1.4918 million, and the customer satisfaction was 99.66%. Intelligent voice browsing calls were 1.4396 million, with a diversion rate of 66.79%. Online customer service received 4.2557 million calls from customers, of which 246,900 were transferred to manual receiving. The diversion rate of smart text customer service was 94.2%, and customer satisfaction was 94.94%.

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9.4.6 Development of direct banking

During the Reporting Period, with the vision of creating digital transformation service brand for small and medium-sized financial institutions, the Bank devoted itself to promoting the joint innovative business of Yong Xu Dai (永續貸). Under this business model, the Bank packaged the system tools of Yong Xu Dai business and provided services to cooperative banks to support them in providing housing mortgage services for individuals and small and micro businesses. As of the end of 2021, a total of 26 cooperative banks have signed agreements with us on jointly innovative business of Yong Xu Dai, and managed an amount of RMB26.636 billion of assets in total, 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 Yong Xu Dai, the Bank continuously promoted standardised operation systems in terms of cooperative bank projects operation; in terms of customer experience, it provided friendly IT experience to business and consumer customers; in terms of risk control, it continuously optimised the risk model; supported that risk control strategy that was determined locally by cooperative banks on their own in accordance with risk preference; and in terms of digital operation, it continuously optimised the data analysis platform, launched analytical reports and Easyscreen underpinned by multiple business categories to provide data support for the cooperative banks' business decision-making. Iterating IT systems consistently for agile delivery, the system completed 41 iterative works and launched 503 business requirements in 2021, which formed a full chain closed-loop management system of the joint innovative business of Yong Xu Dai.

9.5 Information Technology

The Bank focused on the goal of “Internetization and Ruralization of Banking Services, Digital Intelligence Future (上網下鄉、數智未來)”, consistently consolidated financial technological infrastructure, and strived to handle technological risk management to enable digital transformation practice of the Bank and promote the steady development of the Bank's business.

9.5.1 Practice of digital transformation strategy

In accordance with the practical requirements of digital transformation strategy, the Bank firmly promoted the construction of IT infrastructure transformation and data banking.

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Construction of infrastructure. Firstly, as for technology intermediate platform, we built platforms such as unified logs, diagnostic analysis, blockchain, 5G message to consolidate the Bank's cloud native technology system, supporting 109 systems in total (the percentage of independent research and development is 39.5%) and realizing the independent control of core technology. Secondly, as for business intermediate platform, we continued to improve the credit intermediate platform, accumulated 753 public service components, and successfully completed the migration of retail loan products; building a new post-loan system to lay a foundation for effectively preventing and defusing credit risks; completing the construction planning of payment intermediate platform, and launching project construction for a new generation of payment system. Thirdly, as for cloud platform, we completed the construction of a dual-center disaster recovery system for the same-city production cloud platform, shortening the lead time of basic IT resources to less than 30 minutes; accelerating the process of uploading applications of the whole Bank to the cloud, and the current percentage of applications uploaded to the cloud has reached 94%. 229 microservice applications were produced, and about 1,300 running containers were deployed. Fourthly, as for DevOps platform, we realized the productization of electronic display board and assembly line modules of the original effect platform, supporting the efficient and coordinated management of business tasks, as well as the absorbed and merged projects; internalizing the maturity of DevOps (61 teams have reached L2 level and 5 teams have reached L3 level) and improving the technical ability of the R&D team. The lead time of the demands was shortened by 5%, and the density of production problems was reduced by 40%, enhancing the R&D quality and efficiency of the whole Bank.

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The construction of data banking. Firstly, in terms of data governance, we improved and optimized 14 systems such as data governance and management methods, continued to improve the automation and online level of data governance, promoted verification pass rate of the regulatory quality tool of standardization data increased from 91% to 94.4%, and the label completeness of critical data items increased from 65% to 85%. Secondly, in terms of data integration, we continued to integrate public data, completed the online release of 828 unified indicators, and achieved a coverage rate of more than 85% of business needs. We steadily improved the ability to collect and integrate multi-source and heterogeneous data inside and outside the bank, completed the data collection and integration of marketing activity, and incorporated 29 types of external data with intra-bank data. Thirdly, in terms of data middle platform, we independently developed an enterprise-level fusion Data Lake, realizing intelligent hierarchical storage of data based on the integration of Lake and warehouse, and the volume of data entering the Lake reached 1000TB+ so that we reduced the unit data storage cost by 20%+ and increased the batch processing operation efficiency by 30%+. We completed the Cloud-Native construction of a one-stop analysis platform and realized complete independent control of BI product line technology; reconstructed the real-time computing platform to improve stability and high availability effectively. Currently, we support over 200 real-time computing scenarios and process 1.5TB of data on average per day. Fourthly, in terms of digitalization marketing, we built a retail mobile marketing e-map, integrated 24 million new and existing customers' information, and realized massive accurate hit markers in Gaode Map to effectively improve marketing efficiency. Fifthly, in terms of digital risk management, we self-developed a model management platform and incorporated 3,461 model assets to achieve closed-loop online control of risk models in full cycle. We continuously improved the transaction platform with anti-fraud feature, and the number of transactions it processed accumulatively amounted to more than 600 million in the year, with 2.19‰ of the risk warning rate and 1.2‰ of the transaction blocking rate. We secured funds over RMB10 million and achieved zero loss of large-value fraud in mobile banking; vigorously promoted the construction of application anti-fraud projects. We built an all-channel application anti-fraud system for the Bank's 14 credit products, which enables the fraud risks prevention and control of application in the whole process.

9.5.2 Information system project construction

Focusing on the needs of comprehensive online construction, the Bank steadily promoted system construction and functional optimization and upgrading. Firstly, the Bank completed the construction and launch of 63 sets of systems such as post loan, wealth management distribution, original heart reconstruction, the second phase of the corporate mobile operation platform, Wisdom Eye, digital RMB, and a new generation of credit management system. Secondly, the Bank achieved the optimization requirements for 4,071 functions such as Foodie Map 3.0 and Village Online 2.0.

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9.5.3 Fintech Innovation Practice

The Bank continued to follow the development trends of 5G, blockchain and any other new technologies, and explored technological innovation applications such as big data, artificial intelligence (AI), and blockchain, as well as realized the implementation of new technologies in various fields such as supply chain financing, intelligent marketing, and digital currency. Firstly, the Bank steadily set up a standardized AI service system, completed the cloud-based transformation of the RPA platform, and comprehensively promoted and implemented RPA applications, saving a total of 1,000+ man-months in labor costs. Secondly, the Bank built a federated learning platform with horizontal and vertical federation capabilities, realized data intersection, feature engineering, model training and other processes innumerable, and cooperated with peers in the construction of federal anti-fraud applications. Thirdly, the Bank actively expanded the construction of NLP and OCR applications, realized the value transformation of AI capabilities, and completed the construction of 10 NLP applications such as address anti-fraud, data security label intelligent classification, and 12 OCR applications such as collateral mortgage management and electronic bottom card image entry, which effectively reduced labor costs and helped preventing and controlling business risks. Fourthly, the Bank used new technologies such as blockchain and 5G, so as to implement five innovative applications in the fields of digital currency, transaction banking, 5G messaging, and remote banking.

9.5.4 Construction of Technology Teams

The Bank continued to optimize the staffing of key positions, promoted the construction of training system for core professional skills, and continuously strengthened the construction of the technology team. As of the end of 2021, the head office has 715 technical staff. The Bank continuously improved its staff training system, conducted training for all levels of staff in key positions, promoted the match degree between staff and positions, covered 72% of the staff in the technology line, and gradually enhanced the professional skills of technical staff.

9.5.5 Establishment of Technology Brands

Firstly, the Bank enhanced in-house innovation, made application for a total of 36 computer software copyrights and 23 patents during the Reporting Period, and the brand influence of Zhongyuan Technology has become increasingly prominent. Secondly, in the Henan “Network Protection 2021” network security attack and defense competition of 2021, the Bank won the first prize, and was awarded the “Excellent Defense Unit” by the Department of Public Security of Henan Province; meanwhile, the Bank was invited to participate in the “Jiaozuo Network Protection 2021”, and won the first prize for the attack team and the first prize for individuals, and the construction of network security defense system in depth is increasingly perfect. Thirdly, the Bank’s construction of information security operation system was awarded “2021 Outstanding Contribution to Financial Information Security” and “2021 Outstanding Contribution to New Technology Application Innovation in Financial Industry” for the Data Model Management Platform by the Financial Computerizing of PBoC. Fourthly, the Bank’s personal mobile banking project, DevSecOps Level 2 assessment certification, and the related security capability passed the evaluation of CAICT and reached the advanced level in China. Fifthly, the construction of data governance system won the DAMA China 2021 Data Governance Best Practice Award. Sixthly, the enterprise-level AI platform project was awarded the IDC China 2021 Future Intelligence Leader.

9.5.6 Production and operation of the entire Bank

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

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9.6 Investment Business of Subsidiaries and Joint Ventures

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. (林州中原村鎮銀行股份有限公司)	51.00%
Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行股份有限公司)	51.00%
Xinxiang Zhongyuan County Bank Co., Ltd. (新鄉中原村鎮銀行股份有限公司)	78.46%
Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行股份有限公司)	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 Zhongyuan Rural Bank Co., Ltd. (襄城中原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)	51.73%
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 took advantage of its own technology, products, management and other resources to continuously help the nine county banks to enrich their own financial product 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 further enhance the Bank's brand awareness.

During the Reporting Period, the nine county banks always adhered to their market positioning of serving "agriculture, rural areas and farmers (三農)" and "small and micro enterprises (小微)" and extended credit 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 the end of 2021, their total assets amounted to RMB15,381 million, representing an increase of RMB1,506 million, or 10.9% as compared to the end of last year. The balance of deposits amounted to RMB12,767 million, representing an increase of RMB1,101 million, or 9.4% as compared to the end of last year. The total loans amounted to RMB9,884 million, representing an increase of RMB727 million, or 7.9% as compared to the end of last year.

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9.6.2 Consumer Finance Company

During the Reporting Period, Henan Zhongyuan Consumer Finance Co., Ltd. actively adjusted strategy, continuously optimized business development model, enhanced core capabilities, implemented inclusive finance, and promoted the Company's high-quality development. During the Reporting Period, the amount of loans issued by Zhongyuan Consumer Finance Company reached RMB64,544 million with accumulated amount of loans issued of RMB166,878 million. As of the end of 2021, the loan balance was RMB25,172 million, representing an increase of RMB5,872 million as compared to the end of last year, with the number of loans transaction exceeding 18.87 million, and the aggregated number of loans transaction exceeding 50.5053 million. We achieved operating revenue of RMB3,595 million, and increased the number of customers by 4.2601 million. We provided consumer finance services for an aggregate of 15.1779 million customers and contributed new vitality to the economic development of Henan Province and the whole country.

9.6.3 Financial Leasing Company

During the Reporting Period, on the one hand, AB Leasing Co., Ltd. continuously improved party building, steadily implemented the new requirements for party building of the party committee of the Bank on "four conversion, four integration", and further improved the level of party building work. On the other hand, it actively promoted the relocation of the place of registration, effectively prevented and resolved business risks, actively and steadily promoted strategic transformation and carried out new business. It made steady progress in all work, made breakthroughs in business transformation, and steadily improved its operating results. As of the end of 2021, the balance of financial leases of AB Leasing Co., Ltd. was RMB35,228 million; the corporate businesses released by AB Leasing Co., Ltd. were 103 throughout the year with a total amount of RMB15,936 million; the amount released by AB Leasing Co., Ltd. totaled more than RMB80 billion. It has started business in 28 provinces, municipalities and autonomous regions in the PRC.

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10. Risk management

During the Reporting Period, facing increasingly complex economic and financial situation and numerous internal and external difficulties and challenges, the Bank spared no efforts to cope with the risk impact of floods and repeated epidemics, prudently promoted the absorption and merger work, and continuously strengthened the awareness of risk compliance to prevent regional and systemic financial risks. The Bank focused on the digital transformation to improve the level of risk management, actively promoted the construction of an intelligent risk control system across the bank, continuously strengthened the model risk management, deepened big data application in the whole process and key risks of credit business, and carefully implemented the task of “reducing old and controlling new”; the Bank further facilitated the overall risk management to enhance risk offset capability and ensure each of the businesses of the Bank develops in a continuously healthy manner.

10.1 Credit risk management

During the Reporting Period, the Bank actively responded to the call of national policies, focusing on post-disaster reconstruction and the activity of “10,000 people helping 10,000 enterprises” to continuously optimize the asset structure of the Bank, improve the quality and efficiency of project approval, and comprehensively promote the high-quality economic development in Henan. Henan suffered the flood disaster of “heavy rainstorm on 20 July”. For the post-disaster reconstruction, the Bank arranged special staff, opened green channels and optimized products to fully support the major disaster relief projects and resumption of work and production for enterprises suffering disaster; the Bank continued to strengthen data-driven business, improved the accuracy of customer digital portraits to boost business quality and efficiency; the Bank actively promoted model building, and continued to improve the efficiency of automated approval for products such as “government procurement loans”; it optimized client’s experience, and continuously improved the online and data level of credit audit process; the Bank increased the support for credit examination of small and micro credit extension business. Leveraging financial technology, the Bank effectively identified risks and realized standardized and automated approval. Focusing on the rural revitalization strategy, the Bank will vigorously develop inclusive finance, 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, persisted in preventing and defusing financial risks in the course of steady development to achieve high-quality development of the Bank. The Bank adhered to the strategy of “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 90 days into non-performing loans. During the Reporting Period, the new generation of post-loan system of the Bank was successfully launched, realizing online, automated and intelligent operation of post-loan management.

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During the Reporting Period, the Bank continued to promote the recovery and resolution of non-performing assets and high-risk credit extension, adhered to “value creation”, focused on the overall layout of key branches and key projects, strengthened supervision and guidance, enriched solutions, and improved the effectiveness of substantive resolution through “portfolio consolidation”. The Bank adhered to “compliance operation”, focused on internal and external key inspections, and continuously promoted risk screening and inspection. The Bank constantly carried out in-depth screening and inspection on external shocks risks, credit business risks, shadow banking risks, etc. to promote improvement through inspection and effectively resolve potential risks.

During the Reporting Period, focusing on digital transformation, the Bank continued to empower the construction of online, digital and intelligent risk management. The Bank continued to strengthen the construction of an intelligent risk control and governance system and model risk management; it coordinated and promoted the construction of key projects such as the risk management data mart, the second-generation credit reporting variable derivative project, LBS and other address verification database, laying a solid foundation for “digitalized transformation”; it improved the model risk management system, carried out independent model verification, model risk monitoring, specific product risk analysis, and business risk screening and inspection in an orderly manner; it continued to optimize the new-generation credit system and non-zero big data assisted decision system, actively promoted the implementation of key projects such as the model whole life cycle management platform and anti-fraud platform for enterprises, and empowered transformation and development with innovative risk control methods.

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 formulated and issued the Administrative Measures for the Division of Trading Books and Banking Books of Zhongyuan Bank (《中原銀行交易賬簿與銀行賬簿劃分管理辦法》) and the Measures for Administration of the Interest Rate Risks of Trading Books of Zhongyuan Bank (《中原銀行交易賬簿利率風險管理辦法》) to further improve various market risk policies and systems and lay a solid foundation for the refined measurement of market risks; it conducted an in-depth understanding of the market risk of absorbing and merging the three banks, and formulated a market risk management plan during the transition period; the Bank continuously optimized the market risk limit management system, and improved the management level of limit indicators by carrying out the mid-year limit review work, and monitored various market risk limits on a daily basis to ensure that the market risk limit indicators are effectively implemented; the comprehensive verification of the market risk management system was completed to effectively ensure that the market risk support system is sound, the valuation model is reliable, and the output results can accurately reflect the Bank’s market risk; the Bank carried out market risk stress tests on a daily basis to fully assess the market risk tolerance of the Bank under various extreme situations and improve the foresight and comprehensiveness of market risk management. During the Reporting Period, the Bank’s market risks were generally stable and controllable.

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10.3 Operational risk management

During the Reporting Period, by improving the internal control compliance and operational risk management system, the Bank continued to enhance its refined management capabilities for operational risks and built a long-term mechanism for internal control compliance management.

The Bank's operational risk management organizational system consists of the Board of Directors, the Board of Supervisors, senior management, compliance management department, the internal audit department, and positions of various lines (departments) and branches with risk management functions. The positions of various lines (departments) and branches with risk management functions, the compliance management department and internal audit department constitute the "three lines of defense" of the Bank's operational risk management. In accordance with the Operational Risk Management Measures of Zhongyuan Bank and the management system of three major instruments, through the sorting of processes, the identification of risks and the self-assessment of control measures, the monitoring of key risk indicators and the processing of early warnings, and the collection and sorting of loss events, the Bank ensured the continuity and effectiveness of operational risk management, and further optimized and improved the entire process of operational risk identification, assessment, monitoring, control and mitigation.

On the basis of strengthening internal control and implementing compliance management, under the support of internal inspection and system construction, and the backing of internal audit supervision, the Bank strengthens risk monitoring and prevention in key positions and key areas to ensure that operational risk identification, assessment, control, monitoring and reporting are carried out effectively, and build a long-term mechanism for internal control and compliance management. At the same time, the Bank continues to improve the outsourcing risk management, business continuity and emergency management mechanisms to ensure that the Bank could take effective measures to minimize the impact and loss in the event of an emergency. 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 and constantly improved the liquidity risk management systems which are suitable for its business development level. Specifically, such systems include organization system under the coordinated management of the whole bank, liquidity management strategy system, liquidity management system, daily management tool system and regional liquidity mutual aid system. During the Reporting Period, the Bank strengthened liquidity risk management and continuously improved construction of liquidity risk system, so the overall liquidity was relatively good, major liquidity supervision indicators satisfied the supervision requirements and was optimized and improved continuously.

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During the Reporting Period, the Bank continued to optimize and improve the organizational structure of liquidity risk management, strengthened the three-level linkage of the head office, branches and sub-branches, clarified the responsibilities of all levels, establishing the coordinated management and control of the liquidity risk from the group level, guiding and assisting subsidiaries to strengthen liquidity management, regularly monitoring its operating conditions and liquidity risk levels to ensure the safety of the Group's liquidity; providing a systematic basis for liquidity management by improving management policies, management methods and operational procedures related to liquidity risk; realizing effective transmission of liquidity management strategies through the management decisions of the Asset and Liability Management Committee, further improving management tools such as market and business analysis, daily management, stress test and emergency drill, and enhancing liquidity risk resilience; strengthening active asset-liability structure management and duration management, and rationally adjusting the business term structure. The level of overall term mismatch is controlled within a reasonable range; the active liability tools are rationally used to improve the diversity and stability of liability sources; the management of intraday positions is refined, and the management of intraday positions and the reporting of large amounts of funds are improved through online management of capital positions to ensure sufficient intraday liquidity to fully meet the needs of various business development; 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 constantly improved its information technology risk management system, actively implemented the three lines of defense of IT management, formulated standards and strategies of information technology risk management, conducted information technology risk control self-assessment, timely revised and monitored information technology key risk indicators, established the information technology risk periodic reporting mechanism, and formed an effective risk management process system that supports risk identification, assessment, control/release, monitoring/reporting. The Bank also paid great attention to information security management, established and improved the information technology risk monitoring system, built defense-in-depth system for safe operation, implemented the technical specifications and requirements of Internet application security and data security, improved the management of the whole life cycle of application security, improved the data security governance system, fully implemented the construction of the whole life cycle of data security, strengthened the access management and risk assessment of 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 of the Bank was rated 2C in the CBIRC's 2020 regulatory rating, demonstrating that the information technology risk management of the Bank is becoming better and better.

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10.6 Reputational risk management

The Bank's reputation risk management adhered to the combination of prevention and disposal, and followed the principles of "forward-looking", "matching", "full coverage" and "effectiveness" to constantly improve the ability and efficiency of preventing reputation risks and handling reputation events.

During the Reporting Period, the Bank conscientiously implemented the regulatory requirements of reputation risk management, and continuously improved the reputation risk management system. According to the requirements of China Banking and Insurance Regulatory Commission's Measures for Reputation Risk Management of Banks and Insurance Institutions (Trial) (《銀行保險機構聲譽風險管理辦法(試行)》), the Bank revised Measures for Reputation Risk Management of Zhongyuan Bank, improved reputation risk whole-process management mechanism. The Bank strengthened the daily monitoring and early warning of public opinion, implemented the monthly reporting system of major internal information, and strengthened the quarterly investigations of reputation risk to dig deep into the major potential risks that may have negative impact on the reputation of the Bank. The Bank also tracked the matters on the risk list to grasp the bank-wide information and do well in reputation risk prevention. The Bank continued to conduct the identification, assessment and reporting of reputation risks, properly responded to reputation risk events, to effectively preserve the Bank's brand reputation. During the Reporting Period, the Bank actively implemented various 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 "100th Anniversary of the Founding of the Party", and around the topics on "High-quality Party Building Leads High-quality Development (高質量黨建引領高質量發展)", anchoring the "two guarantees", serving the "ten great strategies", and contributing to the construction of modern Henan, the Bank conducted advertising campaigns to continuously improve its brand reputation.

