



2021
ANNUAL REPORT



IMPORTANT NOTICE

i. The Board of Directors, the Board of Supervisors, directors, supervisors and senior management members of Hua Xia Bank Co., Limited (the "Company") undertake that the information in this report is authentic, accurate and complete and contains no false record, misleading statement or material omission, and assume joint and several liability thereto.

ii. The *Annual Report 2021 of Hua Xia Bank Co., Limited* and its Summary were reviewed and approved at the 22nd Meeting of the Eighth Board of Directors of the Company on 28 April 2022. 15 of the 15 directors that should attend the meeting were present actually. There were 15 valid votes. Nine supervisors attended the meeting as non-voting delegates.

iii. Profit distribution plan for the reporting period that was reviewed by the Board of Directors:

With 15,387,223,983 ordinary shares outstanding of the Company at the end of 2021 as the base number, cash dividends will be distributed to all of the shareholders at RMB3.38 (before tax) per 10 shares. For details, please see "Section IV Corporate Governance".

iv. The 2021 Financial Statements of the Company have been audited by Ernst & Young Hua Ming LLP in accordance with Chinese auditing standards, with standard unqualified auditor's report being issued.

v. Li Minji, Chairman of the Board of Directors of the Company and Guan Wenjie, Person – in-charge of the Financial Affairs of the Company, hereby warrant that the Financial Statements contained in the Annual Report are authentic, accurate and complete.

vi. Expressions related to the future business plan herein may constitute forward-looking statements, but they are not the Company's actual commitment to investors. Readers are cautioned not to place undue reliance on these forward-looking statements in making any investment decision, but should be fully aware of the risks and properly understand the differences between plan, forecast and commitment.

vii. Important risk notice: The Company has described the risks that may adversely affect the fulfillment of the Company's future development strategies and business objectives. Please refer to risk-related part in "Section III Management Discussion and Analysis".

Should there be any discrepancy between the English version and the Chinese Version, the latter shall prevail.



Contents

IMPORTANT NOTICE	1
------------------	---

MESSAGE FROM CHAIRMAN	4
-----------------------	---

SECTION I	DEFINITIONS	7
-----------	-------------	---

SECTION II	COMPANY PROFILE AND KEY FINANCIAL INDICATORS	9
------------	--	---

SECTION III	MANAGEMENT DISCUSSION AND ANALYSIS	20
-------------	------------------------------------	----

SECTION IV	CORPORATE GOVERNANCE	75
------------	----------------------	----

SECTION V	ENVIRONMENTAL AND SOCIAL RESPONSIBILITY	94
-----------	---	----

SECTION VI	SIGNIFICANT EVENTS	99
------------	--------------------	----

SECTION VII	DETAILS OF CHANGES IN ORDINARY SHARES AND SHAREHOLDERS	109
-------------	--	-----

SECTION VIII	PREFERENCE SHARES	115
--------------	-------------------	-----

SECTION IX	FINANCIAL STATEMENTS	117
------------	----------------------	-----

WRITTEN CONFIRMATION OF 2021 ANNUAL REPORT BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS OF HUA XIA BANK CO., LIMITED	118
---	-----

AUDITOR'S REPORT	121
------------------	-----

LIST OF DOCUMENTS FOR INSPECTION:

1. Accounting Statements Bearing Seals and Signatures of the Legal Representative and Principal of Financial Affairs.
2. Original of the Auditor's Report Bearing Common Seal of the Accounting Firm and Seals and Signatures of CPAs.
3. Original of the Annual Report Bearing the Signature of Chairman of the Company.
4. Originals of All Documents and Announcements Disclosed by the Company on the *China Securities Journal*, *Shanghai Securities News*, *Securities Times* and *Securities Daily* during the Reporting Period.
5. *Articles of Association of Hua Xia Bank Co., Limited.*



MESSAGE FROM CHAIRMAN



Li Minji
Chairman

In the past year, the COVID-19 variants spread across the world that underwent the greatest changes in a century, adding to the complexity of external environment. In pursuing economic development, China came under the triple pressures of shrinking demand, disrupted supply and weakening expectations. Hua Xia Bank remained guided by the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, implemented the guiding principles from the sixth plenary session of the 19th CPC Central Committee and the Central Economic Work Conference and applied the new development philosophy in full, in the right way, and in all fields of endeavor. We acted on the general principle of pursuing progress while ensuring stability, in an ongoing effort to serve the real economy, forestall and defuse financial risks and promote reform and innovation. A five-year development plan was formulated and implemented to pursue a transition to new growth models, enhancement of asset quality and differentiated development. In the reporting period, the Company managed to accomplish the targets and tasks set by the Board of Directors, getting off to a good start in the five-year plan period and achieving higher-quality development. The Group recorded RMB3.68 trillion in total assets, up 8.13% from the end of the previous year, RMB23.903 billion in net profit, up 10.83% year-on-year, 1.77% in NPL ratio, down 0.03 percentage point from the end of the previous year and 150.99% in allowance to NPLs, up 3.77 percentage points from the end of the previous year. The Company became a domestic systemically important bank in China, ranked 51st by Tier 1 capital and 64th by total assets among the Top 1000 World Banks 2021 published by The Banker (UK).

Looking back on the past year, our endeavors delivered a resounding performance.

We persisted in serving the real economy in 2021. In our endeavors to serve the national strategies, the real economy and the people's livelihood, the Group vigorously developed integrated finance, high-tech finance, inclusive finance and green finance with a focus on "new infrastructure, new urbanization initiatives and major projects", advanced manufacturing, strategic emerging industries, small and medium-sized businesses, green and low carbon and consumer spending. We strengthened the FinTech application, innovation of products and services and well-focused allocation of resources. The "Hua Xia Bank Inclusive Private Enterprise Express" was upgraded and a variety of standard products for micro and small businesses (MSBs) were brought online. On the launch date of the national carbon market, we issued the first carbon forward guarantee in the banking sector and became one of the settlement banks for the national carbon market. The Group registered RMB2,213.529 billion in total loans, up 4.96% from the end of the previous year. The balance of loans issued by branches in the Beijing-Tianjin-Hebei Region, the Yangtze River Delta and the Guangdong – Hong Kong – Macao Greater Bay Area amounted to RMB1,405.634 billion, up 6.79% year-on-year. The balance of MSB loans that met the "two no-less-than's" criteria reached RMB138.039 billion, up 23.69% year-on-year. The balance of green loans stood at RMB208.477 billion, up 15.79% year-on-year.

We deepened the business transformation and innovative development in 2021. Digital transformation gained pace on a firm footing. The seven major projects were commenced in a full scale and the six mechanisms for resource guarantee began to take shape. Breakthroughs were effectively made in digital operation, data infrastructure, IT support and enterprise-level agile organization. The industrial digital finance broke new ground. The Company's spending on information technology rose by 13.66% from a year ago. The average monthly active users of personal mobile banking increased by 36.35% over a year ago, and the registered users of the "Splendid Life" credit card APP rose by 47.54% from the end of the prior year. Retail transformation made notable headway, going faster and better. Eight mechanisms were innovated, with the consumer finance, wealth management and pension financial service systems improved. The Group's balance of personal loans increased by 9.38% as compared with the end of the previous year, and its share in total loans rose by 1.19 percentage points over end of the previous year. The total financial assets of individual customers grew by 13.33% from a year ago. Corporate finance transformation was well coordinated under an overarching plan. Integrated financial service solutions were developed by implementing the "industry + customer" marketing strategy and deepening the "commercial banking + investment banking" service model. The size of investment banking expanded by 17.96% over the end of the previous year. Financial market business transformation extended to broader fields and made greater contribution. With stronger efforts on trading transformation, asset transfer and trading capacity building, rapid growth was achieved in the size of and income from trading assets.

We held the line against systemic risk in 2021. We improved the risk management system, strengthened team building and system development and implement asset quality management throughout the entire process of industry selection, customer admission, product design and service model. Preexisting risks were eliminated faster, with the risk handling mechanism refined and the risk handling work transferred overall. Incremental risks were strictly controlled. The risk appetite, risk strategies and credit and investment and financing policies were streamlined, communicated better and implemented effectively. The cost-return measurement of credit risks was conducted and the big data-based risk identification and early warning system was launched to enhance the capability of market analysis, decision-making and professional risk management. The Company issued RMB67 billion of financial bonds to effectively rationalize the balance sheet structure and support business development. The Group saw marked improvements in asset quality. Both balance and ratio of special mention loans decreased. Overdue loans showed a stable balance, taking up a smaller share in total loans. The Group's loans overdue for more than 90 days and NPLs accounted for 80.20% of total overdue loans, down 1.49 percentage points year-on-year. The disposal of NPLs achieved a higher standard in "quantity, quality and efficiency".

We furthered the reform in key fields in 2021. Under the market-based principle, our reform was focus on improving the capability of customer service, risk management and value creation. The new-era reform work was systematically planned. Greater importance was attached to institutionalization and government systemization and more deep-seated problems about systems and mechanisms were address. The work to deepen reform was integrated with the five-year development plan and the three-year action plan for the reform of state-owned enterprises. The reform of the resource allocation mechanism focused on an asset-light and digital transition, with the share of technology investment in operating income rising to 3.46%. The reform of the coordination mechanism enhanced coordination of policies, marketing, risk management, assessment incentives and technological support, so as to create a comprehensive cost – and benefit-sharing mechanism. The reform of the operation management mechanism focused on shaping a brand-new smart operations system featuring online and offline connectivity, business process integration, tight risk control and efficient and convenient services.

We stepped up professional capacity building in 2021. We implemented the guiding principles from the Central Talent Work Conference, deepened the strategy of "making the bank stronger with competent employees", carried out the human resources action plan and the three-year action plan for cadre team building, and endeavored to develop a talent work system geared to high-quality development. Talent attraction was strengthened in key areas such as FinTech and emerging business. The Group had a larger number of IT personnel and emerging business personnel. The integration of technology and business was advanced and the mechanism for posting IT staff to business departments was deepened. A data governance grid team of 802 members was established. A learning organization was built to promote the research system development, build a knowledge management platform and shape a learning ecosystem. A positive corporate culture was further fostered.

In February 2022, Mr. Luo Qianyi, Vice Chairman of the Board of Directors, and Mr. Zhang Jianhua, Executive Director and President, resigned from their positions at the Company due to work engagement. On behalf of the Board of Directors and the Senior Management, I would like to express my sincere gratitude to Mr. Luo Qianyi and Mr. Zhang Jianhua for their great contributions to the development of the Company during their tenure of office.



We will keep foraging ahead. As a Chinese saying goes, “those that walk often arrive, and those that do often achieve”.