10.7 Exchange rate risk management

During the Reporting Period, the Bank maintained its prudent risk preference, closely monitored the changing trend of exchange rates, proactively analyzed the fluctuation of global exchange rate market, formulated staged foreign exchange hedging strategies, smoothed the hedging cost, and hedged the foreign exchange risks by applying exchange rate-based derivatives. During the Reporting Period, the Bank formulated foreign exchange quota indicators, and compacted the exchange rate risk tolerance when conducting the quota re-inspection in the middle of the year, paid continuous attention to the exposure positions of various foreign currencies held by the Bank during the daily management, summarized and reported the Bank's foreign exchange exposure, monitored the foreign exchange quota indicators on a daily basis, and continuously managed foreign exchange business and quota. During the Reporting Period, the Bank's exchange rate risk was stable and controllable.

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11. OPERATING STRATEGIES AND PROSPECTS FOR DEVELOPMENT

The year of 2021 was the first year of the “14th Five-Year Plan”. In response to the once-in-a-century upheaval and pandemic, China has responded calmly and accurately implemented policies, thus its economic development showed a strengthening and improving trend while remaining stable. China’s GDP was RMB114,367 billion, representing a year-on-year increase of 8.1% and a two-year average increase of 5.1%. Looking forward into 2022, under the strike of the once-in-a-century pandemic, the once-in-a-century upheaval will be accelerated, and the external environment will become more complex, severe and uncertain. China’s economic development will face the triple pressure of shrinking demand, supply shock and weakening expectation. However, with the improvement of infrastructure, manufacturing and consumption, the driving force of China’s economy is expected to increase, the fundamentals of China’s economic (strong resilience and long-term improvement) have not changed, and the high-quality economic development has been promoted in depth.

Facing the current environment, in 2022, with the theme of “New Zhongyuan Bank, New Services, New Future”, Zhongyuan Bank will adhere to the principle of “Seeking Growth, Realities and optimum through Steady Progress” (穩中求進、穩中求實、穩中求優), inherit the business philosophy of “Intimate, Professional, Cooperative and Win-win” (貼心、專業、合作、共贏), practice the strategic path of “Internetization and Ruralization of Banking Services, Digital and Intelligent Future, Integrity and Innovation, Striving Forward” (上網下鄉、數智未來、守正創新、砥礪前行), and continue to forge ahead towards the new strategic goal of “Exceeding Trillion, Returning to A shares and Strengthening Brand Awareness” (突破萬億、回歸A股、打響品牌) and “Building a Century-old Foundation and Central China Thriving for a Century” (打造百年基業、百年中原) of “Three Small Goals and One Big Goal” (三小一大).

First, to steadily promote the work of absorption and merger. We will deepen ideological understanding, strengthen confidence and determination, promote the successful completion of the absorption and merger of Bank of Luoyang, Bank of Pingdingshan and Bank of CTS.JZ by Zhongyuan Bank, realize the high-quality development of overall business and enhance the ability of finance serving for the economic and social development of the whole province.

Second, to build a brand image of “Best Service, Best Pricing and Highest Efficiency” (服務最好、定價最優、效率最高). We will implement the “Best Service, Best Pricing and Highest Efficiency” brand image into every product, every service and every business. Around the “Best Service”, we will improve the assessment and evaluation system of service quality and efficiency, and improve customers’ experience; around the “Best Pricing”, we will classify and stratify customers, and make accurate pricing; around the “Highest Efficiency”, we will implement the “1310” working mechanism.

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Third, to implement the strategic focus of “Serving Strategies, Serving Entities, Serving Enterprises and Serving People” (“服務戰略、服務實體、服務企業、服務人民”). In the new development stage, Zhongyuan Bank will focus more on taking root in Henan, adhere to the work orientation of “Project is the King” (項目為王) with every endeavor to support local economic construction, serve the society, constantly enhance the sense of identification among the masses, and build Zhongyuan Bank into the people’s own bank in the Central China.

Fourth, to deeply promote the four major transformations of “Concept Transformation, Business Transformation, Digital and Intelligent Transformation, Style Transformation” (理念轉型、業務轉型、數智轉型、作風轉型). With the Concept Transformation as premise, we firmly establish the concept of risk, pay attention to the concept of social responsibility, practice the service concept of client orientation, adhere to the concept of compliance operations, and keep firmly in mind the long-term development concept from Century-old Foundation. With the Business Transformation as core, we constantly optimize the credit asset structure of the Bank and achieve four quarter adjustment goals, namely, individuals, small and micro farmers, corporate customers and government platform loans account for 25%, respectively. With the Digital and Intelligent Transformation as support, the Digital and Intelligent Transformation will achieve “Five Modernizations” and “Three Orientations”. The “Five Modernizations” are online, digitization, intellectualization, automatization and application, and the “Three Orientations” are business orientation, problem orientation and effect orientation. With the Style Transformation as guarantee, we practically improve the sense of responsibility, working ability, execution efficiency and service quality of cadres and employees of the Bank.

Fifth, to realize the four changes as soon as possible. Firstly, changing from product orientation to client orientation. Starting from solving customers’ problems and difficulties, we will design differentiated products, provide high-quality services, and effectively solve customers’ problems; secondly, changing from customer operation to customer service. We will improve customers’ experience from the perspective of customers and from the interests of customers; thirdly, changing from interest drive to responsibility drive. We will establish an image of responsible bank through solid financial services, and obtain the support and trust of the government, enterprises and people to win a larger room for market development; fourthly, changing from seeking large scale, fast speed and short-term practices to seeking quality, excellence and being pragmatic and steady. We will establish a modern business thinking mode that is respecting goodness and altruistic, adhere to win-win cooperation and achieve long-term and steady development.

12. SUBSEQUENT EVENTS

Save as disclosed in Note 49 of the consolidated financial statements in this annual report, there is no other material subsequent event after the Reporting Period.

13. CONTINGENT LIABILITIES

As at December 31, 2021, save as disclosed in Note 47(d) of the consolidated financial statements in this annual report, the Group has no other contingent liabilities.

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 of the end of the Reporting Period, there was no controlling shareholder and actual controller of the Bank. As at the end of 2021, 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 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%
3	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%
4	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%
5	Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司)	Privately-owned Legal Person Shares	553,000,000	2.75%
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	Henan Blue Sky Group Co., Ltd. (河南藍天集團有限公司)	Privately-owned Legal Person Shares	370,145,290	1.84%
8	Xinxiang Bailu Investment Group Co., Ltd. (新鄉白鷺投資集團有限公司)	Privately-owned Legal Person Shares	337,492,544	1.68%
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	Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司)	Privately-owned Legal Person Shares	290,996,271	1.45%
Total			6,103,176,024	30.40%

Chapter 6 Changes in Share Capital and Information on Shareholders

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

As of the end of 2021, 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 issued share capital of 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	217,696,926(L)	1.34	1.08
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	Held Security interest in Shares	303,000,000(L)	7.98	1.51
GOLD LEADING CAPITAL LIMITED	H Shares	Held Security interest 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	999,831,000(L)	26.35	4.98
XU Yan (徐雁)	H Shares	Interest in controlled corporation	999,831,000(L)	26.35	4.98

Chapter 6 Changes in Share Capital and Information on Shareholders

Notes:

- (1) (L) represents the long position, (S) represents short position.
- (2) As at December 31, 2021, 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). Henan Investment Group Co., Ltd. directly holds 2,057,285,479 Domestic shares of the Bank (long position), 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), and indirectly holds 200,000,000 Domestic Shares of the Bank (long positions) through controlled corporation, Zhongyuan Trust Co., Ltd. (中原信託有限公司).
- (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 position) and 221,593,927 H Shares of the Bank (short position) 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 the 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 controlled corporation 100% owned 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 at December 31, 2021, 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.

Chapter 6 Changes in Share Capital and Information on Shareholders

4. Shareholdings of Top Ten Shareholders as of the End of the Reporting Period

As at the end of the Reporting Period, the top ten Shareholders of the Bank together held 47.84% of the Bank's total share capital. Among the top ten Shareholders, the largest Shareholder of Non-overseas Listed Shares was Henan Investment Group Co., Ltd., which held 10.25% of the total share capital. The second largest Shareholder was Henan Guangcai Group Development Co., Ltd. with 2.83% of the total share capital, and the third largest was Henan Xingda Investment Co., Ltd. with 2.82% of the total share capital. The largest Shareholder of Non-overseas Listed Shares is a wholly state-owned enterprise, and the second and third largest are private enterprises.

The shareholdings of the top ten Shareholders were as follows:

No.	Name of Shareholders	Nature 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 ⁽²⁾
1	HKSCC Nominees Limited ⁽¹⁾	H Shares	Other	3,794,246,900	18.90%
2	Henan Investment Group Co., Ltd. (河南投資集團有限公司)	Non-overseas Listed Shares	State-owned Legal Person Shares	2,057,285,479	10.25%
3	Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司)	Non-overseas Listed Shares	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)	Non-overseas Listed Shares	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)	Non-overseas Listed Shares	Privately-owned Legal Person Shares	553,109,303	2.76%
6	Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司)	Non-overseas Listed Shares	Privately-owned Legal Person Shares	553,000,000	2.75%
7	Henan Machinery Investment Group Co., Ltd. (河南機械裝備投資集團有限責任公司)	Non-overseas Listed Shares	State-owned Legal Person Shares	506,751,425	2.52%
8	Henan Blue Sky Group Co., Ltd. (河南藍天集團有限公司)	Non-overseas Listed Shares	Privately-owned Legal Person Shares	370,145,290	1.84%
9	Xinxiang Bailu Investment Group Co., Ltd. (新鄉白鷺投資集團有限公司)	Non-overseas Listed Shares	Privately-owned Legal Person Shares	337,492,544	1.68%
10	Henan Aike Industrial Development Co., Ltd. (河南省愛克實業發展有限公司)	Non-overseas Listed Shares	Privately-owned Legal Person Shares	300,000,000	1.49%
Total				9,606,426,653	47.84%

Notes:

- (1) HKSCC Nominees Limited, as a nominee, held 3,794,246,900 H Shares in aggregate of the Bank on behalf of several clients, representing 18.90% of the issued share capital of the Bank. As a member of the Central Clearing and Settlement System, HKSCC Nominees Limited conducts registration and custodian business for clients.
- (2) It was calculated on the basis of the total share capital of the Bank of 20,075,000,000 shares.

Chapter 6 Changes in Share Capital and Information on Shareholders

5. 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.

6. 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 two Shareholders are also substantial Shareholders of the Bank.

- (1) 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.
- (2) 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 290,996,271 Domestic Shares of the Bank.

7. Equity Pledge and Freezing

As of the end of the Reporting Period, so far as is known to the Bank, the Bank’s 5,314,112,075 Domestic Shares were subject to pledge, accounting for 26.47% of the total number of issued ordinary Shares (of which, the Domestic Shares pledged by the Bank’s substantial Shareholders accounted for 2.18% of the total number of issued ordinary Shares). In addition, there were 850,277,012 Domestic Shares which were judicially frozen (of which, the Domestic Shares owned by the Bank’s substantial Shareholders which were judicially frozen accounted for 5.22% of the total number of issued ordinary Shares).

Chapter 6 Changes in Share Capital and Information on Shareholders

8. Non-public Issuance of Offshore Preference Shares

8.1 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 the 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 18USDPREF, 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).

8.2 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, 2021)

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.

Chapter 6 Changes in Share Capital and Information on Shareholders

8.3 Profit distribution on the Offshore Preference Shares

Dividends 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 August 27, 2021, 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, 2020 (inclusive) to November 21, 2021 (exclusive), the dividend payment date was November 22, 2021 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, 2021. For details, please refer to the announcement on payment of a dividend for the Offshore Preference Shares published by the Bank separately on August 27, 2021. On November 22, 2021, the Bank completed the dividend payment of the Offshore Preference Shares.

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
2021	563,012	3,565,013	15.79	–
2020	573,487	3,300,822	17.37	–
2019	609,224	3,163,849	19.26	–

8.4 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.



Chapter 6 Changes in Share Capital and Information on Shareholders

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

During the twelve months ended December 31, 2021, 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
XU Nuojin (徐諾金) ⁽¹⁾	Male	May 1964	November 2021	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) ⁽²⁾	Male	August 1963	May 2018	Executive Director, vice chairman of the Board	Yes
ZHANG Qiuyun (張秋雲) ⁽³⁾	Female	February 1972	January 2021	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) On September 6, 2021, the Bank convened the 32nd meeting of the second session of the Board and proposed to appoint Mr. XU Nuojin as an executive Director of the second session of the Board of the Bank. On September 28, 2021, the Bank convened the 2021 first extraordinary general meeting, at which Mr. XU Nuojin was elected as an executive Director of the second session of the Board of the Bank. On September 29, 2021, the Bank convened the 33rd meeting of the second session of the Board and elected Mr. XU Nuojin as the chairman of the Bank and the chairman of the Strategy and Development Committee. The qualifications of Director and chairman of the Board for Mr. XU Nuojin were approved by the China banking and insurance regulatory authority on November 12, 2021. Please refer to the Bank's announcements dated September 6, 2021, September 28, 2021, September 29, 2021 and November 16, 2021 and circular dated September 6, 2021 for details.
 - (2) 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.
 - (3) The directorship qualification of Ms. ZHANG Qiuyun was approved by the China banking and insurance regulatory authority on January 21, 2021.

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
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 (王姍姍)	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 August 25, 2021, Mr. DOU Rongxing, an executive Director and the chairman of the Board of the Bank, tendered his resignation to the Board of the Bank and resigned as an executive Director, the chairman of the Board and the member of the Strategy and Development Committee of the Bank due to change of work arrangement. Please refer to the Bank's announcement dated August 25, 2021 for details.

On September 6, 2021, the Bank convened the 32nd meeting of the second session of the Board and proposed to appoint Mr. XU Nuojin as an executive Director of the second session of the Board of the Bank, and on September 28, 2021, the Bank convened the 2021 first extraordinary general meeting of the Bank, at which Mr. XU Nuojin was elected as an executive Director of the second session of the Board of the Bank. On September 29, 2021, the Bank convened the 33rd meeting of the second session of the Board, at which Mr. XU Nuojin was elected as the chairman of the Board and the chairman of the Strategy and Development Committee of the Bank. The directorship and chairman's qualification of Mr. XU Nuojin was approved by the China banking and insurance regulatory authority on November 12, 2021. Please refer to the Bank's announcements dated September 6, 2021, September 28, 2021, September 29, 2021 and November 16, 2021 and circular dated September 6, 2021 for details.

On June 2, 2021, Mr. LI Xipeng, a non-executive Director of the Board 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 due to personal reason of having to focus on his other personal job commitments. Please refer to the Bank's announcements dated June 2, 2021 and June 16, 2021 for details.

The directorship qualification of Ms. ZHANG Qiuyun as a non-executive Director of the Board of the Bank was approved by the China banking and insurance regulatory authority on January 21, 2021. Please refer to the Bank's announcement dated January 25, 2021 for details.

2.2 Changes of Supervisors

On August 15, 2021, Mr. HAO Jingtao, the chairman of the Board of Supervisors of the Bank, tendered his resignation to the Board of Supervisors of the Bank and resigned as the chairman of the Board of Supervisors, an employee representative supervisor of the Bank and the members of the Nomination Committee of the Board of Supervisors and the Supervision Committee of the Board of Supervisors due to change of work arrangement. Please refer to the Bank's announcement dated August 15, 2021 for details.

2.3 Changes of Senior Management

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

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

3. Biography of Directors, Supervisors and Senior Management

3.1 Biography of Directors

Mr. XU Nuojin (徐諾金), born in May 1964, Chinese nationality, obtained a doctoral degree of economics, and is a researcher and an expert in special allowances of the State Council. He is the representative of the 13th National People's Congress and the alternate member of the 10th Henan Provincial Committee of the Communist Party of China. He serves as an adjunct professor at Tsinghua University PBC School of Finance, Hunan University and Henan University, as well as a special researcher at the Research Centre for Financial Engineering of South China University of Technology. He is currently the secretary of the party committee of Zhongyuan Bank Co., Ltd.. From August 2015 to August 2021, Mr. Xu Nuojin served as the secretary of the party committee and president of the People's Bank of China (PBOC) Zhengzhou Central Sub-branch, and the director of the Henan Branch of the State Administration of Foreign Exchange (SAFE). From May 2014 to August 2015, he served as an inspector of the Investigation and Statistics Department of the PBOC. From April 2013 to May 2014, he served as the deputy director of the Investigation and Statistics Department of the PBOC. From January 2004 to April 2013, he served as a member of the party committee and vice president of the PBOC Guangzhou branch. From July 2002 to January 2004, he served as the secretary of the party committee and president of the PBOC Dongguan Central Sub-branch and the director of the Dongguan Central Sub-branch of the SAFE. From April 2001 to July 2002, he served as the secretary of the party committee and president of the PBOC Wuzhou Central Sub-branch and also the director of the Wuzhou Central Sub-branch of the SAFE. From December 1998 to April 2001, he worked at the PBOC Guangzhou Branch. From January 1995 to December 1998, he worked at the PBOC Hainan Branch. From September 1987 to January 1995, he worked at the Financial Research Institute of the PBOC Headquarters. Mr. XU Nuojin obtained a bachelor's degree in economics from Hunan University of Finance and Economics in 1984, a master's degree in economics from the Graduate School of the PBOC in 1987 and a doctoral degree in economics from the Graduate School of the PBOC in 1993. From 2000 to 2001, he was a visiting scholar at the University of Illinois in the United States. From 2002 to 2006, he engaged in post-doctoral research in Southwestern University of Finance and Economics. In 2007, he conducted advanced study on macroeconomic policies at Hitotsubashi University in Japan. In 2010, he conducted advanced study on credit investigation theory and credit rating at the Deutsche Bundesbank. In 2019, he conducted advanced study in HSBC in Britain.

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 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

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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, a doctor's degree in economics from Zhongnan University of Economics and Law in June 2009 and a master's degree in business administration from PBC School of Finance, Tsinghua University in June 2021. 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. Prior to joining 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 loan officer, 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 credit 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 and the 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.

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Ms. ZHANG Qiuyun (張秋雲), born in February 1972, Chinese. Ms. ZHANG Qiuyun is a non-executive director of the Bank. She 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 party branch secretary 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. 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, an associate professor from July 2001 to July 2010, and a teacher 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 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.

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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, a Hong Kong Chinese citizen, was born in November 1964. Mr. CHAN Ngai Sang Kenny is an independent non-executive Director of the Bank. Mr. Chan has over thirty years of experience in accounting, taxation, auditing and corporate finance. He is a partner and founder 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 (強制性公積金計劃上訴委員會), and the Advisory Committee on "Enhancing Self-Reliance" Through District Partnership Programme, where he has served as a committee, 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 Advisory Committee of Home Affairs Department (民政事務總署青年發展計劃諮詢小組), where he has served as the chairperson. Currently, Mr. Chan is an independent non-executive director of several companies, including serving as an independent non-executive director at the CMIC Ocean En-Tech Holding Co, Ltd. (Stock Code: HK.206) since October 2005, at Minsheng Education Group Co. Ltd. (Stock Code: HK.1569) since March 2017, at Hebei Construction Group Corporation Limited (Stock Code: HK.1727) since December 2017 and at the Pak Tak International Limited (Stock Code: HK.2668) since October 2019. Mr. Chan has been a member of the Institute of Chartered Accountants of New Zealand (currently known as Chartered Accountants

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Australia and New Zealand) since March 1998, the Hong Kong Institute of Certified Public Accountants (香港會計師公會) since February 1992 and the 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 is also a member of the Taxation Institute of Hong Kong (香港稅務學會) since August 1998 and the Australian Society of Certified Practicing Accountants since February 1989.

3.2 Biography of Supervisors

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 40 years of experience in banking business operations and management. Prior to joining the Bank, Ms. JIA Jihong'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 previously 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 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 senior researcher of the audit department of the Bank. Mr. Zhang's major working experience in the Bank includes: worked in the audit department of the Bank since July 2017 and served as the general manager of the audit department from December 2017 to January 2022. 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 Zhengzhou 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

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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 Xinxiang State-owned 103 Factory (新鄉國營 103 廠) 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. Ms. Li's work experience also includes serving as 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) from December 2009 to February 2022, 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) (Stock code: SH.600121) since May 2016, Henan City Development Environment Co., Ltd. (河南城發環境股份有限公司) (Stock code: SZ.000885) since February 2016 and Zhongyuan Environment protection Co., Ltd. (中原環保股份有限公司) (Stock code: 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. 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 the 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.

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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. Mr. Li 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 several 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 China 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, and 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 Henan Jindan Lactic Acid 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, respectively. Mr. Sun received a doctor's degree in western economy from Huazhong University of Science and Technology in June 2008.