The 20th National Congress of the CPC Central Committee will be held in 2022. The year also marks the 30th anniversary of Hua Xia Bank, and is critical to implementing its five – year development plan. Looking back, under the leadership of the Party, we at Hua Xia Bank have made generations of unremitting efforts to grow from zero to one, and from small to big, born out of reform and thriving on reform. We have kept pace with the times and ranked among the top few players in the banking sector. With the perception of responsibility that “I may not be the pivot of success, but my efforts will contribute to success”, all Hua Xia people gathered together into a mighty force to shape a better future.

In 2022, we will stick to our principal responsibility and activity to achieve “precision”. We will improve our research and service capabilities in the fields of advanced manufacturing, strategic emerging industries and technological innovation. We will embrace high-end customers in traditional industries and emerging entities in high-end industries, helping build a modern industrial system. In serving regional development strategies, we will further fit into the national strategy for coordinated regional development by speeding up development of branches in the “Three Regions” and pursuing innovative developments of branches along “Two Lines” and at “Multiple Points”. With a focus on clean energy, energy conservation and environmental protection, carbon emission reduction and energy storage, we will improve the system of green financial services and products and continue to build the business brand of “building a Beautiful Hua Xia in a green way”. We will support key areas and weak links, including serving the housing security system, bolstering the development of micro, small and medium-sized enterprises and boosting the quality and effectiveness of financial services for rural vitalization.

In 2022, we will accelerate transformation and innovation to make “progress”. Digital transformation will be accelerated with a focus on making breakthroughs in industrial digital finance. Efforts will be made to create a digital consumption ecosphere, improve the innovation system and strengthen data governance. Corporate finance transformation will move toward “commercial banking + investment banking” under the “industry + customer” management strategy. The investment banking development mechanism will be built with greater vigor. Retail finance transformation will pursue higher efficiency and stronger performance by deepening the retail customer engagement, developing wealth management banking, expanding consumer credit and building an enterprise-level digital ecosphere and a digital customer management platform. The financial market business will be further transformed to a capital-light model to create an integrated inter-bank customer management system, develop the trading business and accelerate asset trading and circulation.

In 2022, we will strengthen risk management to achieve “stability”. Existing troubled assets will be eliminated faster, and the mechanisms will be refined to further boost the quality of disposal. The asset lifecycle management will be deepened, the risk appetite transmission mechanism will be smoothed, risk control will be digitally transformed and the credit management before, during and after lending will be streamlined. Capacity building will be stepped up to improve our ability to control risks, analyze policy and market, conduct professional approval and manage special assets. We will maintain strict compliance management, improve the internal control and compliance management system, firmly establish the compliance awareness of all staff and promote the compliance culture development.

In 2022, we will strengthen structural adjustments to achieve “excellence”. We will stabilize the growth of operating income, accelerate the development of commissioned sales, improve the investment system for wealth management and increase its contribution to earnings and promote the development of asset custody, investment banking and trading activity. Assets and liabilities will make steady headway, with the growth of deposits focused on settlement deposits and diversification of liabilities, and the growth of assets focuses on revitalizing idle assets, improving incremental assets, thus making assets more liquid and allocated more efficiently. The capital will be used more efficiently by enhancing efficiency management and allocating more capital to capital-light business.

In 2022, we will deepen the reform of mechanisms to achieve “newness”. The organizational structure will be adjusted in a orderly manner to make the management framework more market-oriented and competitive. The incentive and restraint mechanism will be improved to highlight the orientation to value and service, and a multi-party cooperation and benefit-sharing mechanism will be created. Our business will be further diversified by stepping up the development of licensed entities and making a foray into non – banking financial services, thus enhancing the Group’s synergies of development. The risk management system reform was furthered and optimized.

Pool the wisdom of everyone and there is nothing you cannot achieve. Gather the strength of everyone and there is no victory you cannot win. We believe that with the support from our shareholders and all sectors of society, the trust from our tens of millions of customers and the strenuous efforts of our 40,000 employees, Hua Xia Bank will make greater strides in high-quality development and greet the 20th National Congress of the CPC Central Committee with remarkable achievements.

Chairman: Li Minji

28 April 2022

SECTION I DEFINITIONS

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

The Group	Hua Xia Bank Co., Limited and its subsidiaries
The Company, the Bank, Hua Xia Bank	Hua Xia Bank Co., Limited
CBRC, CBIRC	China Banking Regulatory Commission, China Banking and Insurance Regulatory Commission
CSRC	China Securities Regulatory Commission
MOF	Ministry of Finance of the People's Republic of China
RMB yuan	Renminbi, the lawful currency of PRC
Beijing-Tianjin-Hebei Region	Region where the Head Office and the following tier-one branches of the Group are located: Beijing, Tianjin, Shijiazhuang, Tianjin FTZ and Beijing Municipal Administrative Center;
Yangtze River Delta	Region where the Head Office and the following tier-one branches of the Group are located: Nanjing, Hangzhou, Shanghai, Wenzhou, Ningbo, Shaoxing, Changzhou, Suzhou, Wuxi, Hefei and Shanghai FTZ
Guangdong-Hong Kong-Macao Greater Bay Area	Region where the following tier-one branches of the Group are located: Shenzhen, Guangzhou, Hong Kong and Haikou
Central and Eastern China	Region where the following tier-one branches of the Group are located: Jinan, Wuhan, Qingdao, Taiyuan, Fuzhou, Changsha, Xiamen, Zhengzhou and Nanchang
Western China	Region where the following tier-one branches of the Group are located: Kunming, Chongqing, Chengdu, Xi'an, Urumqi, Hohhot, Nanning, Yinchuan, Guiyang, Xining and Lanzhou
Northeastern China	Region where the following tier-one branches of the Group are located: Shenyang, Dalian, Changchun and Harbin
Subsidiaries	Beijing Daxing Hua Xia Rural Bank Co., Ltd., Kunming Chenggong Hua Xia Rural Bank Co., Ltd., Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd., Huaxia Financial Leasing Co., Ltd., Huaxia Wealth Management Co., Ltd.
Huaxia Wealth Management	Huaxia Wealth Management Co., Ltd.





SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

2.1 COMPANY PROFILE

2.1.1 Legal name in Chinese: 华夏银行股份有限公司

Chinese abbreviation: 华夏银行

Legal name in English: HUA XIA BANK CO., Limited

2.1.2 Legal representative: Li Minji

2.1.3 Secretary to the Board: Song Jiqing

Securities affairs representative: Wang Dawei

Address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing

Postal code: 100005

Investment relations phone No.: 010-85238570, 85239938

Fax: 010-85239605

Email: zhdb@hxb.com.cn

2.1.4 Registered address: 22 Jianguomennei Street, Dongcheng District, Beijing

Business address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing

Postal code: 100005

Website: <http://www.hxb.com.cn>

Email: zhdb@hxb.com.cn

Historical change of registered address: In April 2005, the Company's registered address was changed from No. 111, Xidan Beidajie, Xicheng District, Beijing to 22 Jianguomennei Street, Dongcheng District, Beijing

2.1.5 Newspapers and website for disclosure of the annual report:

China Securities Journal (www.cs.com.cn)

Shanghai Securities News (www.cnstock.com)

Securities Times (www.stcn.com)

Securities Daily (www.zqrb.cn)

Website of the stock exchange for disclosure of annual report: www.sse.com.cn

Locations where copies of the annual report are kept: Office of the Board of Directors of the Company

2.1.6 Place where share is listed: Shanghai Stock Exchange

Stock name of ordinary A-share: 华夏银行

Stock code of ordinary A-share: 600015

Stock name of preference share: 华夏优 1

Stock code of preference share: 360020

2.1.7 Other relevant information:

Name of depositary of shares of the Company: Shanghai Branch of China Securities Depository and Clearing Corporation Limited

Name of accounting firm the Company engaged: Ernst & Young Hua Ming LLP

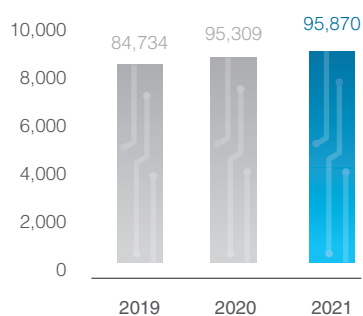
Business address: Level 16, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Dongcheng District, Beijing, China

Signed CPAs: Zhang Fan, Jiang Changzheng

2.2 MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

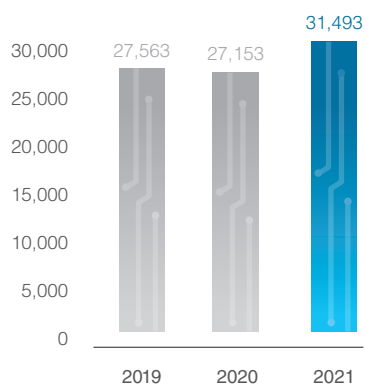
Operating income

(Unit: RMB1 million)



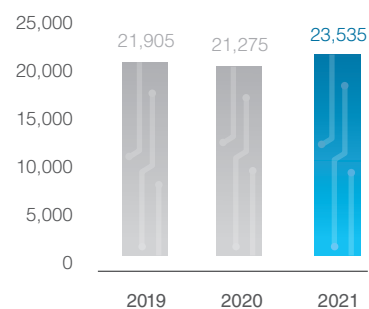
Total profit

(Unit: RMB1 million)



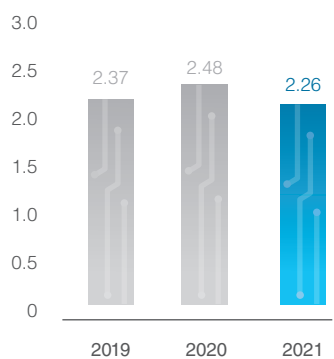
Net profit attributable to shareholders of the listed company

(Unit: RMB1 million)



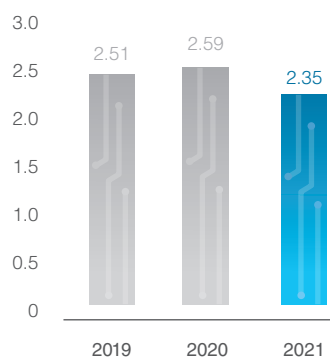
Net interest spread

(Unit: %)



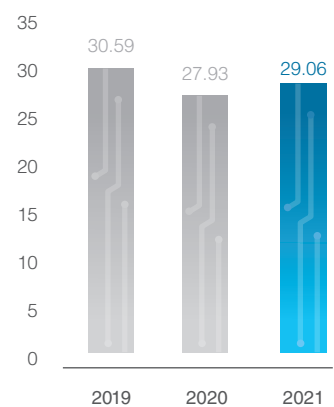
Net interest margin

(Unit: %)