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Mr. PAN Xinmin (潘新民), born in January 1957, Chinese. Mr. PAN Xinmin is an external supervisor of the Bank and has more than 40 years of experience in banking business 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, head of the planning group 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. Mr. Pan 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 work 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.

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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 Subbranch 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 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 Qingfen 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 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,

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

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 Mianchi 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 China CITIC Bank from February 2005 to January 2008; the vice president of Zhengzhou Wenhua Road Subbranch of China CITIC Bank from January 2008 to January 2010; the president of China CITIC Bank Zhengzhou Huanghe Road Sub-branch from January 2010 to April 2010; the president of China CITIC Bank Zhengzhou Dongfeng Road Sub-branch from April 2010 to January 2013; the president of China CITIC Bank Jiaozuo Branch from January 2013 to October 2015; and the general manager of the corporate banking department of China 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 of the Bank. 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's degree in Business Administration from Xi'an University of Technology in April 2006. Mr. Zhang is a senior accountant accredited in December 2008 and a professorate senior accountant accredited in December 2019.

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Ms. WANG Shanshan (王姗姗), 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 a teller, a 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 Subbranch 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's degree in Business Administration 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, 2021 to December 31, 2021. 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 at December 31, 2021, the interests and short positions of the Directors, Supervisors or chief executive officers of the Bank 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	0.00	0.00
Ms. JIA Jihong	Domestic Shares	Beneficial owner	2,472	0.00	0.00
Mr. LI Wanbin ⁽²⁾	Domestic Shares	Interest in controlled corporation	407,657,871	2.50	2.03

Notes:

- As at December 31, 2021, 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 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.

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Remuneration paid to the senior management (excluding the Directors and Supervisors) by bands for the year ended December 31, 2021 is set out below:

	No. of employees
RMB0 to RMB1,000,000	0
RMB1,000,000 to RMB2,000,000	1
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 the end of 2021, we had 13,503 employees in total, of which 1,779 employees at our head office and 11,724 employees at our branches and sub-branches (including direct sub-branches). We had 327 dispatched staff. As of December 31, 2021, 10,957 employees or 81.14% had bachelor's degrees or above, with the average age of 36.8. We totally had 1,025 employees at village and township banks sponsored by the Bank, 141 employees at AB Leasing Co., Ltd. and 469 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 has established a sound remuneration management system and further optimized the incentive and restraint mechanism. The remuneration management follows the principles of external competitiveness, internal fairness and value-oriented. The Bank has set up comprehensive and professional serial system, broadened the career development channels of employees and built remuneration incentive systems based on the position series and staff level to incentivize and retain the talents.

The Bank gave full play to the guiding role of remuneration in operation and risk management and control. In accordance with the principle of combining immediate incentives with long-term incentives and combining effective incentives and responsibility constraints, the Bank implemented deferred payment of performance-based remuneration for applicable personnel, also improved the management measures of relevant performance recovery and deduction, so as to further promote the senior management and employee's 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, employee shareholding plan or defined contribution scheme during the Reporting Period.

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8.3. Employees Training Programs

The Bank has set up the education training plans according to its business development strategies and adhering to a people-oriented philosophy. The Bank manages its employee 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 special forces”, and manages the trainings in accordance with a three-tier training system comprising “head office, branch, sub-branch (sector)”. During the Reporting Period, the Bank organized 218 tier 1 training in total, the planned completion rate was 74.6%, the online projects accounted for 78.8% with aggregated number of staff trained of 75,000 and 5.7 trainings per head, basically reached full staff coverage; 18 branches of the Bank actually organized 1,236 tier 2 sessions of training in total, and the average planned completion rate was approximately 97.2% with 94,000 staffs trained in total.

With “power digital transformation, to improve training quality” as the training focus, the Bank focused on the improvement of the key personnel’s comprehensive ability and headquarters member’s digital ability during the Reporting Period. The improvement of the key personnel’s comprehensive ability is mainly based on offline training, which mainly covers newly recruited college students, newly-appointed heads of secondary departments, newly-appointed presidents, internal trainers and young reserve talents of branches. The improvement of the headquarters member’s digital ability mainly focuses on online training, by setting up an online learning digital academy to carry out clearance training on the “digital quotient”, approximately 1,700 members have completed the annual course learning task of digital academy, realizing headquarters member’s digital quotient empowerment and providing strong organization insurance and human resources protection for the long-term development of the Bank.

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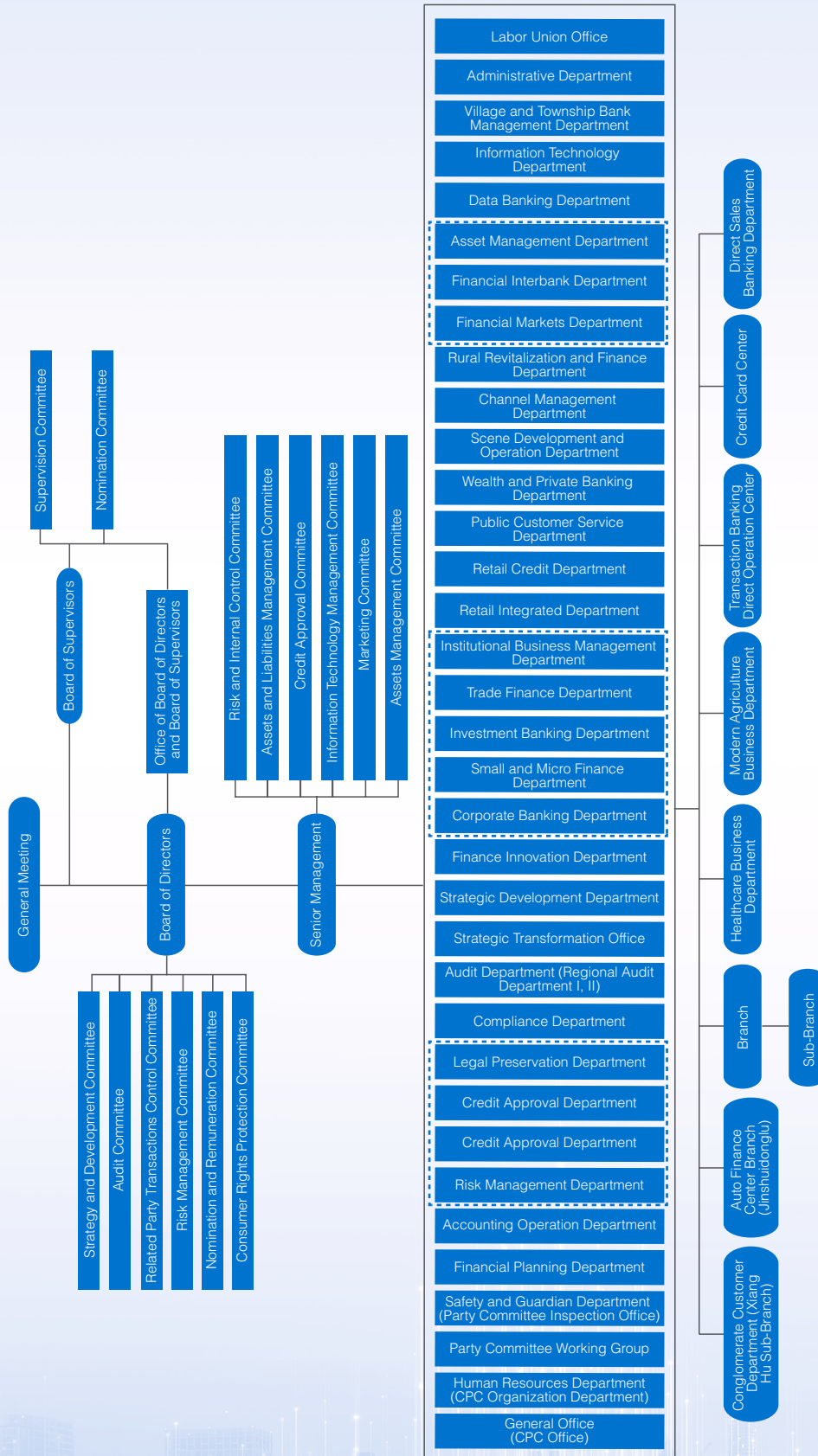
9 Information of Institutions under the Bank

As of the end of 2021, there are 18 branches and 2 direct sub-branches, and 474 outlets in total, including 277 urban sub-branches, 125 county-level sub-branches (excluding secondary sub-branches) and 72 township-level sub-branches under the Bank. The following table sets out the branches and sub – branches:

No.	Region	Name of 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 Sub-branch	Shengrun International Plaza, No. 219 Jinshui Road, Jinshui District, Zhengzhou City, Henan Province	In charge of one business department, 37 sub-branch institutions
3	Luoyang, Henan	Luoyang Sub-branch	No.66, Changxing Street, Luolong District, Luoyang City, Henan Province	In charge of one business department, 8 sub-branch institutions
4	Kaifeng, Henan	Kaifeng Sub-branch	No. 246, West Daliang Road, Kaifeng City, Henan Province	In charge of one business department, 30 sub-branch institutions
5	Xinyang, Henan	Xinyang Sub-branch	Xinshi Street, Yangshan New District, Xinyang City, Henan Province	In charge of one business department, 31 sub-branch institutions
6	Anyang, Henan	Anyang Sub-branch	Northwest Corner, Intersection of Wenfeng Avenue and Guangming Road, Wenfeng District, Anyang City, Henan Province	In charge of one business department and 25 sub-branch institutions
7	Hebi, Henan	Hebi Sub-branch	Finance Centre, Northeast Corner, Intersection of Qishui Avenue and Chaoge Road, Qibin District, Hebi City, Henan Province	In charge of one business department, 14 sub-branch institutions
8	Luohe, Henan	Luohe Sub-branch	Intersection of Huangshan Road and Songjiang Road, Yancheng District, Luohe City, Henan Province	In charge of one business department, 17 sub-branch institutions
9	Nanyang, Henan	Nanyang Sub-branch	Diyuan Garden, No. 1 Zhongzhou East Road, Wancheng District, Nanyang City	In charge of one business department, 44 sub-branch institutions
10	Pingdingshan, Henan	Pingdingshan Sub-branch	Northwest Corner, Intersection of Zhongxing Road and Zhannan Road, Zhanhe District, Pingdingshan City	In charge of one business department, 13 sub-branch institutions
11	Puyang, Henan	Puyang Sub-branch	No. 444, Shenglizhong Road, Puyang City, Henan Province	In charge of one business department, 23 sub-branch institutions
12	Sanmenxia, Henan	Sanmenxia Sub-branch	No. 2 Commercial Street South, Yingbin Avenue West, Central Business District, Sanmenxia City, Henan Province	In charge of one business department, 29 sub-branch institutions
13	Shangqiu, Henan	Shangqiu Sub-branch	No. 195, Wenhua Road, Suiyang District, Shangqiu City, Henan Province	In charge of one business department, 46 sub-branch institutions
14	Xinxiang, Henan	Xinxiang Sub-branch	No. 599 Pingyuan Road, Hongqi District, Xinxiang City, Henan Province	In charge of one business department, 31 sub-branch institutions
15	Xuchang, Henan	Xuchang Sub-branch	East Jianan Avenue, Xuchang City, Henan Province	In charge of one business department, 28 sub-branch institutions
16	Zhoukou, Henan	Zhoukou Sub-branch	Changjian MOCO New World Business Office Building, Intersection of Qingfeng East Road and Zhoukou Avenue, Zhoukou City, Henan Province	In charge of one business department, 29 sub-branch institutions
17	Zhumadian, Henan	Zhumadian Sub-branch	No. 168, Wenming Road, Zhumadian City, Henan Province	In charge of one business department, 36 sub-branch institutions
18	Jiaozuo, Henan	Jiaozuo Sub-branch	No. 479, Renmin Road, Jiefang District, Jiaozuo City, Henan Province	In charge of one business department, 10 sub-branch institutions
19	Jiyuan, Henan	Jiyuan Sub-branch	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



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2. Summary of Organizational Structure of Corporate Governance

In strict compliance with the requirements of domestic and foreign laws and regulations, the Bank actively built a sound corporate governance structure, committed to build an excellent corporate governance mechanism, and continuously enhanced the quality and efficiency of corporate governance, and promoted the high-quality development of various businesses of the Bank, so as to safeguard shareholders' interests and enhance 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.

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In setting the composition of the Board members, the Bank shall consider the diversity of the Board members from several aspects, including but not limited to gender, age, regional and industrial experience, skills, knowledge and educational background. All Board members' appointment will be based on meritocracy, and candidates will be considered against objective criteria, with due regard given to the benefits of diversity of the Board members. 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 experience, skills, knowledge and educational background.

Members of the Board	Gender	Age 50 to 59	Age above 60
XU Nuojin	Male	✓	
WANG Jiong	Male	✓	
LI Yulin	Male	✓	
WEI Jie	Male	✓	
ZHANG Qiuyun	Female	✓	
MI Hongjun	Male	✓	
PANG Hong	Female		✓
LI Hongchang	Male		✓
JIA Tingyu	Male		✓
CHAN Ngai Sang Kenny	Male		✓

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

The 2020 annual general meeting and the 2021 first extraordinary general meeting were held by the Bank during the Reporting Period.

On May 10, 2021, the Bank held the 2020 annual general meeting in Zhengzhou, Henan, at which 9 proposals were considered and approved, including Proposal on the Work Report of the Board of Directors of Zhongyuan Bank Co., Ltd. for 2020, Proposal on the Work Report of the Board of Supervisors of Zhongyuan Bank Co., Ltd. for 2020. On September 28, 2021, the Bank held the 2021 first extraordinary general meeting, at which Resolution on the Appointment of Mr. XU Nuojin as an Executive Director of the Second Session of the Board of Zhongyuan Bank Co., Ltd. was considered and approved.

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.

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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 board 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 of the Bank have established a good 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 2021, the Board of the Bank consists of 10 Directors, including 4 executive Directors, i.e. Mr. XU Nuojin, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie; 2 non-executive Directors, i.e. Ms. ZHANG Qiuyun 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.

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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 work at the general meetings;
2. implementing resolutions of the Shareholders' general meetings;
3. deciding on business development strategies, business plans and investment plans of the Bank;
4. formulating 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 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 of the Bank relating to business, personnel, and financial affairs;
9. reviewing and approving external donations with a single amount more than 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 other non-commercial banking business guarantees (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 personnel, including the president and the secretary of the Board of Directors of the Bank; appointing or removing senior management personnel, 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;

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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 supervision mechanism 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 aforementioned regulatory documents will expressly require employees at all levels to promptly report any possible conflict of interests, provide detailed rules and establish corresponding processing 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 A.2.1 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.

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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, 2021, 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 155 in the Independent Auditors' Report.

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

During the Reporting Period, our Bank convened 11 board meetings, at which 76 resolutions were reviewed or approved.

The details of the board meetings are set out below:

Session of board meeting	Date of meeting	Form of meeting
The 26th meeting of the second session of the Board	January 29, 2021	On-site
The 27th meeting of the second session of the Board	March 25, 2021	On-site
The 28th meeting of the second session of the Board	March 29, 2021	On-site
The 29th meeting of the second session of the Board	June 30, 2021	On-site
The 30th meeting of the second session of the Board	July 26, 2021	Circulation of written proposal
The 31st meeting of the second session of the Board	August 27, 2021	On-site
The 32nd meeting of the second session of the Board	September 6, 2021	On-site
The 33rd meeting of the second session of the Board	September 29, 2021	On-site
The 34th meeting of the second session of the Board	October 27, 2021	On-site
The 35th meeting of the second session of the Board	December 7, 2021	On-site
The 36th meeting of the second session of the Board	December 16, 2021	Circulation of written proposal

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

	Director	2020 annual general meeting	the 2021 first extraordinary general meeting
Executive Directors	XU Nuojin ⁽¹⁾	/	/
	DOU Rongxing ⁽²⁾	1/1	/
	WANG Jiong	1/1	1/1
	LI Yulin	1/1	1/1
	WEI Jie	1/1	1/1
Non-executive Directors	ZHANG Qiuyun ⁽³⁾	1/1	1/1
	MI Hongjun	1/1	1/1
	LI Xipeng ⁽⁴⁾	0/1	/
Independent Non-executive Directors	PANG Hong	1/1	1/1
	LI Hongchang	1/1	1/1
	JIA Tingyu	0/1	1/1
	CHAN Ngai Sang Kenny	1/1	1/1

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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	XU Nuojin ⁽¹⁾	2/2	0/0	/	/	/	/	/
	DOU Rongxing ⁽²⁾	5/5	3/3	/	/	/	/	/
	WANG Jiong	9/11	5/5	5/5	/	/	5/5	2/2
	LI Yulin	11/11	/	5/5	/	/	/	2/2
	WEI Jie	11/11	5/5	5/5	/	/	5/5	/
Non-executive Directors	ZHANG Qiuyun ⁽³⁾	11/11	/	/	/	/	/	/
	MI Hongjun	11/11	5/5	/	/	/	/	/
	LI Xipeng ⁽⁴⁾	3/3	1/1	/	/	/	/	/
Independent Non-executive Director	PANG Hong	11/11	/	5/5	2/2	2/2	/	/
	LI Hongchang	11/11	/	5/5	2/2	2/2	5/5	2/2
	JIA Tingyu	11/11	5/5	5/5	2/2	2/2	5/5	/
	CHAN Ngai Sang Kenny	9/11	/	/	2/2	/	4/5	1/2

Notes:

- (1) The qualification of Director for Mr. XU Nuojin has been approved by the China banking and insurance regulatory authority on November 12, 2021.
- (2) Mr. DOU Rongxing resigned his office as an executive Director, chairman of the Board and member of the Strategy and Development Committee of the Bank on August 25, 2021.
- (3) The qualification of Director for Ms. ZHANG Qiuyun has been approved by the China banking and insurance regulatory authority on January 21, 2021.
- (4) Mr. LI Xipeng resigned his office as a non-executive Director and member of the Strategy and Development Committee of the Bank on June 2, 2021.

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.

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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.

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 2021, 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 the Consumer Rights Protection Committee. Each special committee shall be accountable to the Board, which provides professional opinions for the Board or makes decisions for the professional matters as per the authorization of the Board.

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5.1 Strategy and Development Committee

As of the end of 2021, the Strategy and Development Committee consists of 5¹ Directors, being Mr. XU Nuojin (an executive Director), Mr. WANG Jiong (an executive Director), Mr. WEI Jie (an executive Director), Mr. MI Hongjun (a non-executive Director) and Mr. JIA Tingyu (an independent non-executive Director). Mr. XU Nuojin 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;
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 5 meetings reviewing 2 reports, including the 2020 Operation Report of Zhongyuan Bank Co., Ltd. and considering 13 resolutions, including the Resolution on the Strategic Planning of Green Financial Development of Zhongyuan Bank Co., Ltd.

¹ During the Reporting Period, Mr. LI Xipeng resigned his office as a member of the Strategy and Development Committee of the Bank on June 2, 2021. Mr. DOU Rongxing resigned his office as a member of the Strategy and Development Committee of the Bank on August 25, 2021. On September 29, 2021, the Bank convened the 33rd meeting of the second session of the Board and elected Mr. XU Nuojin as the chairman of the Strategy and Development Committee of the Bank.

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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. monitoring and reviewing 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;
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 and make 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 statements and 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.

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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 reports 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 and management's response to these findings on its own initiative or as delegated by the board;
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;
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;

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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 the members 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 2 meetings, considering 13 resolutions, including the "Proposal on the 2020 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, 2021 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 2021, 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 Bank's related party (connected) transactions pursuant to the provisions of laws, regulations and the Hong Kong Listing Rules and formulating corresponding related party (connected) transactions management rules;
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 the Bank's 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;

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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 and 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 examines the material related party transactions in strict accordance with the approval procedures. During the Reporting Period, the Related Party Transactions Control Committee has totally convened 5 meetings, at which the committee member CHAN Ngai Sang Kenny commissioned LI Hongchang to vote on his behalf for once and the other members have attended in person to consider 5 resolutions, including "Resolution on the Special Report of the Related Party Transactions of Zhongyuan Bank Co., Ltd. for the Year of 2020".

5.4 Risk Management Committee

As of the end of the 2021, 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;

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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 significant control weaknesses identified during the period and severity level of unforeseen outcomes or emergencies which they have resulted in, and the material impact that the outcomes or emergencies have had, could have had, or may in the future have 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.

During the Reporting Period, members of the Bank's Risk Management Committee paid close attention to macroeconomic situation, financial policies and market changes, and provided professional opinions and suggestions for the Bank's comprehensive risk management work. At the same time, members reviewed the internal control compliance, the credit concentration management plan and risk management reports to perform risk management and risk supervision duties in accordance with regulations. During the Reporting Period, the Risk Management Committee has totally convened 5 meetings, all members have attended in person and listened to 8 reports including the 2020 business continuity management report of Zhongyuan Bank Co., Ltd. and considered 12 resolutions, including the Resolution on the Risk Preference Statement of Zhongyuan Bank Co., Ltd. (2021).