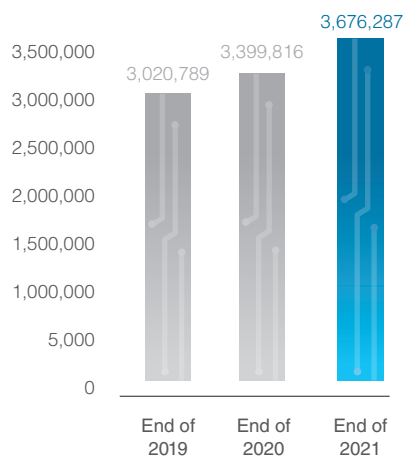
Cost-to-income ratio

(Unit: %)



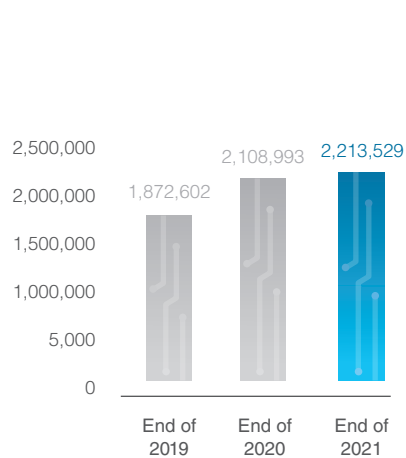
Total assets

(Unit: RMB1 million)



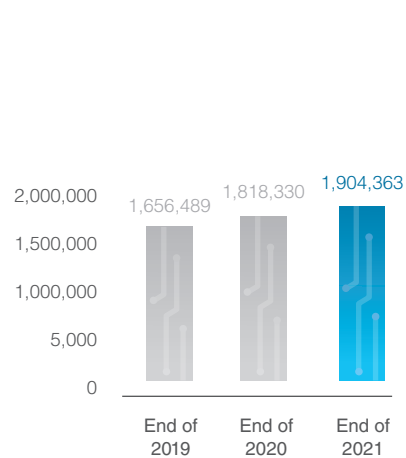
Total loans

(Unit: RMB1 million)



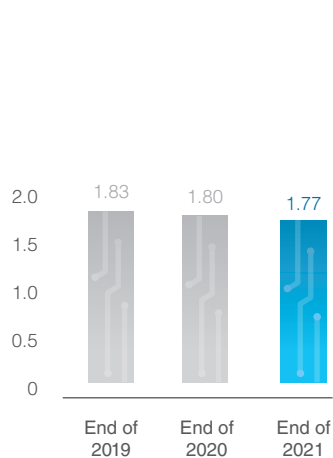
Total deposits

(Unit: RMB1 million)



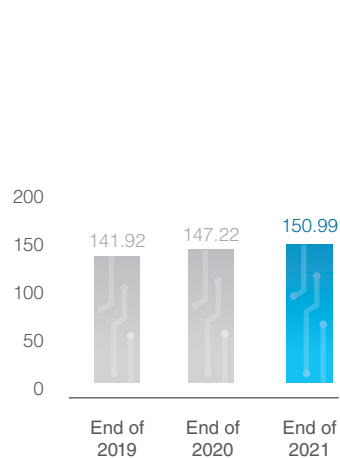
NPL ratio

(Unit: %)



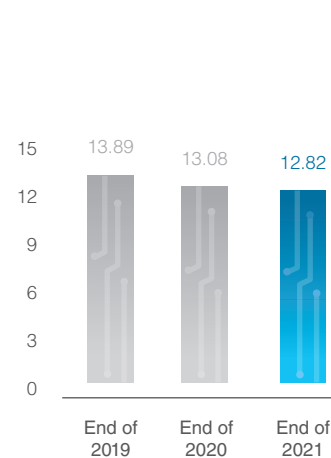
Allowance to NPLs

(Unit: %)



Capital adequacy ratio

(Unit: %)



(Unit: RMB1 million)

Item	2021	2020	Increase/decrease compared with previous year (%)	2019
Main accounting data				
Operating income	95,870	95,309	0.59	84,734
Operating profit	31,538	27,151	16.16	27,497
Total profit	31,493	27,153	15.98	27,563
Net profit attributable to shareholders of the listed company	23,535	21,275	10.62	21,905
Net profit attributable to shareholders of the listed company after deduction of extraordinary profit and loss	23,577	21,300	10.69	21,856
Net cash flows from operating activities	71,015	34,759	104.31	79,082
Major financial indicators				
Basic earnings per share (in RMB)	1.35	1.20	12.50	1.37
Diluted earnings per share (in RMB)	1.35	1.20	12.50	1.37
Basic earnings per share after deduction of extraordinary profit and loss (in RMB)	1.35	1.20	12.50	1.37
Net cash flow per share from operating activities (in RMB)	4.62	2.26	104.42	5.14
Profitability (%)				
Weighted average return on equity	9.04	8.64	Up 0.40 percentage point	10.61
Weighted average return on net assets after deduction of extraordinary profit and loss	9.06	8.65	Up 0.41 percentage point	10.59
Return on assets	0.67	0.67	Flat	0.78
Return on capital	8.19	7.81	Up 0.38 percentage point	9.21
Net interest spread	2.26	2.48	Down 0.22 percentage point	2.37
Net interest margin	2.35	2.59	Down 0.24 percentage point	2.51
Cost-to-income ratio	29.06	27.93	Up 1.13 percentage points	30.59

(Unit: RMB1 million)

Item	End of 2021	End of 2020	Increase/decrease compared with the end of previous year (%)	End of 2019
Scale indicators				
Total assets	3,676,287	3,399,816	8.13	3,020,789
Of which: Total loans	2,213,529	2,108,993	4.96	1,872,602
Total liabilities	3,375,585	3,117,161	8.29	2,751,452
Of which: Total deposits	1,904,363	1,818,330	4.73	1,656,489
Net assets attributable to shareholders of the listed company	298,292	280,613	6.30	267,588
Net assets attributable to ordinary shareholders of the listed company	238,321	220,642	8.01	207,617
Net assets per share attributable to ordinary shareholders of the listed company (in RMB)	15.49	14.34	8.02	13.49
Asset quality indicators (%)				
NPL ratio	1.77	1.80	Down 0.03 percentage point	1.83
Allowance to NPLs	150.99	147.22	Up 3.77 percentage points	141.92
Allowance to total loans ratio	2.67	2.65	Up 0.02 percentage point	2.59

Notes:

1. Relevant indicators are calculated according to the *Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public – Extraordinary Profit and Loss (2008)* and the *Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings Per Share (2010 Revision)*. The Company distributed a cash dividend totaling RMB840 million to preference shareholders in March 2021. The Company paid interest totaling RMB1,940 million to holders of perpetual bonds in June 2021. While calculating the basic earnings per share and the weighted average return on equity (ROE), the Company takes into account the distribution of dividend to preference shareholders and payment of interest on perpetual bonds.

2. Return on assets is calculated as net profit divided by the average of total assets at the beginning and end of the period.

3. Return on capital is calculated as net profit divided by the average of the total equity at the beginning and end of the period.

4. Net interest spread is the spread between yield on average balance of interest-generating assets and cost on average balance of interest-bearing liabilities.

5. Net interest margin is calculated by dividing net interest income by the average balance of interest – generating assets.

6. According to the *Notice on Amending and Issuing the Formats of Financial Statements for Financial Enterprises* (C.K. [2018] No. 36) issued by MOF, the interest accrued on financial instruments using the effective interest rate method shall be included in the book balance of relevant financial instruments and presented in relevant statement items. Interest due and receivable or payable but not received or unpaid are stated under "other assets" or "other liabilities". The Group has prepared financial reports pursuant to the above requirements since 2019. Total loans and total deposits in the table above exclude interest accrued using the effective interest rate method.

7. According to the former CBRC's *Notice on Adjusting the Regulatory Requirements on Allowances for Loan Impairment Losses of Commercial Banks* (Y.J.F. [2018] No. 7), the regulatory policy of differentiated dynamic adjustment of allowances was practiced for joint – stock banks. At the end of the reporting period, the Group's allowance to NPLs and allowance to total loans ratio meet regulatory requirements.

2.3 MAJOR FINANCIAL DATA IN 2021 BY QUARTER

(Unit: RMB1 million)

Item	Q1	Q2	Q3	Q4
Operating income	23,611	24,502	24,380	23,377
Net profit attributable to shareholders of the listed company	5,355	5,625	5,215	7,340
Net profit attributable to shareholders of the listed company after deduction of extraordinary profit and loss	5,350	5,716	5,174	7,337
Net cash flows from operating activities	-19,973	17,218	92,339	-18,569

2.4 OTHER MAIN REGULATORY INDICATORS

Item (%)	Regulatory value	End of 2021	End of 2020	End of 2019
Core tier-1 capital adequacy ratio	≥7.75	8.78	8.79	9.25
Tier-1 capital adequacy ratio	≥8.75	10.98	11.17	11.91
Capital adequacy ratio	≥10.75	12.82	13.08	13.89
Leverage ratio	≥4.125	6.95	7.25	7.68
Liquidity coverage ratio	≥100	138.15	133.07	113.95
Net stable funding ratio	≥100	107.83	105.10	103.16

Item (%)		Regulatory value	End of 2021	End of 2020	End of 2019
Loan-to-deposit ratio	RMB		101.02	101.56	99.90
	RMB equivalent		52.97	46.43	57.28
	RMB and foreign currency		99.19	99.95	98.86
Liquidity ratio	RMB	≥25	61.10	55.01	53.69
	RMB equivalent	≥25	161.26	211.93	162.32
	RMB and foreign currency	≥25	64.43	57.94	55.84
Loan concentration ratio of the largest single borrower		≤10	3.60	3.58	3.20
Loan concentration ratio of top 10 borrowers			17.35	16.54	15.77

Notes:

1. Core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio, capital adequacy ratio, liquidity coverage ratio and net stable funding ratio were calculated on a consolidated basis under regulatory criteria.
2. Loan-to-deposit ratio, liquidity ratio, leverage ratio, percentage of loans to single largest borrower and percentage of loans to top 10 borrowers were calculated on an unconsolidated basis under the regulatory standards.
3. Percentage of loans to single largest borrower = Total loans to the largest borrower/total capital, net × 100%
Percentage of loans to top 10 borrowers = Total loans to top 10 borrowers/total capital, net × 100%



2.5 HONORS AND AWARDS



On 30 March 2021

the Company won the "Top Brands of Financial Services for the People" at the "2020-2021 Media Awards" organized by *Beijing Evening News* and *Beijing Daily*.



On 16 April 2021

the Company was rated as "Excellent" by the China Financial Standardization Technical Committee and the Working Group on Technical Standards in the Interbank Market.



On 8 May 2021

the Company was named one of the "Top 10 Socially Responsible Organizations in 2020" at the Jinnuo 2021 China Financial Brands Influence Summit organized by *China Banking and Insurance News*.



On 27 May 2021

the Company was rated as "excellent" by the Ministry of Finance in the 2020 comprehensive evaluation of non-tax revenue collection service for the central government.



On 10 September 2021

at the China SME Investment and Financing Fair organized by China Banking Association and China Association of Small and Medium-sized Enterprises, the "Innovative Financing Project for Air Pollution Control in the Beijing-Tianjin-Hebei Region" carried out in cooperation with the World Bank won the Excellent Case Award for Financial Services for Micro, Small and Medium-sized Enterprises 2021.



On 16 September 2021

the Company won the "Outstanding Private Banking Award" at the Innovators Win the Future in the New Era of Asset Management – 2021 China Asset Management and Wealth Management Industry "Golden Reputation Award" ceremony organized by Pystandard and Financial Investment Newspaper.



On 17 September 2021

the Company won the "2021 'Green Carbon Pioneers' Best Bank Contributor" at the press conference of the *Report on Green Finance Development in China Banking Industry* and the "Green Empowerment • Sustainable Development" China Banking Industry Green Finance Development Forum sponsored by cls.cn and other organizations.



On 28 September 2021

the Company was awarded the "Trusted Bank in Social Responsibility" in the selection of trusted financial institutions in 2020-2021 hosted by the *Economic Observer*.



On 20 October 2021

the Company was named the "Most Beautiful Enterprise" by Beijing Municipal Cultural Heritage Bureau and Beijing Radio & Television Station in the "Protect Ancient Capital Culture, Support World Heritage Application for Beijing Central Axis" Program.



On 2 November 2021

the Company won the "Best Organization Award of China Private Banker Competition (2021)" from FPSB China in the Third China Private Banker Competition.



On 10 November 2021

the Company was awarded the "Excellent Competitiveness – Socially Responsible Financial Institution" in the "Excellent Competitiveness Awards for Financial Institutions" jointly sponsored by *China Business Journal* and *China's Economic Future*.



On 18 November 2021

the Company was named the "Excellent Joint-stock Commercial Bank of the Year" and "Excellent Green Finance Bank of the Year" at the 2021 Banking Industry Awards organized by China.com.cn.



On 25 November 2021

the Company won the "Outstanding Green Bank of the Year" award and the "Corporate Social Responsibility" award at the Annual Outstanding Financial Enterprises Awards hosted by the *Economic Observer*.



On 15 December 2021

the Company won the "ESG Green Finance of the Year" at the "2021 ESG Pioneers 60" organized by *Jiemian* of Shanghai United Media Group.



On 15 December 2021

the Company was named the "Best Bank for Social Responsibility in 2021" in the competition for the "2021 Gold-Medal List of Chinese Financial Institutions – Golden Dragon Awards" sponsored by the *Financial News*.



On 18 December 2021

the Company won the "Typical Case of Green Finance 2021" award from the Green Finance Committee of All-China Environment Federation for the "Innovative Green Finance Model – Hua Xia Bank Push for 'Dual Carbon' Goals & Innovative Financing Project for Air Pollution Control in the Beijing-Tianjin-Hebei Region".



On 21 December 2021

the Company's case of *2021 Public Janitors Growth Plan* won the Excellent CSR Project Award at the Eighteenth 21st Century Corporate Citizenship Study" organized by the *21st Century Business Herald*.



On 22 December 2021

the Company was named the "Beat Bank for Trade Finance" in the 11th annual selection of the Most Trusted Financial Service Providers for Chinese Economic and Trade Enterprises (Golden Trade Award) held by the *Trade Finance*.



On 31 December 2021

the Company won the "Market Influence of the Year and Market Innovation of the Year 2021" from China Foreign Exchange Trade System.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

3.1 BUSINESS OVERVIEW OF THE COMPANY

3.1.1 Main business of the Company

The Company was founded in October 1992 in Beijing and reorganized into a joint-stock company in April 1996. The Company launched its IPO and went public in September 2003 as China's fifth listed company. As at the end of the reporting period, the Company had set up 44 tier-1 branches, 79 tier-2 branches and 1,008 outlets with 39,200 employees in 122 Chinese cities at prefecture level and above, forming a nationwide service network based on presence in economically central cities. Acting on its five-pronged development philosophy, namely "Innovative, Coordinated, Green, Open and Shared", the Company has defined its ultimate goal as serving the real economy and creating value for customers and shareholders. The Company provides corporate and institutional customers with professional, distinctive and comprehensive financial services, including deposits, loans, investment banking, trade finance, green finance and cash management. The Company provides individual customers with diverse financial products and services, including deposits, consumer finance, debit card, credit card, wealth management, private banking and electronic banking, to meet individuals' demand for comprehensive financial services. Aiming at operational compliance and innovative development, the Company has continuously pursued coordinated, stable development of interbank business, interest rate and exchange rate trading, asset management and asset custody, and improved the ability to serve the real economy and customers. Among the Top 1000 World Banks 2021 published by the *The Banker* (UK) in June 2021, the Company ranked 51st by Tier 1 capital and 64th by total assets.

3.1.2 Core competitiveness analysis

Staying on the track towards "featured, digital, asset-efficient, professional, comprehensive and international development", the Company upholds the fundamental strategy of "putting deposits at the heart of the bank, making it stronger with technology, competent employees and protecting it with risk control". Persistent efforts have been made to deepen digitalization and transition of corporate banking, retail finance and financial market business, and to drive development of branches in the three key regions, namely Beijing – Tianjin-Hebei Region, Yangtze River Delta and Guangdong-Hong Kong-Macao Greater Bay Area, in a faster pace of building a modern "big and strong" financial service group that demonstrates "stability and excellence".

Strategic objectives are clear. With the aim of serving the real economy, forestalling financial risks and deepening financial reform, the Company plans its development in line with the financial development trends and its own resource advantages. The Company makes persistent efforts to consolidate the corporate banking as cornerstone with comprehensive financial services, enhance the new driving force for the development of digital business and retail finance, create new characteristics for the development of green finance and wealth management and build a new highland for development of the Beijing – Tianjin-Hebei Region, the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area. We will move forward at a faster pace to become a national joint-stock commercial bank with our own characteristics, good quality and strong competitiveness.

Digital transformation empowers development on every front. The Company adheres to the strategic goal of building a first-class smart eco-bank. It has developed an action plan for digital technology-driven transformation toward a mobile, smart, platform-based and open future. In pursuit of across-the-board digitalization, the Company has unified efforts to transform the business digitally and broken new ground in industrial digital finance. The enterprise-level data foundation and technological foundation have been cemented, with new progress made in key platforms and data governance, manifesting stronger enterprise – level digital capability. The organizational mechanism and support system have been improved. New business model, operation model, service model, operating system and organizational mechanism were created. During the reporting period, the Company recorded a growth of 36.35% in average monthly active users of personal mobile banking over the previous year. As of the end of the reporting period, the number of users registered for the credit card “Splendid Life” APP grew by 47.54% year-on-year. Main electronic channels reached a substitution ratio of 98.34%.

Business transformation became faster and more efficient. The Company remains market-oriented and customer-centric to steadily transform the retail finance, corporate banking and financial market business. Toward the strategic goal of building a wealth management bank with distinctive features, the retail finance transformation has made breakthroughs in top-level mechanisms and delivered all-round upgrades in the wealth management system. The retail business has achieved rapid growth. Toward the strategic goal of becoming a bank that provides professional, integrated financial services, the Company has deepened the service model of “commercial banking + investment banking” and kept improving its comprehensive service capability. Toward the strategic goal of becoming the best partner in interbank business, the transformation of financial market business has registered notable growth in trading assets and income, efficiency-first transition of custody services and faster transition of wealth management business. At the end of the reporting period, the Company’s balance of personal loans (excluding credit cards) rose by 11.03% from the end of the previous year. The size of investment banking expanded by 17.96% year-on-year. The RMB and foreign currency-denominated treasury transactions (Group – level) totaled RMB61,521.228 billion.

The differentiated regional development pattern took shape. The Company stays true to the differentiated development strategy “Three Regions, Two Lines and Multiple Points”. The Company gave more priority to these regions in allocating resources. Branches in the Beijing-Tianjin-Hebei Region, the Yangtze River Delta and the Guangdong-Hong Kong – Macao Greater Bay Area grew faster and contributed more to the Company. Branches in areas along the Beijing-Guangzhou rail line and Beijing-Shanghai rail line and other key areas stepped up their transition to a development model with local characteristics. The Company preliminarily shaped a new development pattern of coordinated regional development supported by branches in “Two Lines and Multiple Points”, broadening the space of high-quality development. At the end of the reporting period, the Company’s branches in the Three Regions recorded a growth of 6.79% in balance of loans year-on-year, an increase of 6.99% in balance of deposits year-on-year and an increase of 3.27% in regional profit for the year year-on-year.

The market-based operation unleashed vitality. The Company remains oriented to market-based development in its ongoing reform in systems and mechanisms. The incentive and restraint mechanism was further reform with a stronger orientation to of value creation. The reform of the resource allocation mechanism proceeded in an orderly manner, guiding key areas, key branches and key businesses onto the fast lane of development. The marketing mechanism reform yielded measurable results, evidenced by the improving system of collaborative marketing between the Head Office and branches, between the front, middle and back offices and between business segments. The smart operations achieved a higher standard, with the intelligent and immersive customer service model developed to boost user experience.

The brand influence was further enhanced. Keeping in line with the new five-year development plan, the Company introduced a brand philosophy of being “sustainable and better”. To fight for a “better” future in a “sustainable” way, with a focus on enhancing brand value, the Company has formulated a strategic brand plan, streamlined the brand structure and kept fostering key brands such as Longying Wealth Management and Green Finance to sharpen the edge of its business brands. By supporting the “Meet in Beijing” series of winter sports events, the Company further boosted its corporate brand reputation and enriched the cultural connotation of its brands. With a corporate culture concept of integrity, conformity, efficiency and enterprising spirit, the Company created a “responsible, cooperative and innovative” corporate culture atmosphere to lay a solid foundation for brand competitiveness.