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5.5 Nomination and Remuneration Committee

As of the end of the Reporting Period, the Nomination and Remuneration Committee consists of 3¹ Directors, namely Ms. PANG Hong (an independent non-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 service 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 their misconduct to ensure they are consistent with service 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;

¹ On January 29, 2021, The Bank convened the 26th meeting of the second session of the Board and adjusted the Members of the Nomination and Remuneration Committee under the second session of the Board. Please refer to the announcement of the Bank dated 29 January, 2021 for details.

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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 members, 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 the Board 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;

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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 laws 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 2 meetings, and all members have attended in person and considered 5 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 2020", mainly to consider the assessment on nominated directors and senior executives and the performance of duties and remuneration of 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;

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5. other matters as required by laws and regulations, Articles of Association of the Bank, and which authorized by the Board of Directors.

During the Reporting Period, the Consumer Rights Protection Committee has convened 2 meetings, at which committee member CHAN Ngai Sang Kenny commissioned LI Hongchang to vote on his behalf for once, the other members have attended in person and considered 4 resolutions, including “Resolution Regarding Report on Consumer Rights Protection Work of Zhongyuan Bank Co., Ltd. in 2020”.

6. Board of Supervisors and its Special Committee

6.1 Composition of Board of Supervisors

As of the end of the Reporting Period, the Board of Supervisors of the Bank consists of 8 Supervisors, which shall include two employee representative Supervisors, namely 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 Xinmin.

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

- (1) 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;
- (2) 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;
- (3) 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;
- (4) to examine the periodical reports of the Bank compiled by the Board of Directors and submit its opinions in writing;
- (5) to supervise the election and appointment procedures for directors;

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- (6) 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;
- (7) 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;
- (8) 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;
- (9) to exercise 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; listening to meetings of the Board of Directors and 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 special research and special supervision and inspection; conducting performance assessments of directors and the senior management, and so on. By carrying out the above-mentioned work, the Board of Supervisors will conduct 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 supervision opinions.

6.3 Meetings of the Board of Supervisors and Attendance of Supervisors

During the Reporting Period, the Bank has held four meetings of the Board of Supervisors in total, at which 12 reports were heard and 37 resolutions were considered and approved.

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

Session of meeting	Date of meeting	Form of meeting
The 18th meeting of the second session of the Board of Supervisors	March 29, 2021	On-site
The 19th meeting of the second session of the Board of Supervisors	June 30, 2021	On-site
The 20th meeting of the second session of the Board of Supervisors	August 27, 2021	On-site
The 21st meeting of the second session of the Board of Supervisors	December 7, 2021	On-site

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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	2	0	2
Ms. JIA Jihong	4	4	0
Mr. ZHANG Yixian	4	4	0
Ms. LI Weizhen	4	4	0
Mr. LI Wanbin	4	2	2
Mr. LI Xiaojian	4	4	0
Mr. HAN Wanghong	4	4	0
Mr. SUN Xuemin	4	4	0
Mr. PAN Xinmin	4	4	0

Note: 1. Mr. HAO Jingtao resigned as the Supervisor of the Bank on August 15, 2021.

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 2020 Annual General Meeting and the First Extraordinary General Meeting of 2021, 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 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 6 members in the Nomination Committee of the Board of Supervisors, including Mr. HAN Wanghong, 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:

- (1) making recommendations to the Supervisors on the scale and composition of the Board of Supervisors;
- (2) studying into the standard and procedures of selection of Supervisors and making recommendations to the Supervisors;
- (3) identifying extensively qualified candidates for supervisors;
- (4) conducting preliminary review on the qualification and conditions of candidates for supervisors proposed by shareholders and making recommendations;
- (5) supervising the procedure of selection and engagement for directors;

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- (6) responsible for the comprehensive evaluation of the performance of duties by the directors, supervisors and senior management and report to the Board of Supervisors;
- (7) 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;
- (8) any other matters authorized by the Board of Supervisors.

During the Reporting Period, the Nomination Committee convened a total of 1 meeting, at which the 2020 Debriefing of External Supervisors of Zhongyuan Bank Co., Ltd. was heard and 5 resolutions including the Proposal on the Performance Evaluation Report of Directors, Supervisors and Senior Management by the Board of Supervisors in 2020 of Zhongyuan Bank Co., Ltd. were considered.

7.2 Supervision Committee

As of the end of the Reporting Period, there were a total of 8 members in the Supervision Committee of the Board of Supervisors, namely Mr. LI Xiaojian, 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:

- (1) formulating plans for supervision of financial activities of the Bank and making relevant recommendations to the Board of Supervisors;
- (2) 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 on 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;
- (3) monitoring and reviewing the operation strategy, risk management and internal control of the Bank;
- (4) 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;
- (5) guiding the internal audit department to independently perform the audit and supervision functions;
- (6) any other matters authorized by the Board of Supervisors.

During the Reporting Period, the Supervision Committee convened a total of 3 meetings, at which 9 reports including 2020 Report on the Rectification of Regulatory Circular Issues of Zhongyuan Bank Co., Ltd. were heard and 28 proposals including the Proposal Concerning 2020 Report on Internal Control and Compliance and Operational Risk Management of Zhongyuan Bank Co., Ltd. were considered.

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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 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 managing operating activities of the Bank, managing daily administration, business and financial matters, and reporting 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 between their duties and responsibilities, which complies with the recommendations of the Hong Kong Listing Rules.

As of the end of 2021, Mr. XU Nuojin acted as the secretary of the party committee and the Chairman, and took charge of the 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 our office.

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.

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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 innovated their ways of performance and attached importance to the improvement of the performance ability. Firstly, we established an assessment group comprised of independent directors and external supervisors to evaluate the accomplishment of audit work, the structure of audit, the efforts made to audit and comprehensive assessment on a multi-dimensional basis, and to evaluate the audit quality of the external auditors' work. Secondly, we participated in training on the systems, such as the Corporate Governance Standards for Banking and Insurance Institutions (《銀行保險機構公司治理準則》) and Measures for Evaluation of Performance of Duties by Directors and Supervisors of Banking and Insurance Institutions (for Trial Implementation) (《銀行保險機構董事監事履職評價辦法(試行)》) in combination with new regulations to enhance the learning of relevant systems and policies. Thirdly, we conducted special researches on the corporate governance of three banks which were proposed to consolidate by merger and on asset and capital verification and asset appraisal of Zhongyuan Bank and three banks which were proposed to consolidate by merger to fully understand the conduction of the consolidation of merger and put forward professional opinions and suggestions. Through the above forms, the Directors of the Bank further strengthened the grasp of industry regulatory policies and the operation within the Bank, which is beneficial to their exercise of decision-making power scientifically.

10.2 Introduction to the Training and Survey of Supervisors

During the Reporting Period, Supervisors of the Bank participated in the special training on New Regulatory Developments of the Corporate Governance of Commercial Bank organized by the Bank and also participated in Corporate Governance, asset and capital verification, asset appraisal and other special training.

11. Company Secretary under the Listing Rules

During the Reporting Period, Mr. ZHANG Ke and Ms. LEUNG Wing Han Sharon, a vice president of SWCS Corporate Services Group (Hong Kong) Limited, acted as the joint company secretaries of the Bank. 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, 2021.

Ms. LEUNG Wing Han Sharon has resigned as a joint company secretary of the Bank since March 30, 2022, and Ms. CHAN Yin Wah has been appointed as a joint company secretary of the Bank since March 30, 2022. For details, please refer to the announcement of the Bank dated March 30, 2022. The major associate of Ms. Chan in the Bank is Mr. ZHANG Ke, the other joint company secretary.

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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 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: dongshihui@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 principal outlets of the Bank.

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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 of the Bank 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. 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 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 of the Bank 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. If 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.

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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' 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 2021, respectively, at the 2020 annual general meeting convened by the Bank on May 10, 2021, 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 6 consecutive years.

In 2021, 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 auditors of the Bank have not changed in the past three years.

14. Amendments to the Articles of Association

During the Reporting Period, 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.

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 former CBRC, risks and relevant terminology defined by the Basel Committee, practice of the domestic and overseas peers as well as its own actual 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 external 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.

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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.

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. 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.

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The Bank had, followed on the principle of “prudential operation with risk-based supervision”, constantly improved the management tools related to internal control compliance and operational risk, improved and upgraded the integration and management information systems for internal control compliance and operational risk, and realized 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. The Bank 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 provided the basis and guarantee for the Bank’s operation and management, business operation and effective risk prevention and control.

The Bank strictly complied with the regulatory requirements, solidly carried out Construction Year of Internal Control and Compliance Management activities, continuously strengthened the construction of internal control compliance culture, actively carried out compliance training and publicity for all employees, and improved the long-term mechanism of compliance education to further enhanced the effectiveness of internal control through continuous organization of case warnings education, hierarchical compliance training and publicity activities.

15.3 Internal Auditing

The Bank has established an independent and vertical internal audit system in accordance with the Guidelines for the Internal Audit of Commercial Bank and the Internal Control Guidelines for Commercial Banks. The audit department, regional audit department I and regional audit department II were established at the head office, which were directly subordinate to the Board of Directors and receive the guidance of the Audit Committee of the Board of the Directors.

During the Reporting Period, the Bank conducted audit work focused on the construction of four major systems, namely, “the audit ability system, the evaluation system, the training system and the team system” based on the relevant requirements of the internal audit work guidelines, and insisted on “Comprehensive Coverage”(全面覆盖), “Highlighting Key Points” (突出重點), “Examining and Solving Problems” (查病治病) and “Preventing Problems in Advance” (防範未病), fulfilled the idea of big data audit, and fully performed 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 at the same time strengthen accountability and punishment, effectively promote the deterrent power of audit supervision. Third, strengthen the guidance of the internal audit work of the branches and subsidiaries, improve the ability to perform their duties of the audit departments and staff of the branches and subsidiaries, enhance the audit and supervision ability. Fourth, strengthen the construction of audit team, optimize the personnel structure and enhance the professional competence of auditors.

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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 for anti-money laundering promulgated by People's Bank of China, China Banking and Insurance Regulatory Commission. The Bank adhered to the "risk-based" work idea for anti-money laundering, established a comprehensive system of anti-money laundering work, amended and improved internal control systems, continuously optimized the supervision and reporting systems of anti-money laundering, proactively carried out the publicity and training for anti-money laundering and effectively performed all the anti-money laundering obligations of financial institutions as required by the law. During the Reporting Period, the Bank insisted on giving priority over the effectiveness improvement of anti-money laundering work, and formulated and improved the internal control systems including the Administrative Measures for Self-assessment on Risks of Money Laundering and Terrorist Financing of Zhongyuan Bank (《中原銀行洗錢和恐怖融資風險自評估管理辦法》), the Administrative Measures for Assets Freeze for Involvement in Terrorist Activities of Zhongyuan Bank (《中原銀行涉及恐怖活動資產凍結管理辦法》) and the Compliance Administrative Measures for International Business Sanctions of Zhongyuan Bank (《中原銀行國際業務制裁合規管理辦法》); the Bank continuously optimized the functions of anti-money laundering monitoring systems and the model of suspicious transaction monitoring to strengthen monitoring and reporting on new money laundering crimes, and formulated emergency plans to safeguard the data reporting of anti-money laundering during the pandemic; the Bank carried out centralized discrimination of suspicious transactions to upgrade the quality and accuracy of suspicious transactions reporting and discrimination; the Bank invited experts from consulting companies to conduct specific training to the Board of Directors, the Board of Supervisors and senior management in respect of anti-money laundering, and developed tiered training courses to carry out training programs for employees so as to improve the awareness of and skills for anti-money laundering among all staffs; the Bank made use of subtitle broadcasting, display panel, leaflet and official website, LED screen, Tik Tok competition and other methods to publicize and promote the knowledge about anti-money laundering and anti-terrorist financing, and strengthen the anti-money laundering awareness of the general public so as to shape a favorable environment for anti-money laundering work.

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 Board Office deals with the daily work thereof.

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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 normative 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 disclosed relevant information timely according to requirements.

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 certain continuity and stability, and the Company 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 businesses 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, 2021 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. Dividends

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 – 8.3 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 30, 2022, it was recommended not to distribute the 2021 final dividend to all Shareholders. Such recommendation of no dividend distribution shall be approved by the Shareholders on the upcoming 2021 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 2021 annual general meeting on Wednesday, May 18, 2022. 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 Friday, May 13, 2022 to Wednesday, May 18, 2022 (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 Tuesday, May 17, 2022 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 Thursday, May 12, 2022. The Bank will despatch the notice and circular for the 2021 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, 2021 are set out in the Note 24 of the financial statements in this annual report.

13. Changes in the Reserves

For the year ended December 31, 2021, the details of changes in the reserves of the Bank are set out in the Consolidated Statement of Changes in Equity in the financial statements 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 subsidiaries 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 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, 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 C.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 of 2021.

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.

22. Arrangements to Purchase Shares or Debentures

At no time during the Reporting Period, the Bank was 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.

Chapter 9 Report of the Board of Directors

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). Save 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, 2021.

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 to the Bank 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.

28. Equity Linked Agreement

During the Reporting Period, the Bank did not enter into any equity-linked agreements. Upon approvals by the former CBRC Henan Office and the CSRC, respectively, 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. Upon conversion of the Offshore Preference Shares, the total issued share capital of the Bank will increase to 24,491,050,404 Shares (comprising 8,211,050,404 H Shares and 16,280,000,000 Domestic 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.

Chapter 9 Report of the Board of Directors

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 – 8. 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 basin with the scale of no more than RMB5.0 billion (inclusive) to 2020 Annual General Meeting for consideration and approval.

On March 4, 2021, the Bank publicly issued the financial bonds with an issuing size of RMB2.0 billion in the national inter-bank bond market. The issuing price was RMB100 with three years to maturity and a coupon rate of 3.60%. Based on applicable laws and the approval from the regulatory authorities, 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 with an issuing size of RMB1.5 billion in the national inter-bank bond market. 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%. Based on the approval from the regulatory authorities, the Bank will fully use the proceeds of the Offering to lend 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.

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 RMB15,547,900, which mainly used for prevention and control of epidemic, poverty alleviation and assistance in difficulty of special groups and students.

Chapter 9 Report of the Board of Directors

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 “Green Finance Development Strategic Plan of Zhongyuan Bank Co., Ltd.” (《中原銀行股份有限公司綠色金融發展戰略規劃》) and 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.

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 considered and approved the 2020 Work Report on Consumer Rights Protection of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司 2020 年度消費者權益保護工作報告》), 2021 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 2021 年度工作計劃》), the Proposal on 2021 Main Points of Work on Consumer Rights Protection of Zhongyuan Bank Co., Ltd. (《關於〈中原銀行股份有限公司 2021 年消費者權益保護工作要點〉的議案》) and other proposals, and the Administrative Measures on 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管理辦法》) (revised), respectively. 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.

Chapter 9 Report of the Board of Directors

During the Reporting Period, the Bank continuously improved its consumer rights protection level in respect of organizational structure, policies formulation, complaint handling, publicity and training, appraisal and evaluation to ensure consumers' legitimate rights and interests under effective protection. Firstly, in terms of system improvement, the Bank revised and issued the Administrative Measures on Financial Consumer Rights Protection of Zhongyuan Bank in accordance with the latest laws, regulations and regulatory requirements, and in combination with the new trends of financial consumer behavior, to continuously lay a solid foundation of the consumer protection system. Secondly, in terms of financial knowledge education, 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. Thirdly, in terms of regulatory rating, the Bank was rated as an A-level bank in the 2020 People's Bank on Consumer Protection Assessment. Fourthly, in terms of complaint management, the Bank earnestly implemented regulatory requirements, further improved the complaint management system, publicized the information on complaint channels in business outlets, official website and other channels, and established a bank-wide working mechanism of complaint acceptance, classification, handling, feedback, and diversified solutions to ensure that the entire bank can handle complaints in compliance with laws and regulations. In 2021, the Bank handled a total of 2,396 complaints from individual customers through various channels, with 1.35 complaints per 10,000 in relation to individual customers, mainly involving credit cards, consumption loans and other businesses, mainly in Zhengzhou, Nanyang and other regions. Fifthly, in terms of promotion and training, 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, 2021. 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, 2021 were RMB4,837 million.

Chapter 9 Report of the Board of Directors

37. Important Events since the End of the Reporting Period

As at the date of this report, the Bank continued to promote the merger and acquisition of Bank of Luoyang, Bank of Pingdingshan and Jiaozuo Bank of China Travel Service, the major transaction of the disposal of the Bank's assets and the placement of H shares. For details, see the announcement of the Bank dated January 26, 2022 and the circular of the Bank dated February 18, 2022 and the poll results announcement of the Bank dated March 10, 2022.

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

XU Nuojin
Chairman

Zhengzhou, China
March 30, 2022

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 Commercial Banking Law, Corporate Governance Guidelines for Banking and Insurance Institutions and 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, focused on the key work of the Bank, the supervisory committee was organized to conduct in-depth all the supervision work to ensure that the supervisory committee operated regularly, and made it useful to explore in improving the supervision quality and efficiency of the Board of Supervisors and promoting high-quality development with high-quality supervision.

I. Major Works of the Board of Supervisors

1. Effectively participated in corporate governance and fully performed their supervisory obligations

Fully participating in “Three Boards and One Layer”. During the Reporting Period, a total of 4 meetings of the Board of Supervisors were held, at which 12 reports were heard and 37 proposals were considered; and 4 meetings of the special committee under the Board of Supervisors were held, at which 10 reports were heard and 33 proposals were considered; the members of the Board of Supervisors attended 2 sessions of shareholders’ general meetings and attended 9 meetings of the Board of Directors. At the meeting, supervisors conducted conscientious research and discussion on various proposals and special reports on important events such as reform and reorganization, financial reporting, profit distribution, performance evaluation, risk management and internal control and compliance, as well as performance of social responsibilities of the Bank by fully exerting their advantages of being independent, professional and objective, voiced opinions in an objective and impartial manner and exercised its voting rights properly. Employee supervisors also directly participated in various business meetings of the Bank to further timely and comprehensively grasp the management’s business trends and an array of operational information and promptly propose supervisory recommendations, suggestions and tips to the Board and the management, fully performed its responsibilities in supervision seriously and effectively and effectively played the role of supervision.

The Board of Supervisors orderly conducted the performance supervision and evaluation work. During the Reporting Period, the Board of Supervisors solidly carried out performance evaluation based on the daily performance supervision, improved the evaluation plan in light of regulatory requirements and the Bank’s management methods for evaluating the performance, sorted out the performance files, optimized the evaluation weights and enriched the evaluation dimension. Focusing on the performance information of Directors and Supervisors, such as the participation, investigation, and review, as well as the performance of senior management and the fulfillment of loyalty and diligence obligations and in connection with self-evaluation and mutual evaluation of Directors and Supervisors as well as debriefing of the senior management, the Board of Supervisors carried out the performance evaluation of Directors, Supervisors, and senior managements in the previous year, preparing the Performance Evaluation Report of Directors, Supervisors and Senior Management by the Board of Supervisors in 2020 of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司 2020 年度監事會對董事、監事、高管人員履職評價報告》). During the evaluation process, the Board of Supervisors paid attention to communication and coordination with all parties, fully listened to the internal and external evaluation opinions, and put forward advice for improvement to the Board of Directors, senior management and Supervisors through performance evaluation and reported annual performance evaluation results to regulatory authorities and the shareholders’ general meetings as required.

Chapter 10 Report of the Board of Supervisors

The Board of Supervisors continuously strengthened financial supervision. During the Reporting Period, the Board of Supervisors continued to strengthen the supervision of significant financial activities of the Bank and promoted the constant improvement of financial management. Firstly, The Board of Supervisors focused on proposals such as the 2020 annual report, 2021 interim reports, financial budget plans and final account plans, profit distribution plans and capital adequacy ratio report. The consideration and discussion were conscientiously conducted and opinions in writing were issued on the truthfulness, accuracy, integrity of the periodical reports. Secondly, the Board of Supervisors has strengthened communication with and supervision over external audit institutions, appointed Supervisor representatives to participate in the meeting on the assessment of the audit quality of external auditors to conduct a comprehensive evaluation on external auditors' audit quality and urged the external audit institutions to conduct their audit in a diligent manner and in compliance with regulations. Thirdly, the Board of Supervisors has focused on reform and reorganization work deployment, conducted special research seminars on the asset and capital verification as well as assets appraisal of the three banks proposed to be absorbed and merged, and tried to have a sufficient knowledge on assets condition of the three banks, in order to lay a solid foundation for the related follow-up work.

The Board of Supervisors continuously deepened risk management and internal control supervision. The Board of Supervisors focused on key business and areas, kept the bottom line against systematic risks throughout the whole process of supervision. The Board of Supervisors conscientiously fulfilled responsibilities such as risk management and internal control supervision, focused on collaborative management and control of the group risks, revised comprehensive risk management policies and supervised comprehensive risk management, in particular, credit risk management, information technology risk management, and business continuity management. The Board of Supervisors paid continuous attention to the changes in asset quality, concluded special inspection on the disposal of non-performing assets of the Bank to have an in-depth and comprehensive understanding of it and put forward risk opinions and management proposals. The Board of Supervisors continuously strengthened the internal control and compliance supervision, focused on strengthening the supervision over the key areas and weak links of internal control and compliance, such as AML, the consumer rights protection and employee operational risk. The Board of Supervisors regularly listened to the inspection opinions and regulatory suggestions of the regulatory authorities as well as internal audit findings and suggestions, and pressed for the rectification of the aforesaid opinions and suggestions to promote the Bank's internal control management.

Chapter 10 Report of the Board of Supervisors

2. Continued to lay a solid foundation for work and improved the standardization of the Board of Supervisors' performance of duties

The Board of Supervisors strengthened efforts in training and learning, and actively improved the performance ability of Supervisors. During the Reporting Period, relevant systems of corporate governance, such as Corporate Governance Guidelines for Banking and Insurance Institutions and the Measures on Assessment of the Performance of Duties of Directors and Supervisors of Banking and Insurance Institutions (Trial), were issued by CBIRC successively. The Board of Supervisors engaged King & Wood Mallesons to carry out training on the new system. Meanwhile, the Board of Supervisors diligently studied on Guidelines for the Work of the Board of Supervisors of Financial Enterprises under SASAC in Henan Province issued by the Provincial Finance Department, strengthened Supervisors' understanding and grasp of the new regulatory policies, and further made clear the direction and focus of the supervision work of the Board of Supervisors to improve the operation efficiency of the Board of Supervisors and the performance of Supervisors.

The Board of Supervisors focused on learning from many respects and continuously optimized its working mechanism. Paying attention to exchanges and study with peer institutions, the Board of Supervisors actively learned the governance practices from boards of supervisors of peers in and outside the province, conducted research on the corporate governance of Zhongyuan Bank and the three banks to be absorbed and merged, especially on its conditions, improved its new working mechanism of Zhongyuan Bank, innovated its working methods, diversified its supervision "toolboxes", established a separate working body and continuously enriched its supervisory power.

The Board of Supervisors carried out research and inspection to improve the quality and efficiency of supervision by the Board of Supervisors. We conducted research on the corporate governance and asset clearance and capital verification of the three banks to be merged, evaluated the overall situation, and provided reasonable and effective supervision suggestions. The Board of Supervisors conducted special inspections on the disposal of non-performing assets, which are the focus of regulatory authorities, to understand whether the disposal of assets was real and effective and whether assets and risks have been truly and completely transferred, analyze existing problems, and actively offer suggestions.

The Board of Supervisors kept close communication with all parties and gave play its supervisory role. 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 regulatory authorities, actively conveyed the on-site inspection opinions of the CBIRC and the regulatory opinions of the Provincial CBIRC Bureau, and urged relevant departments to actively rectify relevant issues to strive for supervision guidance and support; closely communicated with the investors, regularly reported to the Provincial Department of Finance on the performance of the Board of Supervisors and the problems found by the Board of Supervisors in conducting special inspections as required, continuously strengthened the supervision of the Board of Supervisors; 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.

Chapter 10 Report of the Board of Supervisors

II. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON RELEVANT ISSUES

1. Operation compliance

During the Reporting Period, the Bank has legitimate operations and standardized management, with its operating activities in compliance with the relevant provisions of laws, regulations, and the Articles of Association, all its decision-making procedures being legitimate and valid. Violations of laws, regulations and the Articles of Association of the Bank, and acts that otherwise harmed the interests of the Bank and Shareholders were not found in the duties performance of the Board of Directors and senior management of the Bank.

2. Introduction to the financial report

The 2021 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 related party transactions of the Bank were 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.

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.

Chapter 11 Important Events

1. Use of Proceeds

On March 4, 2021, the Bank issued the financial bonds publicly 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 – 8.1 The Issuance and Listing of Offshore Preference Shares”.

2. Profits and Dividends

The profits and financial position of the Bank for 2021 are set out in the annual financial statements of this annual report.

As approved at the Board meeting of the Bank on March 30, 2022, it is proposed that no final dividend for 2021 be declared to all Shareholders. Such resolution for no distribution of dividend will be subject to Shareholders’ approval at the Bank’s forthcoming 2021 annual general meeting.

3. Material Connected Transactions

During 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

As of December 31, 2021, the pending litigation cases in which the Group was the defendant involved a total amount of approximately RMB724.06 million.

4.1 Litigations against the Xinxiang branch in relation to alleged lending and borrowing

As of December 31, 2021, 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, 2021, 37 plaintiffs’ claims had been rejected in effective judgements, the suit of 12 cases had been withdrawn, and all cases had been closed.

Chapter 11 Important Events

4.2 Dispute of Zhongyuan Bank Co., Ltd. in relation to construction project contract

Henan Zhongjian Urban Construction Co., Ltd. sued against Puyang Municipal People's Government, Puyang Federation of Trade Unions, Zhongyuan Bank and Puyang Investment Group Co., Ltd.; Henan Zhongjian Urban Construction Co., Ltd. sued against Puyang Municipal People's Government, Puyang Health School, Zhongyuan Bank and Puyang Investment Group Co., Ltd.; and Henan Zhongjian Urban Construction Co., Ltd. sued against Puyang Municipal People's Government, Puyang Culture, Radio, Film, Tourism and Sports Bureau, Zhongyuan Bank and Puyang Investment Group Co., Ltd. The total amount involved in the above three cases was RMB569.55 million. The above three cases have been heard for the first instance in court currently.

4.3 Dispute in relation to equity transfer of Nanyang Branch

HONG Chongxi as the plaintiff filed a lawsuit against Nanyang Branch for the dispute over equity transfer, and demanded compensation from Nanyang Branch for its principal and interest totaling RMB33.95 million. In the first instance, Nanyang Branch of Zhongyuan Bank was sentenced to pay HONG Chongxi RMB26 million and interest. This case is still pending for the second instance in court after the Bank appealed.

4.4 Dispute in relation to equity pledge guarantee of Zhongyuan Bank Co., Ltd.

Hong Kong Chuang Yue Co., Limited, as the plaintiff, initiated a litigation against Zhongyuan Bank Co., Ltd. for the dispute over the handling by the Bank of the shares pledged by it, involving an amount of RMB22.76 million. Hearing of the case has been postponed.

5. Penalties for Directors, Supervisors and Senior Management

During the Reporting Period, the senior management was subject to an external administrative penalty, involving a fine of RMB100,000 and a warning. Save as disclosed above, none of the Bank's Directors or Supervisors 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, Supervisors 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.

During the Reporting Period, the Board of Directors of the Bank announced that it would absorb and merge Bank of Luoyang, Bank of Pingdingshan and Bank of CTS Jiaozuo in accordance with applicable PRC laws, and the Bank proposed to issue a total of approximately 13,324,820,000 domestic shares of the Bank to the existing shareholders of the target banks to pay off the total consideration for potential absorption and merger of approximately RMB28.5 billion. Upon completion of the potential absorption and merger, the Bank will inherit all assets, liabilities, businesses, employees, contracts and other rights and obligations of each target bank.

During the Reporting Period, the Bank proposed to sell certain credit assets and other financial assets of the Bank to potential buyers at an initial consideration of no less than RMB9 billion, which will be adjusted and finally determined after further evaluation and negotiation).

Please refer to the Bank's announcements dated October 27, 2021, December 7, 2021, January 26, 2022 and March 10, 2022, and the circular dated February 18, 2022 for details.

10. Profit Distribution during the Reporting Period

During the Reporting Period, 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 has been approved by the Bank at the 2020 annual general meeting held on May 10, 2021.

11. Audit Review

The financial statements for 2021 prepared by the Bank according to the IFRSs has been audited by KPMG, and the auditor's reports were unqualified. The 2021 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 156 to 282, which comprise the consolidated statement of financial position as at December 31, 2021, 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, 2021 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 Public 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
<p>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.</p> <p>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.</p>	<p>Our audit procedures to assess loss allowances of loans and financial investments measured at amortized cost included the following:</p> <ul style="list-style-type: none"> • 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; • 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.

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
<p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> • comparing the forward-looking economic factors used in the models to market information to assess whether they were aligned with market and economic development; • 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
<p>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.</p> <p>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.</p> <p>The Group has developed its own models to value certain financial instruments, which also involve significant management judgement.</p> <p>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.</p> <p>We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in determining the inputs used in the valuation models.</p>	<p>Our audit procedures to assess the fair value of financial instruments included the following:</p> <ul style="list-style-type: none"> • 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
<p>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.</p> <p>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.</p> <p>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.</p>	<p>Our audit procedures to assess the consolidation of structured entities included the following:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> – inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the 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.

Chapter 12 Independent Auditor's Report

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

Chapter 12 Independent Auditor's Report

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 Leung Tat Ming.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
March 30, 2022

Consolidated statement of profit or loss and other comprehensive income

for the year ended December 31, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2021	2020
Interest income		31,868,391	30,946,025
Interest expense		(15,175,422)	(14,381,033)
Net interest income	4	16,692,969	16,564,992
Fee and commission income		2,478,034	2,247,177
Fee and commission expense		(545,554)	(460,770)
Net fee and commission income	5	1,932,480	1,786,407
Net trading gains/(losses)	6	132,050	(184,491)
Net gains arising from investment securities	7	468,009	1,135,190
Other operating income	8	57,324	125,693
Operating income		19,282,832	19,427,791
Operating expenses	9	(7,143,545)	(7,118,645)
Impairment losses on assets	12	(7,640,181)	(7,848,594)
Share of gains/(losses) of joint venture	23	99,265	(11,600)
Profit before tax		4,598,371	4,448,952
Income tax	13	(965,118)	(1,094,218)
Net profit for the year		3,633,253	3,354,734
Net profit attributable to:			
Equity shareholders of the Bank		3,565,013	3,300,822
Non-controlling interests		68,240	53,912
		3,633,253	3,354,734
Basic and diluted earnings per share (in RMB)	14	0.15	0.14

The notes on pages 165 to 282 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended December 31, 2021
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2021	2020
Net profit for the year		3,633,253	3,354,734
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(d)(i)	(232,711)	(364,575)
– Financial assets at fair value through other comprehensive income: net movement in impairment losses	36(d)(ii)	180,576	59,470
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability	36(d)(iii)	(1,286)	459
<i>Other comprehensive income net of tax attributable to non-controlling interests</i>		14,541	(19,404)
Other comprehensive income, net of tax		(38,880)	(324,050)
Total comprehensive income		3,594,373	3,030,684
Total comprehensive income attributable to:			
Equity shareholders of the Bank		3,511,592	2,996,176
Non-controlling interests		82,781	34,508
		3,594,373	3,030,684

The notes on pages 165 to 282 form part of these financial statements.

Consolidated statement of financial position

as at December 31, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2021	2020
Assets			
Cash and deposits with the central bank	15	63,641,621	65,336,332
Deposits with banks and other financial institutions	16	10,696,529	13,493,520
Placements with banks and other financial institutions	17	34,354,006	25,280,450
Derivative financial assets	18	31,506	30,989
Financial assets held under resale agreements	19	11,794,368	15,819,524
Loans and advances to customers	20	378,116,534	347,656,832
Financial investments:	21		
Financial investments at fair value through profit or loss		22,036,414	21,480,393
Financial investments at fair value through other comprehensive income		56,092,112	47,301,530
Financial investments at amortised cost		136,985,777	170,615,595
Lease receivables	22	33,862,349	30,805,530
Interest in joint venture	23	1,183,232	1,083,967
Property and equipment	24	4,244,294	4,267,878
Deferred tax assets	25	5,773,126	4,832,535
Goodwill	26	970,780	970,780
Other assets	27	8,450,700	8,506,617
Total assets		768,233,348	757,482,472
Liabilities and equity			
Liabilities			
Borrowing from the central bank		47,654,025	44,066,887
Deposits from banks and other financial institutions	29	27,400,343	59,388,708
Placements from banks and other financial institutions	30	33,229,671	31,214,348
Derivative financial liabilities	18	30,993	16,961
Financial assets sold under repurchase agreements	31	34,014,348	46,141,066
Deposits from customers	32	455,692,186	431,341,443
Income tax payable		858,635	785,823
Debt securities issued	33	96,843,899	76,054,620
Other liabilities	34	10,129,616	9,117,355
Total liabilities		705,853,716	698,127,211

The notes on pages 165 to 282 form part of these financial statements.

Consolidated statement of financial position

as at December 31, 2021
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2021	2020
Equity			
Share capital	35	20,075,000	20,075,000
Other equity instruments			
– Preference shares	38	9,632,791	9,632,791
Reserves	36	26,792,284	26,491,114
Retained earnings	37	4,710,067	2,062,639
Total equity attributable to equity shareholders of the Bank		61,210,142	58,261,544
Non-controlling interests		1,169,490	1,093,717
Total equity		62,379,632	59,355,261
Total liabilities and equity		768,233,348	757,482,472

Approved and authorised for issue by the board of directors on March 30, 2022.

Xu Nuojin

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 165 to 282 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended December 31, 2021

(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	Other reserves	Retained earnings	Subtotal			
Balance at January 1, 2021	20,075,000	9,632,791	14,317,963	2,115,521	9,660,324	397,306	2,062,639	58,261,544	1,093,717	59,355,261	
Changes in equity for the year:											
Net profit for the year	-	-	-	-	-	-	3,565,013	3,565,013	68,240	3,633,253	
Other comprehensive income	-	-	-	-	-	(53,421)	-	(53,421)	14,541	(38,880)	
Total comprehensive income	-	-	-	-	-	(53,421)	3,565,013	3,511,592	82,781	3,594,373	
Subsidiary increase share capital	-	-	18	-	-	-	-	18	(18)	-	
Appropriation to surplus reserve 37	-	-	-	309,188	-	-	(309,188)	-	-	-	
Appropriation to general reserve 37	-	-	-	-	45,385	-	(45,385)	-	-	-	
Cash dividends on preference shares 37	-	-	-	-	-	-	(563,012)	(563,012)	(6,990)	(570,002)	
Balance at December 31, 2021	20,075,000	9,632,791	14,317,981	2,424,709	9,705,709	343,885	4,710,067	61,210,142	1,169,490	62,379,632	

The notes on pages 165 to 282 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended December 31, 2021
(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the Bank									Non-controlling interests	Total
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Other reserves	Retained earnings	Subtotal		
Balance at January 1, 2020		20,075,000	9,632,791	14,320,466	1,818,292	8,934,907	701,952	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	14,317,963	2,115,521	9,660,324	397,306	2,062,639	58,261,544	1,093,717	59,355,261

The notes on pages 165 to 282 form part of these financial statements.

Consolidated cash flow statement

for the year ended December 31, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	2021	2020
Cash flows from operating activities		
Profit before tax	4,598,371	4,448,952
Adjustments for:		
– Impairment losses on assets	7,640,181	7,848,594
– Depreciation and amortization	979,558	1,053,007
– Depreciation of investment properties	747	755
– Unrealized foreign exchange losses	423,577	1,287,505
– Net losses/(gains) on disposal of property and equipment	2,250	(49,599)
– Net trading (gains)/losses	(69,714)	63,319
– Net losses/(gains) arising from fair value of derivatives	13,515	(294,631)
– Net gains on disposal of investment securities	(468,009)	(1,135,187)
– Share of (gains)/losses of joint venture	(99,265)	11,600
– Interest expense on debts securities issued	2,426,986	2,495,258
– Interest expense on lease liabilities	41,239	60,582
	15,489,436	15,790,155
<i>Changes in operating assets</i>		
Net decrease in deposits with the central bank	1,637,490	4,214,266
Net increase in deposits and placements with banks and other financial institutions	(2,479,506)	(7,375,977)
Net decrease in financial assets held for trading	3,238,894	1,855,879
Net increase in loans and advances to customers	(34,735,002)	(61,355,828)
Net increase in lease receivables	(3,056,819)	(979,543)
Net increase in other operating assets	(2,109,238)	(4,021,957)
	(37,504,181)	(67,663,160)

The notes on pages 165 to 282 form part of these financial statements.

Consolidated cash flow statement

for the year ended December 31, 2021
(Expressed in thousands of Renminbi, unless otherwise stated)

	2021	2020
Cash flows from operating activities		
<i>Changes in operating liabilities</i>		
Net increase in borrowing from central bank	3,593,557	27,252,891
Net decrease in deposits from banks and other financial institutions	(31,812,459)	(2,287,632)
Net increase in placements from banks and other financial institutions	1,904,441	3,201,533
Net decrease in financial liabilities at fair value through profit or loss	–	(20,437)
Net decrease in financial assets sold under repurchase agreements	(12,116,334)	(20,389,735)
Net increase in deposits from customers	23,442,656	39,936,151
Net increase in other operating liabilities	2,054,557	2,746,788
	(12,933,582)	50,439,559
Net cash flows used in operating activities before income tax paid	(34,948,327)	(1,433,446)
Income tax paid	(1,760,174)	(2,290,073)
Net cash flows used in operating activities	(36,708,501)	(3,723,519)
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	266,156,552	2,050,354,332
Proceeds from disposal of property and equipment, intangible assets and other assets	31,322	135,181
Payments on acquisition of investments	(246,362,089)	(2,040,310,505)
Payments on acquisition of subsidiary	–	(263,699)
Payments on acquisition of property and equipment, intangible assets and other assets	(622,572)	(851,143)
Net cash flows generated from investing activities	19,203,213	9,064,166

The notes on pages 165 to 282 form part of these financial statements.

Consolidated cash flow statement

for the year ended December 31, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2021	2020
Cash flows from financing activities			
Proceeds from issued debt securities		162,834,483	132,013,203
Acquisition of non-controlling interests		–	(9,794)
Repayment of debts securities issued		(143,166,125)	(137,004,630)
Interest paid on debts securities issued		(1,306,065)	(1,169,629)
Dividends paid		(670,835)	(1,510,031)
Capital element of lease liabilities paid		(231,062)	(260,069)
Interest element of lease liabilities paid		(31,913)	(45,345)
Net cash flows generated from/(used in) financing activities		17,428,483	(7,986,295)
Effect of foreign exchange rate changes on cash and cash equivalents			
		(182,706)	(528,188)
Net decrease in cash and cash equivalents	41(a)	(259,511)	(3,173,836)
Cash and cash equivalents as at January 1		72,151,316	75,325,152
Cash and cash equivalents as at December 31	41(b)	71,891,805	72,151,316
Interest received		31,575,586	29,941,327
Interest paid (excluding interest expense on debts securities issued)		(11,919,127)	(10,112,455)

The notes on pages 165 to 282 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).

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, 2021 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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, Interest rate benchmark reform – phase 2

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("IBOR reform").