3.2 IMPLEMENTATION OF THE COMPANY'S DEVELOPMENT STRATEGIES

In the face of a complicated situation at home and abroad and various risks and challenges, the Company remained guided by the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, fully implemented the guiding principles of the 19th CPC National Congress of the CPC and all plenary sessions of the 19th CPC Central Committee and applied the new development philosophy in full, in the right way, and in all fields of endeavor in the new development stage. The Company integrated itself into the new development pattern to serve it, pursuing the goal of becoming a national joint-stock commercial bank with its own characteristics, good quality and strong competitiveness at a faster pace. Under the theme of high-quality development, the Company coordinated the efforts on reform, development and stability and made a good start to the five-year plan period.

Digital transformation delivered marked results. Industrial digital finance models made breakthroughs. With a focus on key industries such as manufacturing and energy, breakthroughs were made in four categories of digital finance, namely, digital factoring, digital product pool and digital logistics loan and entrusted loans based on digital warehouse receipts. The digital product research and development capability was enhanced to fit the payment settlement products into the scenario biosphere. The smart operations capacity was boosted to build a new model of intelligent and immersive customer services. The intensive operations system was further developed to apply the robotic process automation (RPA). The quality of the Examination and Analysis System Technology (EAST) was improved. A data accountability mechanism was created. The data governance driven by data application was effective. The iterative cloud-native development continued and the new version of data service platform was launched, marking steady improvements in the technological capacity. The enterprise-level agile organization system was built to full scale. The "Two Groups" and "Two Committees" were established, an agile practice guide was formulated and a digital talent development system was created.

The retail business was transformed at a faster pace. The top-level design of mechanisms was further refined. The VIP customer entitlements system went live, the endeavors to build a retail technology team made substantial headway and the distinctive retail branches program broke new ground. The wealth management system was upgraded across the board, with improvements gradually made in the marketing mechanism, product shelf, equity services, the investment research and advisory system and professional teams, and the capability of professional management and services significantly enhanced. The inclusive finance business added luster to the brand of "SME financial service provider". The MSB service system was improved with in-depth FinTech application, making financial services increasingly available to more MSBs. The credit card business gained momentum, with the customer lifecycle management enhanced, the product family improved and the consumer scenarios further developed. As at the end of the reporting period, the Company recorded RMB471.047 billion of personal loans (excluding credit cards), an increase of 11.03% over the end of the previous year. The balance of personal deposits was RMB386.503 billion, up 10.16% over a year ago. Total financial assets of individual customers reached RMB977.406 billion, an increase of 13.33% year-on-year. Outstanding MSB loans under the "two no-less-than's" criteria amounted to RMB138.039 billion, an increase of 23.69% over the end of the previous year. A total of 31,367,300 credit cards were issued, an increase of 16.11% over the end of the previous year.



Corporate finance transformation was further deepened. The corporate customer base was structurally improved, with “industry + customer” marketing advanced to strengthen hierarchical and classified marketing and integrated financial services for corporate customers. The corporate finance product line took shape. The management of corporate finance products was standardized and integrated to form a product catalogue for marketing. The emerging investment banking business grew rapidly, with the carbon neutrality bonds and rural vitalization notes issued, a number of first-of-its-kind products issued in China and breakthroughs made in underwriting of overseas bonds. International settlement, forex settlement and sales and trade finance expanded steadily in size. The new model of “platform + scenario” supply chain finance took shape and the free trade zone business made new headway. The green finance brand became more influential. The World Bank’s Innovative Financing Project for Air Pollution Control in the Beijing-Tianjin-Hebei Region and the China Renewable Energy and Battery Energy Storage Promotion Project made steady progress. The Company became a supporter for the Task Force on Climate-Related Financial Disclosures (TCFD) and became a promoter of and a party to the Global Joint Initiative on the Partnership of Biodiversity and Finance at the 15th meeting of the Conference of the Parties (COP 15) to the Convention on Biological Diversity (CBD). The ESG philosophy was continuously implemented to create a sound environmental and social risk management system. At the end of the reporting period, the Company had 610,900 corporate accounts, an increase of 3.64% over the end of the previous year. The size of investment banking was RMB528.382 billion, an increase of 17.96% over the end of the previous year. The balance of trade finance assets on and off the balance sheet stood at RMB645.059 billion, up 14.88% over the end of the previous year.

Transformation of the financial market business began to yield results. With a circle of friends established among financial institutions, the Company started to build an enterprise-level interbank customer management system. The interbank customer management system was gradually improved. The treasury trading business scaled up with a growing size of trading assets, greater intensity of trading and a higher frequency of trading. The exchange rate trading was developed with vigor. All-instrument, all-currency forex transactions were gradually carried out, structured derivatives business piloted and the precious metal leasing business proceeded steadily with marketing and customer onboarding. Foreign-currency bond investment and trading were intensified and the circulation of foreign-currency bond assets gained pace. Custody service was transformed to a model that puts efficiency first. The marketing of key products such as public offering funds was strengthened to further improve the business structure. Custody products were actively innovated. Huaxia Wealth Management made smooth progress in transformation. Net asset value (NAV)-based transformation of wealth management was accomplished as scheduled, the investment research system and innovation of distinctive products sped up, breakthroughs made in high-tech investment, the leading edge in ESG consolidated, the commissioned sale network preliminarily shaped and the brand influence enhanced. During the reporting period, the Company’s RMB and foreign currency-denominated treasury transactions (Group-level) totaled RMB61,521.228 billion, down 18.03% year-on-year. The custody size was RMB5,139.881 billion, down 1.18% year-on-year. The Group’s balance of wealth management products stood at RMB610.054 billion, up 3.66% from the end of the previous year.

The differentiated regional development strategy became effective. The Company has stepped up its efforts on key projects coordinated development of the Beijing-Tianjin-Hebei Region, including participating in the transportation integration project in the Beijing – Tianjin-Hebei Region, accelerating the branching in free trade zones in the region, advancing the cooperation with key enterprises in Tongzhou District, Beijing and contributing to construction of Xiongan New Area in Hebei. The regional integration mechanisms have been improved for the Yangtze River Delta, including a better joint lending mechanism and a new regional innovation mechanism. Branches in the Yangtze River Delta have achieved rapid growth. Branches have gained momentum of development in the Guangdong-Hong Kong-Macao Greater Bay Area, where Hong Kong Branch successfully acquired Type 1 and Type 4 licenses in building an overseas financial service platform. At the end of the reporting period, the Company’s outstanding loans to the Beijing-Tianjin-Hebei Region amounted to RMB569.468 billion, up 5.94% year-on-year. The outstanding loans to the Yangtze River Delta amounted to RMB617.129 billion, up 6.39% year-on-year. The outstanding loans to the Guangdong-Hong Kong-Macao Greater Bay Area stood at RMB219.037 billion, up 10.25% year-on-year.

The Company increasingly integrated itself into Beijing’s big picture of development. The Company formulated a work plan for building Beijing into an international science and technology (S&T) innovation center. The “Capital S&T Innovation Enterprise Service Package” and the “Capital S&T Innovation Talent Service Package” were launched. The Company issued China’s first secondary fund investing exclusively in enterprises to be listed on Beijing Stock Exchange and joined the Chang’an Chain Ecosystem Alliance. The international business service district sub-branch was established in the China (Beijing) Pilot Free Trade Zone. A system link with created with the “Single Window” project of the National Port Administration Office to enable “one-point access, one-stop service”. The digital RMB system was launched and connected to PBOC’s interconnection platform. The digital RMB ticket payment project for the Beijing Winter Olympics was included the demonstration projects of FinTech application in Beijing. A work plan was formulated to support the development of high-end, precision and sophisticated industries in Beijing, delivering positive results in serving these industries. A work plan was developed and special products and services were launched to support Beijing’s drive for an international consumption center city. The Company joined the “Loan Origination Center” and the “Loan Renewal Center”, seeing rapid expansion in financial services for MSBs.

The Company continued to improve the comprehensive risk management system. The risk management system has been gradually improved, with the credit risk cost measured, the authorization approval and regional approval mechanisms implemented, the risk manager system implemented across the board and the classification-based, tiered management after investment/lending introduced. The asset quality management has further intensified by strengthening the monitoring and management of key customers, key businesses, key industries and key fields and managing the disposal of non-performing assets with a higher level of granularity and professionalism. The Company has continued to improve the single risk management system, including managing the liquidity risk more effectively in a forward-looking manner, strengthening the market risk limit management and mechanism building, deepening the management of interest rate risk in the banking book (IRRBB) expectations, stepping up the management of continuity and outsourcing risks, intensifying the IT risk control, making stronger efforts to build the money laundering risk management mechanism and boosting the ability to forestall and defuse the reputational risk. The internal control and compliance system has been continuously refined.

The market-based mechanisms have been created and improved in a faster pace. The resource allocation mechanism was refined for more effective, adaptive and coordinated allocation of resources. The coordinated marketing mechanism was enhanced and the cross-selling activity coordination and benefits sharing mechanism refined to beef up collaborative marketing between corporate and retail finance and achieve bulk customer acquisition. The smart operations system began to take shape, with the outlets transforming to a “simple, smart and scenario-based” model, the enterprise-level processes reengineered faster and the “Stronger Headquarters” operations support system created. The performance assessment of the Head Office and branches was further optimized to highlight the orientation to business coordination, service and value, with a distinctive assessment system created for retail finance. The organizational structure was refined to advance the creation of a data middle office. In furthering the Company’s business diversification, Huaxia Wealth Management co-sponsored the National Pension Insurance Co., Ltd., breaking new ground to enhance the capability of integrated financial services.

3.3 DISCUSSION AND ANALYSIS OF BUSINESS PERFORMANCE

3.3.1 External environment and industry developments

2021 saw major economies slowing down amid the faster spread of the COVID-19 variants across the globe. China's economy remained on track for stable recovery, leading the world in both economic growth and COVID-19 containment. Main economic indicators met expectations and targets but the external environment became increasingly complicated and grim, with the domestic economy under the triple pressures of shrinking demand, disrupted supply and weakening expectations. China's economic growth made a strong start to the year but softened over the rest of the year.

Macro policies intensified counter-cyclical and cross-cyclical adjustments, with both the monetary aggregate and the monetary structure adjusted effectively. The proactive fiscal policy was made more targeted or effective, with the tax and fee reduction policy introduced to support high-tech enterprises, manufacturers, micro, small and medium-sized enterprises and self-employed individuals. The issuance and use of local government bonds, especially special-purpose bonds, were accelerated. A regular mechanism to directly allocate budgetary funds to prefecture- and county-level governments was established and scaled up. The prudent monetary policy was both flexible and appropriate, with reasonably ample liquidity being maintained. The reserve requirement ratio for financial institutions was reduced twice and the forex reserve requirement ratio was raised twice. The carbon emissions reduction support instruments and the re-lending facility for cleaner and efficient use of coals were introduced. The re-lending rate for agricultural and small enterprises. The two instruments directly boosting the real economy were converted to market-based policy instruments in support of small and micro enterprises. Industry policies were promulgated frequently, with the real estate market policy fine-tuned, local governments' hidden debts strictly controlled and a string of internet regulatory policies introduced.