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 beyond 30 June 2021 (2021 amendment)

The Group previously applied the practical expedient in IFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

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 statements 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

	2021	2020
Interest income arising from		
Deposits with the central bank	497,092	517,531
Deposits with banks and other financial institutions	116,637	171,989
Placements with banks and other financial institutions	1,034,964	768,552
Loans and advances to customers		
– Corporate loans and advances	8,375,239	8,238,815
– Personal loans and advances	10,115,294	8,996,183
– Discounted bills	1,025,679	976,837
Financial assets held under resale agreements	352,519	371,200
Financial investments	7,780,363	8,588,233
Lease receivables	2,570,604	2,316,685
Sub-total	31,868,391	30,946,025
Interest expenses arising from		
Borrowing from the central bank	(1,063,186)	(758,503)
Deposits from banks and other financial institutions	(1,552,171)	(1,420,259)
Placements from banks and other financial institutions	(1,026,458)	(890,663)
Deposits from customers	(8,387,767)	(8,091,084)
Financial assets sold under repurchase agreements	(718,854)	(725,266)
Debts securities issued	(2,426,986)	(2,495,258)
Sub-total	(15,175,422)	(14,381,033)
Net interest income	16,692,969	16,564,992

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

	2021	2020
Fee and commission income		
Underwriting fees	513,320	530,707
Wealth management business fees	587,841	442,365
Bank card services fees	523,636	429,708
Settlement and clearing services fees	333,459	234,707
Custodial services fees	72,516	218,580
Advisory and consulting fees	181,911	162,218
Agency services fees	136,903	118,090
Acceptance and guarantee services fees	128,448	110,802
Sub-total	2,478,034	2,247,177
Fee and commission expense	(545,554)	(460,770)
Net fee and commission income	1,932,480	1,786,407

6 Net trading gains/(losses)

	Note	2021	2020
Net gains from debt securities	(a)	86,074	61,263
Net foreign exchange gains/(losses)	(b)	34,309	(258,715)
Net gains from interest rate swaps		11,667	12,961
Total		132,050	(184,491)

- (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 gains/(losses) mainly included 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	2021	2020
Net gains of financial investments at fair value through profit or loss	(a)	141,659	907,422
Net gains of financial investments at fair value through other comprehensive income		326,442	227,773
Others		(92)	(5)
Total		468,009	1,135,190

(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

	2021	2020
Government grants	9,704	16,911
Rental income	27,328	27,144
Net (losses)/gains on disposal of property and equipment	(2,250)	49,599
Others	22,542	32,039
Total	57,324	125,693

9 Operating expenses

	2021	2020
Staff costs		
– Salaries, bonuses and allowances	2,849,596	2,995,093
– Social insurance and annuity	562,756	233,217
– Staff welfares	275,717	296,271
– Housing allowances	240,917	211,616
– Employee education expenses and labor union expenses	99,776	104,939
– Supplementary retirement benefits	174,004	3,990
– Others	54,910	43,411
Sub-total	4,257,676	3,888,537
Office expenses	1,028,699	1,007,727
Depreciation and amortization	700,749	767,401
Depreciation charge for the right-of-use assets	278,809	285,606
Taxes and surcharges	211,188	199,755
Interest expense on lease liabilities	41,239	60,582
Rental and property management expenses	31,156	31,575
Other general and administrative expenses	594,029	877,462
Total	7,143,545	7,118,645

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	2021							Actual amount of remuneration paid (1)
		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 (5)	
Executive directors									
Xu Nuojin	(2)/(3)	-	-	-	-	-	-	-	-
Dou Rongxing	(2)/(3)	-	-	-	-	-	-	-	-
Wang Jiong		-	1,314	2,822	4,136	87	4,223	1,411	2,812
Li Yulin		-	1,042	2,086	3,128	85	3,213	1,043	2,170
Wei Jie		-	782	1,350	2,132	83	2,215	675	1,540
Non-executive directors									
Zhang Qiuyun	(4)	-	-	-	-	-	-	-	-
Mi Hongjun		40	-	-	40	-	40	-	40
Li Xipeng	(4)	10	-	-	10	-	10	-	10
Independent non-executive directors									
Pang Hong		395	-	-	395	-	395	-	395
Li Hongchang		450	-	-	450	-	450	-	450
Jia Tingyu		425	-	-	425	-	425	-	425
Chan Ngai Sang		370	-	-	370	-	370	-	370
Supervisors									
Hao Jingtao	(2)	-	-	-	-	-	-	-	-
Jia Jihong		-	672	1,227	1,899	83	1,982	614	1,368
Zhang Yixian		-	503	1,007	1,510	82	1,592	403	1,189
Li Weizhen		55	-	-	55	-	55	-	55
Li Wanbin		35	-	-	35	-	35	-	35
Li Xiaojian		240	-	-	240	-	240	-	240
Han Wanghong		220	-	-	220	-	220	-	220
Sun Xuemin		215	-	-	215	-	215	-	215
Pan Xinmin		230	-	-	230	-	230	-	230
Total		2,685	4,313	8,492	15,490	420	15,910	4,146	11,764

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Directors' and supervisors' emoluments (Continued)

	Note	Fees	Salaries	Discretionary bonus	2020		Total	Of which payment deferred	Actual amount of remuneration paid (1)
					Actual amount of salaries, discretionary bonus and fees payable (pre-tax)	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.			
Executive directors									
Dou Rongxing	(2)/(3)	-	-	-	-	-	-	-	-
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	(4)	35	-	-	35	-	35	-	35
Mi Hongjun		45	-	-	45	-	45	-	45
Li Qiaocheng	(4)	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:

- (1) The total amount includes contribution by the employer to social insurance and welfare plans, housing allowance, etc.
- (2) The final remunerations for Xu Nuojin, Dou Rongxing and Hao Jingtao 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, 2021. In addition, Mr. Hao Jingtao resigned as Chief Supervisor of the Bank on August 15 2021.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Directors' and supervisors' emoluments (Continued)

- (3) Mr. Dou Rongxing resigned as Chairman of the Bank on 15 August 2021 and Mr. Xu Nuojin assumed the position of Chairman of the Bank on 12 November 2021.
- (4) Mr. Li Xipeng and Mr. Li Qiaocheng resigned as non-executive directors of the Bank on 2 June 2021 and 20 October 2020 respectively, and Ms. Zhang Qiuyun assumed the position of non-executive director of the Bank on 21 January 2021 and was not paid remuneration for 2021.
- (5) The actual amount of payment deferred will be deducted according to the operation of the Bank, taking full account of asset quality, risk and other factors.

There was no amount paid during the years ended December 31, 2021 and 2020 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, 2021 and 2020. There was no payment made or benefit provided in respect of the termination of the service of directors of the Bank during the years ended December 31, 2021 and 2020.

11 Individuals with highest emoluments

For the year ended December 31, 2021, the five individuals with highest emoluments included 2 directors of the Bank (2020: 2 directors). Their emoluments are disclosed in Note 10. The emoluments for the other highest paid individuals is as follows:

	2021	2020
Salaries and other emoluments	2,757	2,808
Discretionary bonuses	5,522	5,394
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	305	202
Total	8,584	8,404

The individual's emoluments before individual income tax is within the following bands:

	2021	2020
RMB2,500,001 – 3,000,000	2	2
RMB3,000,001 – 3,500,000	1	1
Total	3	3

12 Impairment losses on assets

	2021	2020
Loans and advances to customers	4,347,720	4,884,998
Financial investments	1,489,746	1,835,170
Credit commitments	263,902	24,494
Deposits with banks and other financial institutions	348	1,323
Placements with banks and other financial institutions	2,258	5,434
Financial assets held under resale agreements	(792)	12
Lease receivables	501,398	617,860
Repossessed assets	516,493	1,978
Others	519,108	477,325
Total	7,640,181	7,848,594

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

13 Income tax

(a) Income tax:

	Note	2021	2020
Current tax		1,832,986	2,147,999
Deferred tax	25(b)	(867,868)	(1,053,781)
Total		965,118	1,094,218

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2021	2020
Profit before tax		4,598,371	4,448,952
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		1,149,593	1,112,238
Non-deductible expenses			
– Staff welfare expenses		9,297	4,069
– Unauthorized write-offs		493,135	439,597
– Others		6,106	27,316
Non-taxable income	(i)	(693,013)	(489,291)
Changes in deductible temporary differences or deductible losses for which no deferred tax assets was recognized		–	289
Income tax		965,118	1,094,218

- (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	2021	2020
Earnings:			
Net profit attributable to equity shareholders of the Bank		3,565,013	3,300,822
Less: Profit for the year attributable to other equity instruments holders of the Bank		(563,012)	(573,487)
Net profit attributable to ordinary shareholders of the Bank		3,002,001	2,727,335
Shares:			
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)		0.15	0.14

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)

	2021	2020
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	2021	2020
Cash on hand		1,200,161	1,268,037
Deposits with the central bank			
– Statutory deposit reserves	(a)	27,409,899	29,051,271
– Surplus deposit reserves	(b)	34,505,343	34,492,657
– Fiscal deposits		511,897	508,015
Sub-total		62,427,139	64,051,943
Accrued interest		14,321	16,352
Total		63,641,621	65,336,332

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, 2021 and December 31, 2020, the statutory deposit reserve ratios applicable to the Bank were as follows:

	2021	2020
Reserve ratio for RMB deposits	6.00%	7.00%
Reserve ratio for foreign currency deposits	9.00%	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

	2021	2020
Deposits in mainland China		
– Banks	3,895,863	6,391,104
– Other financial institutions	726,698	2,128,292
Sub-total	4,622,561	8,519,396
Deposits outside mainland China		
– Banks	6,073,784	4,913,283
Total	10,696,345	13,432,679
Accrued interest	3,532	63,841
Less: Provision for impairment losses	(3,348)	(3,000)
Net carrying amount	10,696,529	13,493,520

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

	2021	2020
Placements in mainland China		
– Banks	1,483,196	209,816
– Other financial institutions	32,544,959	22,894,958
Sub-total	34,028,155	23,104,774
Outside mainland China		
– Banks	–	1,892,221
Sub-total	–	1,892,221
Accrued interest	357,033	312,379
Less: Provision for impairment losses	(31,182)	(28,924)
Net carrying amount	34,354,006	25,280,450

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, commodity price, foreign exchange rate, 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	2021	
		Fair value	
		Assets	Liabilities
Interest rate swaps	7,060,000	31,292	30,614
Foreign exchange forwards	389,705	–	–
Currency swaps	19,375	214	–
Precious metal derivatives	20,088	–	379
Total		31,506	30,993

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Derivative financial instruments (Continued)

	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

19 Financial assets held under resale agreements

(a) Analyzed by type and location of counterparty

	2021	2020
In mainland China		
– Banks	4,381,669	13,841,531
– Other financial institutions	7,412,262	1,972,041
Total	11,793,931	15,813,572
Accrued interest	1,187	7,494
Less: Provision for impairment losses	(750)	(1,542)
Net carrying amount	11,794,368	15,819,524

(b) Analyzed by type of security held

	2021	2020
Debt securities	11,793,931	15,813,572
Accrued interest	1,187	7,494
Less: Provision for impairment losses	(750)	(1,542)
Net carrying amount	11,794,368	15,819,524

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Loans and advances to customers

(a) Analyzed by nature

	2021	2020
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	172,662,953	149,639,100
Personal loans and advances		
– Residential mortgage	89,511,886	85,418,323
– Personal consumption loans	30,763,359	29,359,244
– Personal business loans	44,907,494	42,535,656
– Others	18,930,239	13,188,041
Sub-total	184,112,978	170,501,264
Accrued interest	2,487,565	2,349,930
Less: Provision for loans and advances to customers measured at amortised cost	(12,530,545)	(11,718,971)
Sub-total	346,732,951	310,771,323
Loans and advances to customers measured at fair value through other comprehensive income		
Corporate loans and advances	988,405	731,880
Discounted bills	30,395,178	36,153,629
Sub-total	31,383,583	36,885,509
Net loans and advances to customers	378,116,534	347,656,832

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

	2021		Loans and advances secured by collaterals
	Amount	Percentage	
Renting and business activities	49,190,662	12.67%	18,376,443
Manufacturing	23,774,495	6.12%	7,679,971
Real estate	17,157,111	4.42%	13,732,781
Wholesale and retail trade	16,816,107	4.33%	9,575,691
Construction	15,627,581	4.03%	6,850,570
Water, environment and public utility	14,369,136	3.70%	7,108,569
Transportation, storage and postal services	6,218,530	1.60%	3,372,947
Production and supply of electric power, gas and water	6,200,702	1.60%	1,516,991
Education	4,774,592	1.23%	2,330,480
Mining	3,446,081	0.89%	608,767
Agriculture, forestry, animal husbandry and fishery	2,899,288	0.75%	870,921
Accommodation and catering	2,613,439	0.67%	1,729,318
Others	10,563,634	2.72%	2,634,355
Sub-total of corporate loans and advances	173,651,358	44.73%	76,387,804
Personal loans and advances	184,112,978	47.43%	152,570,194
Discounted bills	30,395,178	7.84%	27,526,358
Gross loans and advances to customers	388,159,514	100.00%	256,484,356

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)

	2020		Loans and advances secured by collaterals
	Amount	Percentage	
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

(c) Analysed by type of collateral

	2021	2020
Unsecured loans	47,176,476	39,026,278
Guaranteed loans	84,498,682	71,041,655
Collateralised	193,717,462	182,357,997
Pledged	62,766,894	64,599,943
Gross loans and advances to customers	388,159,514	357,025,873
Accrued interest	2,487,565	2,349,930
Less: Provision for loans and advances to customers measured at amortised cost	(12,530,545)	(11,718,971)
Net loans and advances to customers	378,116,534	347,656,832

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

	2021				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	177,785	517,888	286,783	11,858	994,314
Guaranteed loans	2,091,193	2,177,847	1,301,956	241,340	5,812,336
Collateralised	3,827,730	1,249,776	1,315,667	470,132	6,863,305
Pledged	760,880	24,269	35,840	211,189	1,032,178
Total	6,857,588	3,969,780	2,940,246	934,519	14,702,133
As a percentage of gross loans and advances to customers	1.77%	1.02%	0.76%	0.24%	3.79%

	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%

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

	2021			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	
Total loans and advances to customers measured at amortised cost	337,256,833	11,008,429	8,510,669	356,775,931
Accrued interest	2,487,565	–	–	2,487,565
Less: Provision for impairment losses	(4,021,330)	(2,565,993)	(5,943,222)	(12,530,545)
Carrying amount of loans and advances to customers measured at amortised cost	335,723,068	8,442,436	2,567,447	346,732,951
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	31,383,583	–	–	31,383,583
Total carrying amount of loans and advances to customers	367,106,651	8,442,436	2,567,447	378,116,534
	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

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:

	2021			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	4,406,550	2,295,558	5,016,863	11,718,971
Transferred:				
– to expected credit losses over the next 12 months	365,875	(248,165)	(117,710)	–
– to lifetime expected credit losses: not credit-impaired loans	(63,705)	466,064	(402,359)	–
– to lifetime expected credit losses: credit-impaired loans	(41,855)	(349,024)	390,879	–
(Release)/charge for the year	(645,535)	401,560	4,478,186	4,234,211
Recoveries	–	–	254,464	254,464
Write-offs and disposals	–	–	(3,677,101)	(3,677,101)
As at December 31	4,021,330	2,565,993	5,943,222	12,530,545

	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	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 and disposals	–	–	(3,332,391)	(3,332,391)
As at December 31	4,406,550	2,295,558	5,016,863	11,718,971

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:

	2021			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	11,125	–	355,486	366,611
(Release)/charge for the year	(4,986)	–	118,495	113,509
As at December 31	6,139	–	473,981	480,120

	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

(g) Disposal of loans and advances to customers

In 2021, the Group disposed loans and advances with gross amount of RMB3,317 million. The total consideration received by the Group amounted to RMB1,906 million.

In 2020, the Group disposed loans and advances with gross amount of RMB1,945.87 million. The total consideration received by the Group amounted to RMB1,081.13 million.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial investments

	Note	2021	2020
Financial investments at fair value through profit or loss	(a)	22,036,414	21,480,393
Financial investments at fair value through other comprehensive income	(b)	56,092,112	47,301,530
Financial investments at amortised cost	(c)	136,985,777	170,615,595
Total		215,114,303	239,397,518

(a) Financial investments at fair value through profit or loss

	Note	2021	2020
Debt securities	(i)		
– Government		43,162	42,478
– Policy banks		–	551,597
– Banks and other financial institutions		2,158,001	5,783,979
– Corporate		1,089,280	181,570
Sub-total		3,290,443	6,559,624
Listed		43,162	42,478
Unlisted		3,247,281	6,517,146
Sub-total		3,290,443	6,559,624
Investment fund managed by public fund manager		18,343,633	14,018,371
Wealth management products issued by financial institutions		–	203,389
Investment management products managed by securities companies		–	609,252
Sub-total		18,343,633	14,831,012
Equity investments		402,338	89,757
Total		22,036,414	21,480,393

- (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	2021	2020
Debt securities	(i)		
– Government		36,516,163	23,639,431
– Policy banks		16,065,614	17,242,734
– Banks and other financial institutions		1,371,713	2,097,871
– Corporate		1,392,873	2,804,352
Sub-total		55,346,363	45,784,388
Listed		36,704,987	11,601,702
Unlisted		18,641,376	34,182,686
Sub-total		55,346,363	45,784,388
Investment portfolio managed by financial institutions		–	771,461
Sub-total		–	771,461
Accrued interest		721,853	721,785
Equity investments	(ii)	23,896	23,896
Total		56,092,112	47,301,530

- (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:

	2021			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	37,831	13,678	127,501	179,010
Transfers:				
– to lifetime expected credit losses: not credit-impaired	(6,750)	6,750	–	–
(Release)/charge for the year	(20,717)	54,607	33,177	67,067
Balance at December 31	10,364	75,035	160,678	246,077

	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
Transfers:				
– to lifetime expected credit losses: credit-impaired	(70)	–	70	–
Charge for the year	27,001	13,678	16,655	57,334
Balance at December 31	37,831	13,678	127,501	179,010

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	2021	2020
Debt securities	(i)		
– Government		45,027,682	41,957,350
– Policy banks		28,106,520	28,655,674
– Banks and other financial institutions		120,000	3,101,098
– Corporate		8,218,455	10,957,245
Sub-total		81,472,657	84,671,367
Listed		44,487,844	28,363,574
Unlisted		36,984,813	56,307,793
Sub-total		81,472,657	84,671,367
Investment management products managed by trust plans		24,563,251	50,062,840
Debt investment plans		23,384,621	26,530,041
Investment fund managed by private fund manager		7,671,337	8,153,843
Investment management products managed by securities companies		3,028,950	2,238,000
Investment fund managed by financial institutions		701,327	717,739
Sub-total		59,349,486	87,702,463
Accrued interest		1,808,262	2,188,032
Less: Provision for impairment losses	(ii)	(5,644,628)	(3,946,267)
Total		136,985,777	170,615,595

- (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:

	2021			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	132,621	212,770	3,600,876	3,946,267
Transfers:				
– to lifetime expected credit losses: not credit-impaired	(2,022)	2,022	–	–
– to lifetime expected credit losses: credit-impaired	(4,078)	(107,287)	111,365	–
(Release)/charge for the year	(27,381)	263,180	1,186,880	1,422,679
Recoveries	–	–	375,682	375,682
Write-offs	–	–	(100,000)	(100,000)
Balance at December 31	99,140	370,685	5,174,803	5,644,628

	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

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Lease receivables

	Note	2021	2020
Minimum finance lease receivables	(i)	132,706	236,510
Less: unearned finance lease income	(i)	(10,731)	(19,654)
Present value of finance lease receivables	(i)	121,975	216,856
Receivables from sale-and-leaseback transactions		35,463,873	31,972,815
Sub-total		35,585,848	32,189,671
Less: provision for impairment losses	(ii)	(1,723,499)	(1,384,141)
Total		33,862,349	30,805,530

(i) Finance lease receivables, unearned finance lease income and minimum finance lease receivables analysed by remaining period are listed as follows:

	2021		
	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Less than 1 year	14,913	(1,484)	13,429
1 year to 2 year	72,913	(5,724)	67,189
2 year to 3 year	44,880	(3,523)	41,357
Total	132,706	(10,731)	121,975

	2020		
	Minimum finance lease receivables	Unearned finance income	Present value of finance lease receivables
Less than 1 year	8,890	(876)	8,014
1 year to 2 year	90,141	(8,888)	81,253
2 year to 3 year	137,479	(9,890)	127,589
Total	236,510	(19,654)	216,856

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Lease receivables (Continued)

(ii) Movements of provision for impairment losses:

	2021			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	973,417	213,666	197,058	1,384,141
Transfers:				
– to expected credit losses over the next 12 months	379,469	(211,913)	(167,556)	–
– to lifetime expected credit losses: not credit-impaired	(42,669)	42,669	–	–
– to lifetime expected credit losses: credit-impaired	(13,525)	–	13,525	–
(Release)/charge for the year	(265,196)	334,774	431,820	501,398
Recoveries	–	–	2,000	2,000
Write-offs	–	–	(164,040)	(164,040)
Balance at December 31	1,031,496	379,196	312,807	1,723,499

	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

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	2021	2020
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 Zhongyuan County Bank Co., Ltd. ("襄城中原村鎮銀行股份有限公司")	(viii)	38,044	38,044
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	5,098,195

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, 2021 (2020: 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 51.73% of equity interest and voting rights of Xinyang Pingqiao as at December 31, 2021 (2020: 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, 2021 (2020: 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, 2021 (2020: 78.46%).
- (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, 2021 (2020: 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, 2021 (2020: 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, 2021 (2020: 51%).
- (viii) Xiangcheng Zhongyuan County Bank Co., Ltd. (“Xiangcheng Zhongyuan”, formerly known as Xiangcheng Huipu County Bank Co., Ltd.) was incorporated on October 27, 2011 at Xuchang, Henan Province, with registered capital of RMB61.00 million. The principal activities of Xiangcheng Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest of Xiangcheng Huipu as at December 31, 2021 (2020: 51%).
- (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, 2021 (2020: 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, 2021 (2020: 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	2021	2020
Interest in joint venture	(i)	1,183,232	1,083,967

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
	2021	2020		
Consumer Finance	49.25%	49.25%	Zhengzhou, China	Consumer credit

The following table illustrates the aggregate information of the Bank’s joint venture:

	2021	2020
Aggregate carrying amount of the joint venture in the consolidated statements of financial position of the Bank	1,183,232	1,083,967
Aggregate amounts of the Bank’s share of results of the joint venture		
– Gains/(losses) from continuing operations	99,265	(11,600)
– Other comprehensive income	–	–
– Total comprehensive income	99,265	(11,600)