Financial supervision gave more priority to serving the real economy, forestalling and defusing financial risks, strengthening regulation of financial innovation and deepening the financial supply-side structural reform. In support of the financing of micro, small and medium-sized enterprises, banks were encouraged to increase credit supply, reduce the borrowing cost of real-sector enterprises and postpone the principal and interest payments on loans to micro and small enterprises covered by inclusive finance. The green finance support was deepened, the green finance evaluation plan for the banking industry was issued and requirements were put forward on the high-quality service for rural vitalization. Efforts were stepped up to forestall and defuse financial risks. Stronger efforts were also made on disposal of non-performing assets, crackdown on shadow banking, reduction of structured deposits and concentration control of real estate loans. The supervision of systemically important banks was upgraded. China endeavored to standardize the financial innovation system, strengthen the risk management of internet lending, firm up IT risk management, prohibit cryptocurrency speculation, steadily promote the internationalization of RMB and the construction of offshore RMB market and carry out the pilot program on high-level opening-up of cross-border trade and investment and the pilot program on digital RMB research and development.

China's banking industry has implemented the new development philosophy, integrated into the new development pattern and adapted to the new development requirements. With good overall momentum, the banking industry moved faster forward in transformation and innovation, providing stronger support for the real economy. Assets expanded steadily, liabilities registered solid growth and profitability picked up sharply, showing better asset quality and strong risk resilience. The capital-light business transition accelerated. The foundation for high-quality development has been increasingly fortified.



3.3.2 Overview of the Company's Operating Results

During the reporting period, the Company implemented the new development philosophy and integrated itself into the new development pattern in the new stage of development. With business transformation and structural optimization gaining pace, positive results were delivered on all fronts of work and all the annual targets were accomplished.

The scale of business grew steadily. At the end of the reporting period, the Group's total assets reached RMB3,676.287 billion, an increase of RMB276.471 billion or 8.13% over the end of the previous year; total loans increased by RMB104.536 billion or 4.96% to RMB2,213.529 billion; and deposit balance increased by RMB86.033 billion or 4.73% to RMB1,904.363 billion.

Profitability was improved markedly. During the reporting period, net profit attributable to shareholders of the listed company stood at RMB23.535 billion, a year-on-year increase of RMB2.26 billion or 10.62%. Return on assets (ROA) was 0.67%, flat with a year ago, and return on equity (ROE) was 9.04%, up 0.40 percentage point year-on-year.

Business structure enjoyed ongoing optimization. First, the structure of assets and liabilities was improved. Active financing was strengthened. The Company successfully issued RMB67 billion of financial bonds, with both retail loans and inclusive loans taking up a bigger share and the investments growing fast in either size or income. Second, income structure was improved. During the reporting period, the Group realized net non-interest income of RMB16.265 billion, a growth of RMB2.923 billion or 21.91% over last year. Net non-interest income accounted for 16.97%, up 2.97 percentage points year-on-year. Third, the regional mix was improved. The differentiated regional development pattern began to take shape. The Beijing-Tianjin-Hebei Region, the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area made bigger contributions, manifesting stable development with local characteristics.

Good results were achieved in serving the real economy. First, strong support was provided for the development of strategic industries. The Company gave priority to key industries and customers in manufacturing and strategic emerging industries and strengthened product utilization and resource allocation. Rapid growth was seen in the balance of medium- and long-term loans to manufacturing and loans to strategic emerging industries. Second, inclusive finance was vigorously developed. The FinTech application was deepened to further develop the ecosphere of tech enterprises and innovatively serve rural vitalization. The Company has met the regulatory targets for growth of MSBs for consecutive years. Third, the green finance business was developed with vigor. The Company supported the industrial transformation and upgrading and Beijing's key green projects, making new breakthroughs in carbon financial service innovation and international cooperation projects. The share of green credit went higher, ranking among the top few among joint-stock banks and meeting PBOC's guiding targets of "two no less than's" for green credit. Fourth, strong support was provided for the capital economy. The Company actively served preparatory work for the Beijing Winter Olympics and Paralympics and also effectively served the coordinated implementation of Beijing's "five key projects".

Business transformation made breakthroughs. First, digital transformation gained pace. With a focus on key projects, the Company pressed forward with digital transition of business, database construction and technological support. The industrial digital finance developed innovatively in line with needs of the industrial chain ecosystem, making new headway in the building of key platforms and data governance. The transformation of outlet operations and enterprise-level process reengineering sped up, and an agile digital innovation system was developed. Second, retail finance was transformed effectively. The Company innovated mechanisms and refined the system of category-specific and tiered management of customers. The private wealth business grew faster and personal financial assets expanded in total size. Third, corporate banking transformation made greater headway. To improve the comprehensive financial service capability, the Company built an "industry + customer" management system and promoted the "commercial banking + investment banking" service model. The "3-3-1-1"¹ whitelist had a higher customer coverage. The online trade finance volume has doubled, and the emerging investment banking operations mushroomed. Fourth, the financial market business developed rapidly. With ongoing transition to a capital-light model, the trading business saw remarkable growth in size and income, the asset custody business transitioned faster to an efficiency-first model and Huaxia Wealth Management realized NAV-based transformation. The investment R&D system development and distinctive product innovation gained momentum.

Risk and compliance management delivered impressive results. On the one hand, the Company advanced the risk control, asset disposal, internal control management and audit. The risk management system was further improved to strengthen the management of key businesses and main risks. Great headway was made in risk control digitalization. A credit strategy system was built, the quality and efficiency of credit approval management were boosted and the overall transformation of risk resolution was promoted. On the other hand, the "Year of Improving Internal Control and Compliance Management" campaign was thoroughly implemented. Focused on key fields, the Company self-examined and took remedial actions for its internal control and compliance management system and mechanism, including comprehensive rectification and improvement of anti-money laundering and crackdown on major information falsification. Supervision and inspection were carried out more efficiently to a higher standard of quality.

¹ "3-3-1-1" customers broadly refers to the key targeted customer groups of the Company. The numbers stand for over 3,000 domestic A-share listed companies, over 300 high-quality local state-owned enterprises, about 100 centrally controlled businesses, and about 10,000 NEEQ-listed companies and a number of emergency industry leaders.

3.4 INCOME STATEMENT ANALYSIS

During the reporting period, the Group realized net profit of RMB23.903 billion, a growth of RMB2.335 billion or 10.83% over the previous year.

(Unit: RMB1 million)

Item	2021	2020	Increase/ (decrease)	Growth (%)
Operating income	95,870	95,309	561	0.59
– Net interest income	79,605	81,967	-2,362	-2.88
– Net non-interest income	16,265	13,342	2,923	21.91
Operating expenses	64,332	68,158	-3,826	-5.61
– Tax and surcharges	1,028	1,076	-48	-4.46
– General and administrative expenses	27,863	26,622	1,241	4.66
– Impairment losses on credit and other assets	35,376	40,431	-5,055	-12.50
Net non-operating income and expenditure	-45	2	-47	-2,350.00
Total profit	31,493	27,153	4,340	15.98
Income tax	7,590	5,585	2,005	35.90
Net profit	23,903	21,568	2,335	10.83

Extraordinary profit and loss items and amounts

(Unit: RMB1 million)

Item	2021	2020	2019
Profit/loss from the disposal of assets	-8	3	15
Government subsidies recorded in profit or loss	92	52	84
Other net operating income and expenses	-88	-50	-18
Total extraordinary profit and loss	-4	5	81
Less: Income tax influence of extraordinary profit and loss	34	26	30
Extraordinary profit and loss, net	-38	-21	51
Less: Influence of extraordinary profit and loss attributable to minority shareholders of the Company, net (after-tax)	4	4	2
Extraordinary profit and loss attributable to ordinary shareholders of the Company	-42	-25	49

Note: The extraordinary profit and loss are identified and calculated in accordance with the *Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public – Extraordinary Profit and Loss (2008)*.

3.4.1 Operating revenue

For the reporting period, the Group realized operating income of RMB95.87 billion, a growth of RMB561 million or 0.59% over the previous year. Specifically, net interest income accounted for 83.03% and net non-interest income accounted for 16.97%. The table below sets out the composition of operating income of the Group in the past three years.

Item	2021	2020	2019
Net interest income	83.03	86.00	85.44
Net fee and commission income	9.65	11.08	12.01
Other net incomes	7.32	2.92	2.55
Total	100.00	100.00	100.00

Breakdown of operating income by geography

(Unit: RMB1 million)

Region	Operating income	Change compared with previous year (%)	Operating profit	Change Compared with previous year (%)
Beijing-Tianjin-Hebei Region	37,058	2.90	7,737	3.77
Yangtze River Delta	21,211	1.96	10,260	7.00
Guangdong-Hong Kong-Macao Greater Bay Area	6,348	-0.02	2,957	-7.54
Central and Eastern China	12,997	-4.84	2,658	39.53
Western China	11,289	-4.59	6,371	94.53
Northeastern China	1,601	-18.57	-1,154	N/A
Subsidiaries	5,413	15.22	2,755	22.77
Offset among segments	-47	N/A	-46	N/A
Total	95,870	0.59	31,538	16.16

During the reporting period, there were no major changes in profit composition, principal operation and structure, or profitability of principal operation from the previous reporting period.

3.4.2 Net non-interest income

During the reporting period, the Group realized net interest income of RMB79.605 billion, down RMB2.362 billion or 2.88% from last year. The table below sets out the average balances and average interest rates of the Group's interest-earning assets and interest-bearing liabilities.

Interest-generating assets, interest-bearing liabilities and average interest rates

(Unit: RMB1 million)

Item	2021			2020		
	Average balance	Interest	Average interest rate (%)	Average balance	Interest	Average interest rate (%)
Interest-generating assets:						
Loans and advances to customers	2,120,134	108,726	5.13	1,971,900	105,364	5.34
Balances with central banks	180,879	2,621	1.45	179,958	2,632	1.46
Peer assets	197,178	4,911	2.49	167,195	2,782	1.66
Financial investments	885,926	36,583	4.13	841,768	36,461	4.33
Total interest-generating assets	3,384,117	152,841	4.52	3,160,821	147,239	4.66
Interest-bearing liabilities:						
Deposits taken	1,831,309	34,757	1.90	1,752,361	33,012	1.88
Due to central banks	138,621	4,151	2.99	116,767	3,779	3.24
Debt obligations payable	505,355	15,375	3.04	443,752	13,249	2.99
Peer liabilities and others	765,138	18,953	2.48	679,320	15,232	2.24
Total interest-bearing liabilities	3,240,423	73,236	2.26	2,992,200	65,272	2.18
Net interest income		79,605			81,967	
Net interest spread			2.26			2.48
Net interest margin			2.35			2.59

The table below sets out the changes in the Group's net interest income resulting from changes in the scale and interest rate factors.