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, 2020	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
Additions	139,310	–	122,711	1,684	26,662	317,141	607,508
Disposals	(15,367)	–	(81,732)	(4,150)	(26,481)	–	(127,730)
Transfers out of construction in progress	–	–	–	–	–	(175,557)	(175,557)
As at December 31, 2021	5,297,109	10,095	1,357,353	24,086	517,300	1,160,868	8,366,811
Accumulated depreciation							
At January 1, 2020	(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)
Additions	(291,818)	(747)	(84,183)	(2,286)	(47,892)	–	(426,926)
Disposals	11,953	–	56,617	4,057	25,951	–	98,578
As at December 31, 2021	(2,576,865)	(8,043)	(1,145,398)	(17,116)	(365,049)	–	(4,112,471)
Impairment							
At January 1, 2020	(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)
Disposals	–	–	522	–	21	–	543
As at December 31, 2021	(6,626)	–	(1,369)	(229)	(1,822)	–	(10,046)
Net book value							
As at December 31, 2020	2,869,540	2,799	196,651	7,436	172,168	1,019,284	4,267,878
As at December 31, 2021	2,713,618	2,052	210,586	6,741	150,429	1,160,868	4,244,294

The carrying amount of the premises with incomplete title deeds as December 31, 2021 was RMB1,097.75 million (2020: RMB1,030.66 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:

	2021	2020
Held in mainland China		
– Long-term leases (over 50 years)	752,241	782,142
– Medium-term leases (10 – 50 years)	1,564,020	1,591,400
– Short-term leases (less than 10 years)	397,357	495,998
Total	2,713,618	2,869,540

The net book value of investment properties as at December 31 are analyzed by the remaining terms of the leases as follows:

	2021	2020
Held in mainland China		
– Medium-term leases (10 – 50 years)	2,052	2,799

25 Deferred tax assets

(a) Analyzed by nature

	2021		2020	
	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	21,382,372	5,345,593	17,824,704	4,456,176
Accrued staff cost payable	1,101,344	275,336	1,326,132	331,533
Supplemental retirement benefits	232,884	58,221	77,064	19,266
Fair value changes of financial assets	767,100	191,775	299,008	74,752
Deferred income	526,792	131,698	712,672	178,168
Assets appraisal and related depreciation	(1,298,248)	(324,562)	(1,420,040)	(355,010)
Others	380,260	95,065	510,600	127,650
Net balances	23,092,504	5,773,126	19,330,140	4,832,535

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, 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 and January 1, 2021	4,456,176	331,533	19,266	74,752	178,168	(355,010)	127,650	4,832,535
Recognized in profit or loss	889,417	(56,197)	38,955	44,300	(46,470)	30,448	(32,585)	867,868
Recognized in other comprehensive income	-	-	-	72,723	-	-	-	72,723
December 31, 2021	5,345,593	275,336	58,221	191,775	131,698	(324,562)	95,065	5,773,126

26 Goodwill

Goodwill

Cost:

At January 1, 2020, December 31, 2020 and December 31, 2021 970,780

Accumulated impairment losses:

At January 1, 2020, December 31, 2020 and December 31, 2021 -

Carrying amount:

At December 31, 2021 970,780

At December 31, 2020 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:

	2021	2020
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 the discount rate at December 31, 2021. Cash flows beyond five-year period are extrapolated using an estimated weighted average growth rate. 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	2021	2020
Intangible assets	(b)	1,574,958	1,585,362
Repossessed assets		1,172,906	1,516,134
Receivables from disposal of loans		726,884	884,243
Continuing involvement assets	(d)	1,680,283	830,928
Interests receivable	(a)	1,245,518	821,400
Right-of-use assets	(c)	696,945	812,944
Leasehold improvements		370,897	442,353
Payment and collection clearance accounts		–	190,765
Other receivables		982,309	1,422,488
Total		8,450,700	8,506,617

(a) Interests receivable

	2021	2020
Interests receivable arising from:		
Investments	590,260	369,007
Loans and advances to customers	864,372	561,981
Total	1,454,632	930,988
Less: Provision for impairment losses	(209,114)	(109,588)
Net carrying amount	1,245,518	821,400

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, 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 and January 1, 2021	1,177,622	1,189,248	173,305	2,540,175
Additions	–	166,211	–	166,211
Disposals	(4,360)	(24,815)	–	(29,175)
As at December 31, 2021	1,173,262	1,330,644	173,305	2,677,211
Accumulated amortization				
As at 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 and January 1, 2021	(225,593)	(720,677)	–	(946,270)
Additions	(36,746)	(134,905)	–	(171,651)
Disposals	1,543	21,358	–	22,901
As at December 31, 2021	(260,796)	(834,224)	–	(1,095,020)
Impairment				
As at January 1, 2020	(9,097)	(1,310)	–	(10,407)
Disposals	1,864	–	–	1,864
As at December 31, 2020 and January 1, 2021	(7,233)	(1,310)	–	(8,543)
Disposals	–	1,310	–	1,310
As at December 31, 2021	(7,233)	–	–	(7,233)
Net book value				
As at December 31, 2021	905,233	496,420	173,305	1,574,958
As at December 31, 2020	944,796	467,261	173,305	1,585,362

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, 2020	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
Additions	158,191	4,619	162,810
As at December 31, 2021	1,512,983	28,634	1,541,617
Accumulated depreciation			
As at January 1, 2020	(274,495)	(5,762)	(280,257)
Additions	(277,823)	(7,783)	(285,606)
As at December 31, 2020	(552,318)	(13,545)	(565,863)
Additions	(272,946)	(5,863)	(278,809)
As at December 31, 2021	(825,264)	(19,408)	(844,672)
Net book value			
As at January 1, 2021	802,474	10,470	812,944
As at December 31, 2021	687,719	9,226	696,945

(d) Continuing involvement assets

In 2020 and 2021, 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 RMB7,523.92 million. The total consideration amounted to RMB7,523.92 million and the Bank held the RMB1,680.28 million tranche.

The Bank retains part of interests in the form of senior and 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, 2021, arising from this continuing involvement, the Bank recognized continuing involvement assets and liabilities of RMB1,680.28 million each (2020 : RMB830.93 million).

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Pledged assets

(a) Assets pledged as collateral

	Note	2021	2020
For repurchase agreements			
– Discounted bills		877,540	4,005,490
– Financial investments at fair value through profit or loss	21(a)	–	1,850,218
– Financial investments at fair value through other comprehensive income	21(b)	23,004,451	13,064,692
– Financial investments at amortised cost	21(c)	11,737,549	27,211,332
Total		35,619,540	46,131,732

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, 2021, the carrying amounts of the received pledged assets is RMB13,004.82 million (2020: RMB17,549.05 million).

29 Deposits from banks and other financial institutions

Analyzed by type and location of counterparty

	2021	2020
In mainland China		
– Banks	2,418,959	5,575,419
– Other financial institutions	24,854,394	53,510,393
Sub-total	27,273,353	59,085,812
Accrued interest	126,990	302,896
Total	27,400,343	59,388,708

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

30 Placements from banks and other financial institutions

	2021	2020
In mainland China		
– Banks	25,754,908	27,591,011
– Other financial institutions	5,470,000	1,532,000
Sub-total	31,224,908	29,123,011
Outside mainland China		
– Banks	1,667,149	1,864,605
Sub-total	32,892,057	30,987,616
Accrued interest	337,614	226,732
Total	33,229,671	31,214,348

31 Financial assets sold under repurchase agreements

(a) Analyzed by type and location of counterparty

	2021	2020
In mainland China		
– PBOC	3,260,000	24,870,000
– Banks	30,034,795	19,344,987
– Other financial institutions	713,750	1,909,892
Sub-total	34,008,545	46,124,879
Accrued interest	5,803	16,187
Total	34,014,348	46,141,066

(b) Analyzed by collateral

	2021	2020
Debt securities	33,131,850	42,126,242
Discounted bills	876,695	3,998,637
Sub-total	34,008,545	46,124,879
Accrued interest	5,803	16,187
Total	34,014,348	46,141,066

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

32 Deposits from customers

	2021	2020
Demand deposits		
– Corporate customers	123,646,175	136,308,777
– Individual customers	65,623,653	61,324,243
Sub-total	189,269,828	197,633,020
Time deposits		
– Corporate customers	71,718,043	52,577,269
– Individual customers	152,572,126	139,167,903
Sub-total	224,290,169	191,745,172
Pledged deposits	34,780,452	35,522,993
Inward and outward remittances	84,098	80,706
Sub-total	448,424,547	424,981,891
Accrued interest	7,267,639	6,359,552
Total	455,692,186	431,341,443

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Debt securities issued

	Note	2021	2020
Interbank deposits issued	(a)	82,613,779	62,824,618
Financial bonds	(b)	3,996,912	2,999,894
Tier-two capital bonds	(c)	9,999,588	9,999,538
Sub-total		96,610,279	75,824,050
Accrued interest		233,620	230,570
Total		96,843,899	76,054,620

Notes:

- (a) In 2021, the Bank issued a number of certificates of interbank deposits with total nominal amount of RMB163,900.00 million and duration between 1-12 months. The coupon rates ranged from 2.00% to 3.25% per annum.

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 1.20% to 2.92% per annum.

As at December 31, 2021, the fair value of interbank deposits issued was RMB83,520.00 million (At December 31, 2020: RMB62,793.00 million).

- (b) Fixed rate financial bonds of RMB2 billion with a term of three years was issued by the Bank in March 2021. The coupon rate is 3.60% per annum.

Fixed rate financial bonds of RMB2 billion with a term of three years was issued by the Bank in June 2021. The coupon rate is 3.48% per annum.

As at December 31, 2021, the fair value of financial bonds issued was RMB4,054.30 million (At December 31, 2020: RMB3,017.84 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, 2021, the fair value of tier-two capital bonds issued was RMB10,682.39 million (At December 31, 2020: RMB10,151.19 million).

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Other liabilities

	Note	2021	2020
Finance lease deposits		2,972,163	2,652,483
Accrued staff cost	(a)	2,329,431	2,300,601
Lease liabilities		727,233	843,723
Continuing involvement in liabilities		1,680,283	830,928
Other tax payable		497,974	534,022
Dividend payable		198,185	299,018
Provisions	(b)	367,607	103,705
Payment and collection clearance accounts		505,299	–
Other payable		851,441	1,552,875
Total		10,129,616	9,117,355

(a) Accrued staff cost

	Note	2021	2020
Salary, bonuses and allowances payable		1,921,533	2,079,263
Labor union fee, staff and workers' education fee		132,151	106,858
Supplementary retirement benefits payable	(1)	234,629	79,759
Social insurance payable		39,849	33,001
Housing allowances payable		1,269	1,720
Total		2,329,431	2,300,601

(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:

	2021	2020
Present value of early retirement plan	57,893	71,470
Supplementary retirement plan	176,736	8,289
Total	234,629	79,759

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:

	2021	2020
As at January 1	79,759	91,748
Benefits paid during the year	(20,420)	(15,520)
Defined benefit cost recognized in profit or loss	174,004	3,990
Defined benefit cost recognized in other comprehensive income	1,286	(459)
As at December 31	234,629	79,759

(iii) Principal actuarial assumptions of the Group are as follows:

Early retirement plan	2021	2020
Discount rate	2.50%	3.00%
Annual increase rate of internal salary	4.50%	4.50%
Supplementary retirement plan	2021	2020
Discount rate	3.25%	4.00%

(b) Provisions

	Note	2021	2020
Litigations and disputes provision		11,993	11,993
Credit commitments provision	(i)	355,614	91,712
Total		367,607	103,705

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Other liabilities (Continued)

(b) Provisions (Continued)

(i) *movements of credit commitments provision are as follows:*

	2021			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	88,091	463	3,158	91,712
Transfers:				
– to expected credit losses over the next 12 months	45	(39)	(6)	–
– to lifetime expected credit losses not credit-impaired	(12)	12	–	–
– to lifetime expected credit losses credit-impaired	(36)	(179)	215	–
Charge for the year	9,248	5,530	249,124	263,902
Balance at December 31	97,336	5,787	252,491	355,614

	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

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Share capital

Authorised and issued share capital

	Note	2021	2020
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

	2021	2020
Share premium	14,477,471	14,477,471
Changes in ownership in subsidiaries without changes in control	(159,490)	(159,508)
Total	14,317,981	14,317,963

(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 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.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Reserves (Continued)

(d) Other reserves

	Note	2021	2020
Investment revaluation reserve	(i)	(378,330)	(145,619)
Impairment reserve	(ii)	726,197	545,621
Deficit on remeasurement of net defined benefit liability	(iii)	(3,982)	(2,696)
Total		343,885	397,306

(i) Investment revaluation reserve

	2021	2020
As at January 1	(145,619)	218,956
Changes in fair value recognised in other comprehensive income	417,771	(125,496)
Transfer to profit or loss upon disposal	(728,052)	(360,604)
Less: deferred income tax	77,570	121,525
Total	(378,330)	(145,619)

(ii) Impairment reserve

	2021	2020
As at January 1	545,621	486,151
Impairment losses recognized in other comprehensive income	180,576	59,470
Total	726,197	545,621

(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.

	2021	2020
As at January 1	(2,696)	(3,155)
Changes in fair value recognised in other comprehensive income	(1,286)	459
Total	(3,982)	(2,696)

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 30, 2022, the proposed profit appropriations for the year ended December 31, 2021 is listed as follows:

- Appropriation of statutory surplus reserve amounted to RMB309.19 million;
- Appropriation of general reserve amounted to RMB29.93 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 shareholders meeting held on May 10, 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 did not distribute cash dividend to common shareholders.

- (b)** As at December 31, 2021, the consolidated retained profits attributable to equity shareholders of the Bank included an appropriation of RMB215.71 million of surplus reserve made by subsidiaries (2020: RMB166.95 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 2021 and 2020 are set out below.

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Other reserves	Retained earnings	Total
Balance at January 1, 2021	20,075,000	9,632,791	14,477,471	2,115,521	9,052,817	410,982	2,308,389	58,072,971
Changes in equity for the year:								
Net profit for the year	-	-	-	-	-	-	3,091,872	3,091,872
Other comprehensive income	-	-	-	-	-	(65,081)	-	(65,081)
Total comprehensive income	-	-	-	-	-	(65,081)	3,091,872	3,026,791
Appropriation to surplus reserve	-	-	-	309,188	-	-	(309,188)	-
Appropriation to general reserve	-	-	-	-	29,937	-	(29,937)	-
Cash dividends on preference shares	-	-	-	-	-	-	(563,012)	(563,012)
Balance at December 31, 2021	20,075,000	9,632,791	14,477,471	2,424,709	9,082,754	345,901	4,498,124	60,536,750
	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Other reserves	Retained earnings	Total
Balance at January 1, 2020	20,075,000	9,632,791	14,477,471	1,818,292	8,404,853	700,446	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	14,477,471	2,115,521	9,052,817	410,982	2,308,389	58,072,971

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:

	2021	
	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	18,343,633	18,343,633
Financial investments at amortised cost	32,878,661	32,878,661
Total	51,222,294	51,222,294

	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

As at December 31, 2021 and 2020, 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, 2021 and 2020, 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, 2021, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB95,598.11 million (2020: RMB71,416.83 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, 2021, 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 RMB7,356.02 million (2020: RMB23,716.11 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:

	2021	2020
Total core tier-one capital		
– Share capital	20,075,000	20,075,000
– Qualifying portion of capital reserve	14,317,981	14,317,963
– Qualifying portion of other reserve	(136,235)	30,695
– Surplus reserve	2,424,709	2,115,521
– General reserve	9,705,709	9,660,324
– Retained earnings	4,710,067	2,062,639
– Qualifying portions of non-controlling interests	626,043	575,587
Core tier-one capital deductions		
– Goodwill	(970,780)	(970,780)
– Other intangible assets other than land use rights	(669,725)	(640,566)
Net core tier-one capital	50,082,769	47,226,383
Other tier-one capital	9,716,263	9,709,536
Net tier-one capital	59,799,032	56,935,919
Tier-two capital		
– Instruments issued and share premium	9,999,588	9,999,538
– Surplus provision for loan impairment	6,588,625	5,521,955
– Qualifying portions of non-controlling interests	164,507	150,691
Net capital base	76,551,752	72,608,103
Total risk weighted assets	575,596,985	549,877,844
Core tier-one capital adequacy ratio	8.70%	8.59%
Tier-one capital adequacy ratio	10.39%	10.35%
Capital adequacy ratio	13.30%	13.20%

41 Notes to the consolidated cash flow statement

(a) Net decrease in cash and cash equivalents

	2021	2020
Cash and cash equivalents as at December 31	71,891,805	72,151,316
Less: Cash and cash equivalents as at January 1	72,151,316	75,325,152
Net decrease in cash and cash equivalents	(259,511)	(3,173,836)

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

	2021	2020
Cash on hand	1,200,161	1,268,037
Deposits with the central bank	34,505,343	34,492,657
Deposits with banks and other financial institutions	10,653,343	11,490,284
Financial assets held under resale agreements	11,793,931	15,813,572
Placements with banks and other financial institutions	13,739,027	9,086,766
Total	71,891,805	72,151,316

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Debt securities issued	Lease liabilities	Total
At January 1, 2021	76,054,620	843,723	76,898,343
Changes from financing cash flow			
Proceeds received from debt securities issued	162,834,483	–	162,834,483
Interest paid on debt securities issued	(1,306,065)	–	(1,306,065)
Repayment of debt securities issued	(143,166,125)	–	(143,166,125)
Capital element of lease liabilities paid	–	(231,062)	(231,062)
Interest element of lease liabilities paid	–	(31,913)	(31,913)
Total changes from financing cash flows	18,362,293	(262,975)	18,099,318
Other changes:			
Interest expense	2,426,986	41,239	2,468,225
Increase in lease liabilities	–	105,246	105,246
Total other changes	2,426,986	146,485	2,573,471
At December 31, 2021	96,843,899	727,233	97,571,132

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 January 1, 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 December 31, 2020	76,054,620	843,723	76,898,343

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:

	2021	2020
Henan Investment Group Co., Ltd.	10.25%	10.25%
Piramid Park Co., Ltd. (*)	4.98%	5.98%
Henan Shengrun Holdings Co., Ltd. ("Henan Shengrun")(*)	2.75%	3.75%

* Piramid Park Co., Ltd. holds less than 5% of the shares, and is no longer the major shareholder of the Bank as at December 31, 2021.

Mr. Li Xipeng, a non-executive Director of the Bank appointed by Henan Shengrun, resigned at June 2, 2021. Henan Shengrun holds less than 5% of the shares, and is no longer the major shareholder of the Bank since June 2021.

(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:

	2021	2020
Transactions during the year:		
Interest income	60,473	26,984
Interest expense	912	783

	2021	2020
Balances at end of the year:		
Financial investments	1,399,118	600,854
Deposits from customers	177,029	613,010

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)

(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:

	2021	2020
Transactions during the year:		
Interest income	361,561	314,031
Interest expense	36,817	38,051
Operating expense	7,860	11,565
Assets disposal	309,613	194,134
	2021	2020
Balances at end of the year:		
Loans and advances to customers	2,722,124	3,177,326
Lease receivables	-	390,000
Financial investments	213,629	1,668,991
Deposits with banks and other financial institutions	-	1,832,152
Placements with banks and other financial institutions	4,977,980	3,019,680
Right-of-use assets	25,185	32,934
Deposits from customers	1,511,634	737,894
Deposits from banks and other financial institutions	2,648,393	526,872
Lease liabilities	29,697	35,508
	2021	2020
Balances of items off the consolidated statement of financial position outstanding at the end of the year:		
Letters of credit	-	130,000
Bank acceptances	1,405,999	792,489
Letters of guarantees	-	1,500

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

	2021	2020
Transactions during the year:		
Interest income	1,002	721
Interest expense	388	320
Balances at end of the year:		
Loans and advances to customers	18,974	17,929
Deposits from customers	16,360	14,753

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	2021	2020
Salaries and other emoluments	11,746	12,335
Discretionary bonuses	17,844	17,933
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	971	622
Total	30,561	30,890

(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:

	2021	2020
Aggregate amount of relevant loans outstanding at the end of the year	8,648	12,949
Maximum aggregate amount of relevant loans outstanding during the year	8,648	12,949

There was no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at December 31, 2021 and 2020.

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 2021 and 2020 to acquire property and equipment, intangible assets and other long-term assets.