(Unit: RMB1 million)

Item	2021 over 2020		Total
	Scale change	Interest rate change	
Interest-generating assets:			
Loans and advances to customers	7,921	-4,559	3,362
Balances with central banks	13	-24	-11
Peer assets	499	1,630	2,129
Financial investments	1,913	-1,791	122
Change of interest income	10,346	-4,744	5,602
Interest-bearing liabilities:			
Deposits taken	1,487	258	1,745
Due to central banks	707	-335	372
Debt obligations payable	1,839	287	2,126
Peer liabilities and others	1,924	1,797	3,721
Change of interest expenses	5,957	2,007	7,964
Change of net interest income	4,389	-6,751	-2,362

3.4.2.1 Interest income

During the reporting period, the Group realized interest income of RMB152.841 billion, a growth of RMB5.602 billion or 3.80% over last year, mainly due to growth in interest-generating assets.

(Unit: RMB1 million)

Item	2021	Percentage (%)	% change	2020
Interest income from loans and advances to customers	108,726	71.14	3.19	105,364
Interest income from financial investments	36,583	23.94	0.33	36,461
Interest income on due from central banks	2,621	1.71	-0.42	2,632
Interest income from interbank business	4,911	3.21	76.53	2,782
Total	152,841	100.00	3.80	147,239

Interest income from loans and advances to customers

The Group realized RMB108.726 billion of interest income from loans and advances to customers for the reporting period, a growth of RMB3.362 billion or 3.19% over last year, primarily because of the increase in the loans and advances to customers. The table below sets out the average balances and average interest rates of the Group's interest income from loans and advances to customers by business type and maturity structure.

By business type

(Unit: RMB1 million)

Category	2021			2020		
	Average balance	Interest income	Average interest rate (%)	Average balance	Interest income	Average interest rate (%)
Corporate loans	1,501,121	72,114	4.80	1,434,552	72,320	5.04
Personal loans	619,013	36,612	5.91	537,348	33,044	6.15
Total	2,120,134	108,726	5.13	1,971,900	105,364	5.34

Note: Corporate loans include discounted bills.

By maturity structure

(Unit: RMB1 million)

Category	2021			2020		
	Average balance	Interest income	Average interest rate (%)	Average balance	Interest income	Average interest rate (%)
General short-term loans	727,376	34,884	4.80	764,948	37,732	4.93
Medium and long-term loans	1,392,758	73,842	5.30	1,206,952	67,632	5.60
Total	2,120,134	108,726	5.13	1,971,900	105,364	5.34

Note: General short-term loans include discounted bills.

Interest income from financial investments

During the reporting period, the Group realized RMB36.583 billion of interest income from financial investments, up RMB122 million or 0.33% year-on-year, primarily because of the bigger size of financial investments.

Interest income on due from central banks

The Group's interest income on due from central banks for the reporting period stood at RMB2.621 billion, a drop of RMB11 million or 0.42% from last year.

Interest income from interbank business

During the reporting period, the Group realized RMB4.911 billion of interest income from interbank business, up RMB2.129 billion or 76.53% from the previous year, mainly due to the bigger size and higher rate of return on interbank business.

3.4.2.2 Interest expenses

During the reporting period, the Group recorded RMB73.236 billion in interest expenses, up RMB7.964 billion or 12.20% year-on-year, primarily because of the Group's expansion of interest-bearing liabilities at controlled cost.

Interest expenses on deposits taken

During the reporting period, the Group's interest expense on deposits taken was RMB34.757 billion, an increase of RMB1.745 billion or 5.29% over last year, mainly due to expansion in deposits at basically stable costs.

(Unit: RMB1 million)

Category	2021			2020		
	Average balance	Interest expense	Average interest rate (%)	Average balance	Interest expense	Average interest rate (%)
Corporate demand deposits	625,229	6,128	0.98	624,743	5,464	0.87
Corporate time deposits	842,062	20,757	2.47	789,200	20,251	2.57
Personal demand deposits	122,853	378	0.31	120,425	382	0.32
Personal time deposits	241,165	7,494	3.11	217,993	6,915	3.17
Total	1,831,309	34,757	1.90	1,752,361	33,012	1.88

Interest expenses on due to central banks

During the reporting period, the Group's interest expenses on amounts due to central banks were RMB4.151 billion, an increase of RMB372 million or 9.84% from last year, mainly because of the increase in amounts due to central banks.

Interest expenses on debt obligations payable

During the reporting period, the Group recorded RMB15.375 billion in interest expenses on debt obligations payable, an increase of RMB2.126 billion or 16.05% from the previous year, mainly due to the bigger size of debt obligations payable.

Peer liabilities and other interest expenses

During the reporting period, the Group recorded RMB18.953 billion in interest expenses on peer liabilities and others, an increase of RMB3.721 billion or 24.43% from the previous year, mainly due to the increase in the size and cost ratio of interbank liabilities.

3.4.3 Net non-interest income

(Unit: RMB1 million)

Item	2021	2020	Increase/ (decrease)	Growth (%)
Net fee and commission income	9,252	10,558	-1,306	-12.37
Investment loss/(gain)	4,068	1,870	2,198	117.54
Gains on changes in fair value	2,410	503	1,907	379.13
Exchange loss/(gain)	325	192	133	69.27
Other operating income	169	192	-23	-11.98
Gains on asset disposal	-8	3	-11	-366.67
Other income	49	24	25	104.17
Total	16,265	13,342	2,923	21.91

3.4.3.1 Net fee and commission income

During the reporting period, the Group realized net fee and commission income of RMB9.252 billion, down RMB1.306 billion or 12.37% from the previous year.

(Unit: RMB1 million)

Item	2021			2020	
	Amount	Percentage (%)	% change	Amount	Percentage (%)
Bank card business	5,070	37.87	-13.32	5,849	41.17
Agency business	4,311	32.20	-1.12	4,360	30.69
Credit commitments	1,707	12.75	-10.91	1,916	13.49
Custody and other fiduciary services	1,181	8.82	-0.92	1,192	8.39
Other business	1,119	8.36	25.73	890	6.26
Total fee and commission income	13,388	100.00	-5.76	14,207	100.00
Less: fee and commission expenses	4,136	—	13.35	3,649	—
Net fee and commission income	9,252	—	-12.37	10,558	—

3.4.3.2 Investment income, and gains on changes in fair value and exchange loss/(gain)

During the reporting period, The Group recorded RMB6.803 billion in investment income, gains on changes in fair value and exchange loss/(gain), up RMB4.238 billion or 165.22% from last year, mainly due to increase in investment income and fair value.

3.4.4 General and administrative expenses

During the reporting period, general and administrative expenses were RMB27.863 billion, up 4.66% from the previous year. First, the Group continued to refine expense management, accelerate digital transition, increase IT resource input and boost the digital capacity. Second, the new leasing standard was implemented and leasing projects were increased. At the end of the reporting period, the cost-to-income ratio was 29.06%, a year-on-year increase of 1.13 percentage points.

(Unit: RMB1 million)

Item	2021			2020	
	Amount	Percentage (%)	% change	Amount	Percentage (%)
Staff remuneration and welfare	15,733	56.47	5.00	14,984	56.28
Business expenses	8,153	29.26	-1.10	8,244	30.97
Depreciation and amortization	3,977	14.27	17.18	3,394	12.75
Total	27,863	100.00	4.66	26,622	100.00
Cost-to-income ratio		29.06	Up 1.13 percentage points		27.93

3.4.5 Impairment losses on credit and other assets

During the reporting period, the Group's impairment losses on credit and other assets totaled RMB35.376 billion, a decrease of RMB5.055 billion or 12.50% from the previous year, mainly due to the drop in allowance for impairment losses on loans and advances to customers. The table below sets forth the composition of the Group's impairment losses on credit and other assets and the changes.

(Unit: RMB1 million)

Item	2021	2020	Increase/ (decrease)	Growth (%)
Loans and advances to customers	25,692	36,307	-10,615	-29.24
Financial investments	9,316	2,872	6,444	224.37
Interbank business	16	49	-33	-67.35
Projected liabilities	51	164	-113	-68.90
Others	301	1,039	-738	-71.03
Total	35,376	40,431	-5,055	-12.50

3.4.6 Income tax expense

(Unit: RMB1 million)

Item	2021	2020
Pre-tax profit	31,493	27,153
Income tax at statutory tax rate of 25%	7,873	6,788
Plus: Tax effect of non-deductible expense	3,073	1,769
Less: Tax effect of tax-exempt income	3,356	2,972
Total	7,590	5,585

3.5 BALANCE SHEET ANALYSIS

3.5.1 Analysis of assets

As at the end of the reporting period, the Group recorded total assets of RMB3,676.287 billion, an increase of RMB276.471 billion or 8.13% from the end of the previous year, mainly due to increase in loans and advances to customers and financial investments. The table below shows the proportional mix of the Group's main asset items.

(Unit: RMB1 million)

Item	End of 2021		End of 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Loans and advances to customers	2,162,966	58.84	2,059,825	60.59
Financial investments	1,156,219	31.45	1,005,167	29.56
Cash on hand and balances with central banks	186,174	5.06	204,082	6.00
Due from and placements with banks and other financial institutions	100,966	2.75	54,975	1.62
Financial assets purchased under agreements to resell	18,390	0.50	24,776	0.73
Others	51,572	1.40	50,991	1.50
Total	3,676,287	100.00	3,399,816	100.00

Note: Others include derivative financial assets, fixed assets, right-of-use assets, intangible assets, deferred income tax assets and other assets.

Overseas assets

At the end of the reporting period, the Group had RMB31.396 billion of overseas assets, accounting for 0.58% of total assets.

3.5.1.1 Loans and advances to customers

At the end of the reporting period, the Group recorded RMB2,213.529 billion in total loans and advances to customers, up RMB104.536 billion or 4.96% over the end of the previous year. For details of the Group's loans and advances to customers, please refer to the "Loan Quality Analysis" section in this chapter.

3.5.1.2 Financial investments

As at the end of the reporting period, the Group recorded RMB1,156.443 billion total financial investments, growing by RMB158.448 billion or 15.88% over the end of the previous year, mainly due to increase in the financial institution asset management plans, investment in bonds and investment in funds. The table below shows the proportional mix of the Group's financial investments by product.