	2021				Total
	Corporate banking	Retail banking	Financial markets business	Others	
Operating income					
External net interest income	10,760,563	4,486,020	1,446,386	–	16,692,969
Internal net interest (expense)/income	(2,484,465)	1,710,557	773,908	–	–
Net interest income	8,276,098	6,196,577	2,220,294	–	16,692,969
Net fee and commission income	1,001,493	495,628	435,359	–	1,932,480
Net trading gains	90,889	–	41,161	–	132,050
Net (losses)/gains arising from investment securities	(844)	–	468,853	–	468,009
Other operating (losses)/income	(428)	339	126	57,287	57,324
Operating income	9,367,208	6,692,544	3,165,793	57,287	19,282,832
Operating expenses	(2,739,028)	(3,229,226)	(553,365)	(621,926)	(7,143,545)
Impairment losses on assets	(5,536,811)	(1,488,265)	(413,828)	(201,277)	(7,640,181)
Share of profits of joint venture	–	–	99,265	–	99,265
Profit/(loss) before tax	1,091,369	1,975,053	2,297,865	(765,916)	4,598,371
Segment assets	309,024,607	213,512,187	237,719,212	2,204,216	762,460,222
Deferred tax assets	–	–	–	5,773,126	5,773,126
Total assets	309,024,607	213,512,187	237,719,212	7,977,342	768,233,348
Segment liabilities	232,870,229	226,903,864	239,488,390	6,591,233	705,853,716
Total liabilities	232,870,229	226,903,864	239,488,390	6,591,233	705,853,716
Other segment information					
– Depreciation and amortization	439,039	364,982	172,402	3,135	979,558
– Capital expenditure	279,037	231,970	109,573	1,992	622,572

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Segment reporting (Continued)

Others (Continued)

	2020				Total
	Corporate banking	Retail banking	Financial markets business	Others	
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)

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, 2021, 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 measure provision for loss of financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;
- EAD is the amount that the 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, Import amount, Fixed investments cumulative year-on-year, etc. The impact of these economic variables on the PD and LGD has been determined by performing statistical regression analysis to understand the correlations among the historical changes of the economic variables, PD and LGD. Forecasts of these economic indicators are provided quarterly by the Group and provide the best estimate view of the economy over the next year.

When calculating the weighted average ECL, the optimism, neutral and pessimism scenarios and its weightings determined by a combination of macro-statistical analysis and expert judgment are taken into account by the Group.

As at December 31, 2021, the Group has taken into account different macroeconomic scenarios, combined with the impact of factors such as the Covid-19 epidemic on economic development trends, and made forward-looking forecasts of macroeconomic indicators. Including: quarter-on-quarter GDP growth, used to estimate ECL, ranges from 4.82% to 5.62% in the neutral scenario 2021.

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)

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.

(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.

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 (excluding accrued interest) analyzed by credit quality are summarized as follows:*

	2021							
	Balance			Total	Provision for impairment losses			Total
	Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired and assessed for lifetime expected credit loss		Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired and assessed for lifetime expected credit loss	
Financial assets measured at amortised cost								
Cash and deposits with the central bank	62,427,139	-	-	62,427,139	-	-	-	-
Deposits/Placements with banks and other financial institutions	44,705,473	-	19,027	44,724,500	(15,503)	-	(19,027)	(34,530)
Financial assets held under resale agreements	11,793,931	-	-	11,793,931	(750)	-	-	(750)
Loans and advances to customers	337,256,833	11,008,429	8,510,669	356,775,931	(4,021,330)	(2,565,993)	(5,943,222)	(12,530,545)
Financial investments	124,542,574	2,759,017	13,520,552	140,822,143	(99,140)	(370,685)	(5,174,803)	(5,644,628)
Lease receivables	33,870,127	1,215,619	500,102	35,585,848	(1,031,496)	(379,196)	(312,807)	(1,723,499)
Total	614,596,077	14,983,065	22,550,350	652,129,492	(5,168,219)	(3,315,874)	(11,449,859)	(19,933,952)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	31,383,583	-	473,981	31,857,564	(6,139)	-	(473,981)	(480,120)
Financial investments	54,762,046	550,000	170,000	55,482,046	(10,364)	(75,035)	(160,678)	(246,077)
Total	86,145,629	550,000	643,981	87,339,610	(16,503)	(75,035)	(634,659)	(726,197)

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)

	2020							
	Balance				Provision for impairment losses			
	Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired and assessed for lifetime expected credit loss	Total	Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired and assessed for lifetime expected credit loss	Total
Financial assets measured at amortised cost								
Cash and deposits with the central bank	64,051,943	-	-	64,051,943	-	-	-	-
Deposits/Placements with banks and other financial institutions	38,410,647	-	19,027	38,429,674	(12,897)	-	(19,027)	(31,924)
Financial assets held under resale agreements	15,813,572	-	-	15,813,572	(1,542)	-	-	(1,542)
Loans and advances to customers	303,331,756	9,168,054	7,640,554	320,140,364	(4,406,550)	(2,295,558)	(5,016,863)	(11,718,971)
Financial investments	158,559,847	2,053,976	11,760,007	172,373,830	(132,621)	(212,770)	(3,600,876)	(3,946,267)
Lease receivables	30,874,131	1,014,112	301,428	32,189,671	(973,417)	(213,666)	(197,058)	(1,384,141)
Total	611,041,896	12,236,142	19,721,016	642,999,054	(5,527,027)	(2,721,994)	(8,833,824)	(17,082,845)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	36,411,528	-	473,981	36,885,509	(11,125)	-	(355,486)	(366,611)
Financial investments	45,804,890	100,000	170,000	46,074,890	(37,831)	(13,678)	(127,501)	(179,010)
Total	82,216,418	100,000	643,981	82,960,399	(48,956)	(13,678)	(482,987)	(545,621)

As at December 31, 2021, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB18,062.28 million (2020: RMB5,237.29 million). The fair value of collaterals held against credit-impaired loans and advances that are assessed for lifetime expected credit loss amounted to RMB1,411.44 million (2020: RMB1,594.06 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.

	2021	2020
Neither overdue nor impaired		
Ratings		
– A to AAA	39,357,160	43,029,412
– unrated	17,487,743	11,564,082
Total	56,844,903	54,593,494

(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:

	2021	2020
Neither overdue nor impaired		
Ratings		
– AAA	4,615,726	11,247,183
– AA- to AA+	1,193,216	3,473,474
– BB- to BB+	103,967	41,053
– B- to B+	213,930	461,515
– unrated	134,035,749	122,494,660
Overdue and credit impaired		
– unrated	781,993	768,403
Total	140,944,581	138,486,288

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)

Interest rate 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:

	2021					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	62,427,139	–	–	–	1,214,482	63,641,621
Deposits with banks and other financial institutions	10,649,997	43,000	–	–	3,532	10,696,529
Placement with banks and other financial institutions	13,717,702	20,279,271	–	–	357,033	34,354,006
Derivative financial assets	–	–	–	–	31,506	31,506
Financial assets held under resale agreements	11,793,181	–	–	–	1,187	11,794,368
Loans and advances to customers (Note (1))	224,604,049	91,897,939	33,229,688	25,897,293	2,487,565	378,116,534
Financial investments (Note (2))	21,113,545	31,248,892	93,204,074	44,957,367	24,590,425	215,114,303
Lease receivables (Note (3))	18,818,765	1,875,186	13,168,398	–	–	33,862,349
Others	–	–	–	–	20,622,132	20,622,132
Total assets	363,124,378	145,344,288	139,602,160	70,854,660	49,307,862	768,233,348
Liabilities						
Borrowing from the central bank	11,401,269	35,985,818	–	–	266,938	47,654,025
Deposits from banks and other financial institutions	27,273,353	–	–	–	126,990	27,400,343
Placement from banks and other financial institutions	13,899,053	18,553,015	439,990	–	337,613	33,229,671
Derivative financial liabilities	–	–	–	–	30,993	30,993
Financial assets sold under repurchase agreements	34,008,545	–	–	–	5,803	34,014,348
Deposits from customers	247,805,001	86,047,069	106,822,186	–	15,017,930	455,692,186
Debt securities issued	31,586,054	51,027,725	3,996,912	9,999,588	233,620	96,843,899
Others	71,333	146,980	457,301	47,493	10,265,144	10,988,251
Total liabilities	366,044,608	191,760,607	111,716,389	10,047,081	26,285,031	705,853,716
Asset-liability gap	(2,920,230)	(46,416,319)	27,885,771	60,807,579	23,022,831	62,379,632

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 (Continued)

(i) (Continued)

	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
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)

Interest rate risk (Continued)

(i) (Continued)

Note:

- (1) As at December 31, 2021, for loans and advances to customers, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB7,692.55 million (2020: RMB5,425.23 million).
- (2) As at December 31, 2021, for financial investments, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB7,714.80 million (2020: RMB6,308.51 million).
- (3) As at December 31, 2021, for lease receivables, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB1,023.94 million (2020: RMB904.82 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, 2021, 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 RMB282.99 million (2020: decrease by RMB115.23 million), and the Group’s equity to decrease by RMB1,778.75 million (2020: decrease by RMB960.07 million); a decrease in estimated interest rate of 100 basis points will cause the Group’s net profit to increase by RMB282.99 million (2020: increase by RMB115.23 million), and the Group’s equity to increase by RMB1,912.41 million (2020: increase by RMB1,018.04 million).

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 (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)

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:

	2021				
	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets					
Cash and deposits with the central bank	63,472,140	168,324	249	908	63,641,621
Deposits with banks and other financial institutions	3,348,985	5,813,266	1,453,061	81,217	10,696,529
Placement with banks and other financial institutions	34,334,892	19,114	–	–	34,354,006
Financial assets held under resale agreements	11,794,368	–	–	–	11,794,368
Loans and advances to customers	374,614,630	3,420,680	–	81,224	378,116,534
Financial investments	205,937,883	7,178,620	1,997,800	–	215,114,303
Lease receivables	33,862,349	–	–	–	33,862,349
Derivative financial assets	31,506	–	–	–	31,506
Others	19,526,975	356,792	738,315	50	20,622,132
Total assets	746,923,728	16,956,796	4,189,425	163,399	768,233,348
Liabilities					
Borrowing from the central bank	47,654,025	–	–	–	47,654,025
Deposits from banks and other financial institutions	27,400,342	1	–	–	27,400,343
Placement from banks and other financial institutions	31,247,270	1,901,107	–	81,294	33,229,671
Financial assets sold under repurchase agreements	34,014,348	–	–	–	34,014,348
Deposits from customers	453,954,931	1,737,255	–	–	455,692,186
Debt securities issued	96,843,899	–	–	–	96,843,899
Derivative financial liabilities	30,993	–	–	–	30,993
Others	10,704,554	164,986	44,571	74,140	10,988,251
Total liabilities	701,850,362	3,803,349	44,571	155,434	705,853,716
Asset-liability gap	45,073,366	13,153,447	4,144,854	7,965	62,379,632

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

	2020				Total (RMB Equivalent)
	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (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
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)

Foreign currency risk (Continued)

	2021 Increase/ (decrease)	2020 Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps change of foreign exchange rate	52,164	49,273
Down 100 bps change of foreign exchange rate	(52,164)	(49,273)

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:

	2021							Total
	Indefinite Note (j)	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	27,921,796	35,705,504	14,321	-	-	-	-	63,641,621
Deposits with banks and other financial institutions	-	4,744,650	5,686,581	222,061	43,237	-	-	10,696,529
Placements with banks and other financial institutions	-	-	6,473,250	7,373,583	20,507,173	-	-	34,354,006
Derivative financial assets	-	-	27	33	1,504	29,942	-	31,506
Financial assets held under resale agreements	-	-	11,794,368	-	-	-	-	11,794,368
Loans and advances to customers	3,875,054	3,422,114	33,127,865	28,439,422	104,802,100	75,231,835	129,218,144	378,116,534
Financial investments	7,214,782	17,910,807	1,873,807	12,699,074	33,375,759	94,881,544	47,158,530	215,114,303
Lease receivables	658,588	365,356	106,154	313,794	3,440,368	28,266,413	711,676	33,862,349
Others	14,849,006	-	-	275,336	468,538	5,029,252	-	20,622,132
Total assets	54,519,226	62,148,431	59,076,373	49,323,303	162,638,679	203,438,986	177,088,350	768,233,348
Liabilities								
Borrowing from the central bank	-	52,786	5,279,341	6,103,951	36,217,947	-	-	47,654,025
Deposits from banks and other financial institutions	-	2,860,716	3,101,288	16,800,172	4,638,167	-	-	27,400,343
Placements from banks and other financial institutions	-	-	7,370,756	6,653,459	18,758,857	446,599	-	33,229,671
Derivative financial liabilities	-	-	27	33	1,669	29,264	-	30,993
Financial assets sold under repurchase agreements	-	-	34,014,348	-	-	-	-	34,014,348
Deposits from customers	-	210,696,521	16,081,028	28,895,248	86,879,501	113,139,888	-	455,692,186
Debt securities issued	-	-	9,452,611	22,193,213	51,201,574	3,996,913	9,999,588	96,843,899
Others	-	2,694,469	511,241	1,122,927	3,234,481	3,256,796	168,337	10,988,251
Total liabilities	-	216,304,492	75,810,640	81,769,003	200,932,196	120,869,460	10,167,925	705,853,716
Long/(short) position	54,519,226	(154,156,061)	(16,734,267)	(32,445,700)	(38,293,517)	82,569,526	166,920,425	62,379,632

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (continued)

(c) Liquidity risk (Continued)

	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
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

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 lease receivables includes all the credit-impaired loans and lease receivables, as well as those overdue more than one month. Loans and advances to customers and 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)

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:

	2021							
	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	678	661	-	-	-	-	661	-
Derivatives settled on gross basis								
Currency swaps								
- cash outflow	(19,373)	(19,375)	-	-	-	(19,375)	-	-
- cash inflow	19,587	19,842	-	-	-	19,842	-	-
Precious metal derivatives								
- cash outflow	(20,102)	(20,356)	-	-	-	(20,356)	-	-
- cash inflow	19,723	19,969	-	-	-	19,969	-	-
Total	513	741	-	-	-	80	661	-

	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	-

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, 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 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.

	2021			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	356,365	21,634,076	45,973	22,036,414
Derivative financial assets	–	31,506	–	31,506
Financial investments at fair value through other comprehensive income	–	56,068,216	23,896	56,092,112
Loans and advances to customers measured at fair value through other comprehensive income	–	31,857,564	–	31,857,564
Total	356,365	109,591,362	69,869	110,017,596
Liabilities				
Derivative financial liabilities	–	30,993	–	30,993
Total	–	30,993	–	30,993

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	2020			Total
	Level 1	Level 2	Level 3	
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

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.

	2021	2020
Entrusted loans	15,101,156	17,526,010
Entrusted funds	15,101,156	17,526,010

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.

	2021	2020
Bank acceptances	59,432,191	46,445,798
Letters of credit	12,547,853	9,238,004
Loan commitments	12,231,637	8,339,988
Letters of guarantees	3,854,189	4,400,256
Total	88,065,870	68,424,046

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

	2021	2020
Credit risk-weighted amount	33,870,665	27,343,162

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:

	2021	2020
Contracted but not paid for	1,001,842	503,032
Approved but not contracted for	17,678	477
Total	1,019,520	503,509

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, 2021, the Group was the defendant in certain pending litigation and disputes with an estimated gross amounts of RMB724.06 million (2020: RMB128.14 million). The Group recognised the related litigation provision, which they believed to be reasonable and sufficient.

48 Company-level statement of financial position

	Note	2021	2020
Assets			
Cash and deposits with the central bank		62,253,376	64,217,759
Deposits with banks and other financial institutions		8,410,950	10,968,884
Placements with banks and other financial institutions		37,069,269	30,108,183
Derivative financial assets		31,506	30,989
Financial assets held under resale agreements		11,794,368	15,819,524
Loans and advances to customers		368,740,727	339,004,653
Financial investments:			
Financial investments at fair value through profit or loss		22,036,414	21,480,393
Financial investments at fair value through other comprehensive income		54,475,849	45,785,194
Financial investments at amortised cost		136,985,777	170,615,595
Investments in subsidiaries and joint venture	23	6,281,427	6,182,162
Property and equipment		4,089,317	4,109,022
Deferred tax assets		5,302,127	4,432,787
Goodwill		468,397	468,397
Other assets		8,013,586	8,071,204
Total assets		725,953,090	721,294,746

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Company-level statement of financial position (Continued)

	2021	2020
Liabilities and equity		
Liabilities		
Borrowing from central bank	46,911,596	43,720,644
Deposits from banks and other financial institutions	29,321,322	61,256,711
Placements from banks and other financial institutions	8,187,985	9,818,418
Derivative financial liabilities	30,993	16,961
Financial assets sold under repurchase agreements	34,014,348	46,081,066
Deposits from customers	442,505,429	419,356,135
Income tax payable	843,807	775,376
Debt securities issued	96,843,899	76,074,593
Other liabilities	6,756,961	6,121,871
Total liabilities	665,416,340	663,221,775
Equity		
Share capital	20,075,000	20,075,000
Other equity instruments		
– Preference shares	9,632,791	9,632,791
Reserves	26,330,835	26,056,791
Retained earnings	4,498,124	2,308,389
Total equity	60,536,750	58,072,971
Total liabilities and equity	725,953,090	721,294,746

49 Subsequent events

As at March 10, 2022, the extraordinary general meeting approved several resolutions, including: (1) H share placement, pursuant to which the Bank shall issue not less than 3,105,000,000 and not more than 3,205,000,000 H Shares to eligible subscribers; (2) merger by absorption of Bank of Luoyang Co., Ltd., Bank of Pingdingshan Co., Ltd. and Bank of Jiaozuo China Travel Service Co., Ltd. (collectively referred to as the “Target Banks”). The Bank has conditionally agreed to acquire all the shares held by the shareholders in the Target Banks in the total consideration of approximately RMB28,470 million, all of which will be satisfied by the issuance of the approximately 13,324,820,000 new shares to the selling shareholders; and (3) disposal of assets pursuant to which the Bank will dispose certain credit assets and other financial assets held by the Bank. The original book value of disposal assets was approximately RMB25.9 billion. The disposal assets includes certain loans with a total original value of RMB15.2 billion in principal and interest accrued, investment and other assets with a total original value of RMB10.7 billion in principal and interest accrued. Up to the reporting date, the Bank has not determined the buyer or entered into any specific disposal agreements.

The completion of these mandates is subject to a number of conditions precedent, including the approval from relevant regulatory bodies, and other conditions. Up to the reporting date, these mandates is subject to the approval from the relevant regulatory authorities.

Notes to the consolidated financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Comparative figures

Certain comparative figures have been adjusted to conform current year's presentation and to provide comparative amounts in respect of items disclosed in 2021.

51 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2021

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, 2021 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 IAS 1, Classification of liabilities as current or non-current	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of accounting policies	January 1, 2023
Amendments to IAS 8, Definition of accounting estimates	January 1, 2023
Amendments to IAS 12, Deferred tax related to assets and liabilities arising from a single transaction	January 1, 2023

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

	2021	Average for 2021
Liquidity coverage ratio (RMB and foreign currency)	357.50%	200.90%
	2020	Average for 2020
Liquidity coverage ratio (RMB and foreign currency)	209.76%	193.51%

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, 2021	December 31, 2020
Leverage ratio	7.09%	6.94%

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, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
Available stable funding	433,390,768.20	423,681,296.48	416,411,521	418,681,101	406,771,854
Required stable funding	368,303,103.84	362,099,021.12	368,792,451	384,746,028	396,182,378
Net stable funding ratio	117.67%	117.01%	112.91%	108.82%	102.67%

Unaudited supplementary financial information

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Currency concentrations

	December 31, 2021			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	16,956,796	4,189,425	163,399	21,309,620
Spot liabilities	(3,803,349)	(44,571)	(155,434)	(4,003,354)
Net position	13,153,447	4,144,854	7,965	17,306,266

	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

The Group has no structural position at the end of reporting periods.

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, 2021			Total
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	
Asia Pacific	7,243,369	–	8,252,211	15,495,580
North America	218,213	–	–	218,213
Others	44,938	–	–	44,938
	7,506,520	–	8,252,211	15,758,731

Unaudited supplementary financial information

(Expressed in thousands of Renminbi, unless otherwise stated)

	December 31, 2020			Total
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	
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

5 Gross amount of overdue loans and advances

	December 31, 2021	December 31, 2020
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	1,467,402	1,410,524
– between 6 months and 1 year (inclusive)	2,502,378	1,999,759
– over 1 year	3,874,765	3,742,311
Total	7,844,545	7,152,594
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.38%	0.39%
– between 6 months and 1 year (inclusive)	0.64%	0.56%
– over 1 year	1.00%	1.05%
Total	2.02%	2.00%

Definitions

“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
“Articles of Association”	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
“CBIRC Henan Office”	China Banking and Insurance Regulatory Commission Henan Office
“CBRC”	China Banking Regulatory Commission, the predecessor of China Banking and Insurance Regulatory Commission
“China” or “PRC”	the People’s Republic of China, but for the purpose of this annual report only, excluding Hong Kong, Macau Special Administrative Region and Taiwan of the PRC
“CIRC”	China Insurance Regulatory Commission, the predecessor of China Banking and Insurance Regulatory Commission
“CSRC”	China Securities Regulatory Commission
“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
“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 commenced 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 the Bank
“Main Board”	the stock market operated by the Hong Kong Stock Exchange (excluding the option market), independent of and 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)
“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
“Reporting Period”	the 12 months ended December 31, 2021

Definitions

“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	ordinary shares in the share capital with a nominal value of RMB1.00 each of the Bank, including Domestic Shares and H Shares
“Supervisors”	the supervisors of the Bank