(Unit: RMB1 million)

Item	End of 2021		End of 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Bond investment	703,515	60.83	648,153	64.94
Fund investments	128,811	11.14	77,112	7.73
Asset management plan of financial institutions	214,423	18.54	153,385	15.37
Beneficiary rights of assets and others	20,411	1.76	3,562	0.36
Certificates of deposit with banks and other financial institutions	4,344	0.38	14,698	1.47
Equity investment	6,924	0.60	5,484	0.55
Debt financing plans	78,015	6.75	95,596	9.58
Standard bill assets	–	–	5	0.00
Total	1,156,443	100.00	997,995	100.00
Plus: accrued interest	13,220	–	12,369	–
Less: allowances for impairment losses on debt investments	13,444	–	5,197	–
Total	1,156,219	–	1,005,167	–

Financial bonds held:

(Unit: RMB1 million)

Item	End of 2021		End of 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Financial bonds of policy banks	145,736	71.17	113,591	58.87
Financial bonds of commercial banks	53,347	26.05	67,104	34.77
Non-banking financial bonds	5,691	2.78	12,273	6.36
Total	204,774	100.00	192,968	100.00

Of which, material financial bonds:

(Unit: RMB1 million)

Bond Name	Par value	Annual interest rate (%)	Maturity date	Allowance for impairment losses
Bond 1	3,230	2.08	29 April 2023	0.20
Bond 2	3,150	3.50	27 March 2022	0.05
Bond 3	3,120	3.07	10 March 2030	–
Bond 4	3,000	4.65	11 May 2028	–
Bond 5	2,860	3.18	7 August 2023	0.18
Bond 6	2,840	4.04	6 July 2028	–
Bond 7	2,840	3.22	14 May 2026	–
Bond 8	2,790	3.09	18 June 2030	–
Bond 9	2,790	3.70	20 October 2030	–
Bond 10	2,730	3.83	23 June 2050	–

3.5.1.3 Derivative financial instruments

(Unit: RMB1 million)

Item	End of 2021			End of 2020		
	Contractual/ nominal amount	Fair value		Contractual/ nominal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange forwards	18,917	165	134	7,896	118	87
Foreign exchange swaps	637,276	7,804	7,654	561,409	12,084	12,122
Interest rate swaps	23,023	154	10	29,921	36	33
Option contracts	99,574	76	83	98,489	123	123
Precious metal swaps	206	–	1	–	–	–
Total		8,199	7,882		12,361	12,365

3.5.1.4 Financial assets purchased under agreements to resell

(Unit: RMB1 million)

Item	End of 2021		End of 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Bonds	5,775	31.11	14,765	58.98
Bills	12,787	68.89	10,271	41.02
Total	18,562	100.00	25,036	100.00
Plus: accrued interest	134	—	46	—
Less: allowance for impairment losses	306	—	306	—
Total	18,390	—	24,776	—

3.5.1.5 Cash on hand and balances with central banks

At the end of the reporting period, the Group recorded RMB186.174 billion in cash on hand and balances with central banks, a decrease of RMB17.908 billion or 8.77% from the end of the previous year, mainly due to: (1) placement of less statutory reserves caused by reserve requirement ratio cuts by PBOC; and (2) appropriate reduction of excess reserves by the Group without compromising the liquidity safety.

3.5.1.6 Due from and placements with banks and other financial institutions

At the end of the reporting period, the Group registered RMB100.966 billion in due from banks and placements with banks and other financial institutions, an increase of RMB45.991 billion or 83.66% from last year, mainly because the Group expanded higher-yield borrowings by banks and other financial institutions as appropriate based on its interest rate curve forecast.

3.5.2 Liability analysis

As at the end of the reporting period, the Group recorded total liabilities of RMB3,375.585 billion, up RMB258.424 billion or 8.29% from the end of the previous year, primarily because of the increase in deposits taken, due to banks and other financial institutions and debt obligations payable. The table below shows the proportional mix of the Group's main liability items.

(Unit: RMB1 million)

Item	End of 2021		End of 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Due to central banks	149,714	4.43	131,036	4.20
Deposits taken	1,927,349	57.10	1,837,020	58.93
Due to and placements from banks and other financial institutions	655,944	19.43	544,009	17.45
Financial assets sold under agreements to repurchase	46,511	1.38	49,155	1.58
Debt obligations payable	547,248	16.21	511,814	16.42
Others	48,819	1.45	44,127	1.42
Total	3,375,585	100.00	3,117,161	100.00

Note: Others include financial liabilities for trading, derivative financial liabilities, staff remunerations payable, tax and fee payable, projected liabilities, lease liabilities and other liabilities.

Liability quality management system and quality of liabilities

The Company attaches great importance to liability quality management and has in place a liability quality management system appropriate for the Company's size and complexity of liabilities. First, the organizational structure has been improved. The Board of Directors takes the ultimate responsibility for liability quality management and supervises the senior management to effectively manage and control the quality of liabilities. The Senior Management organizes the implementation of liability quality management. Line management departments and branches perform the functions of decision-making, execution and supervision of liability quality management within their respective sphere of responsibility. Second, a system of policies and procedures encompassing strategies, policies, processes, limits and contingency plans has been established to clarify management responsibilities, procedures and methods. The liability quality metrics are in place to monitor and manage the liability business with a full range of factors, under multiple dimensions and throughout the process. Third, the internal control system for liability quality management has been refined. The Company strictly follows relevant laws and regulations and internal policies and procedures, and optimizes the performance assessment system, highlights the compliance management and risk management requirements and ensures the effective operation of the liability quality management system. Fourth, an information management system is in place to provide strong support and guarantee for day-to-day monitoring, measurement, control, analysis and reporting.

During the reporting period, the Company actively implemented the annual asset and liability management strategy to improve the stability, diversity and activeness of liabilities. Deposits were put at the heart of the bank to ensure stable sources of liabilities. Financing channels were expanded to diversify sources of funds. Policy and market developments were closely watched to ensure active adjustments to the structure and maturity of liabilities and reasonably control the cost of liabilities. Risk control was strengthened and the structural matching of assets and liabilities was emphasized to strike a balance between safety, liquidity and profitability. Laws and regulations were followed to ensure authenticity and compliance of the liability business. In 2021, the Company saw solid growth of total liabilities with a stable structure, reasonable costs and steady liquidity, manifesting compliance with regulatory requirements.

Next, the Company will continue to improve the liability quality management methodology and refine management tools to boost the quality and efficiency of the liability business and ensure its compliance and robustness in development.

3.5.2.1 Deposits taken

As at the end of the reporting period, the Group recorded RMB1,904.363 billion in total deposits taken, up RMB86.033 billion or 4.73% over the end of the previous year.

(Unit: RMB1 million)

Item	End of 2021		End of 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate demand deposits	657,818	34.54	691,013	38.00
Corporate time deposits	652,450	34.26	589,609	32.43
Personal demand deposits	130,790	6.87	133,660	7.35
Personal time deposits	256,893	13.49	218,276	12.00
Other deposits	206,412	10.84	185,772	10.22
Total	1,904,363	100.00	1,818,330	100.00
Plus: accrued interest	22,986	—	18,690	—
Total	1,927,349	—	1,837,020	—

Note: Other deposits include security deposit received, outward remittance, remittances outstanding and others.

3.5.2.2 Financial assets sold under agreements to repurchase

(Unit: RMB1 million)

Item	End of 2021		End of 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Bonds	43,498	93.58	43,608	88.77
Bills	2,984	6.42	5,515	11.23
Total	46,482	100.00	49,123	100.00
Accrued interest	29	–	32	–
Total	46,511	–	49,155	–

3.5.3 Changes in shareholders' equity

(Unit: RMB1 million)

Item	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Minority interests	Total shareholders' equity
1 January 2021	15,387	59,971	53,292	-714	17,756	38,683	96,238	2,042	282,655
Increase in the reporting period	–	–	–	1,556	1,991	4,948	23,544	368	32,407
Decrease in the reporting period	–	–	–	9	–	–	14,351	–	14,360
31 December 2021	15,387	59,971	53,292	833	19,747	43,631	105,431	2,410	300,702

Reasons for changes in shareholders' equity:

1. Increase in "other comprehensive income" mainly results from the changes in fair value of other debt investments during the reporting period.
2. According to the annual profit distribution plan, the Company set aside surplus reserve and general risk reserve, distributed cash dividends to all of the shareholders and paid interest to holders of perpetual bonds, so "surplus reserve" and "general risk reserve" increased but "retained profit" decreased in the reporting period.
3. The increase of "retained profit" is mainly due to the realization of net profit of the Group during the reporting period.
4. The increase of "minority interests" is due to net profit earned by the Group's non-wholly-controlled subsidiary during the reporting period.

3.6 CASH FLOW STATEMENT ANALYSIS

Net cash inflows from operating activities

The Group's net cash inflows from operating activities registered RMB71.015 billion, an increase of RMB36.256 billion or 104.31% from last year, mainly because of less increase in loans.

Net cash outflows from investing activities

The Group's net cash outflows from investing activities registered RMB103.721 billion, an increase of RMB42.017 billion or 68.09% from last year, mainly because of the increased bond investment to create higher returns seizing market opportunities.

Net cash inflows from financing activities

The Group's net cash inflows from financing activities registered RMB10.45 billion, a decrease of RMB21.774 billion or 67.57% from last year, mainly due to redemption of financial bonds upon maturity.

3.7 MAIN ITEMS WITH OVER 30% CHANGES IN THE COMPARATIVE ACCOUNTING STATEMENTS

(Unit: RMB1 million)

Major accounting item	At the end of the reporting period	Increase/decrease compared with the end of previous year (%)	Main reason
Placements with banks and other financial institutions	83,263	128.31	Increase in placements with banks and other financial institutions
Derivative financial assets	8,199	-33.67	Decrease in derivative financial assets
Held-for-trading financial assets	234,757	89.55	Increase in held-for-trading financial assets
Right-of-use assets	6,352	N/A	Implementation of new leasing standards
Financial liabilities for trading	206	N/A	Increase in financial liabilities for trading
Derivative financial liabilities	7,882	-36.26	Decrease in derivative financial liabilities
Lease liabilities	6,053	N/A	Implementation of new leasing standards
Other comprehensive income	833	N/A	Changes in fair value

Major accounting item	Reporting period	% change	Main reason
Investment loss/(gain)	4,068	117.54	Increase in investment gain
Gains on changes in fair value	2,410	379.13	Gains on changes in fair value
Exchange gains	325	69.27	Increase in exchange gains
Profit/loss from the disposal of assets	-8	-366.67	Decrease in profit/loss from the disposal of assets
Other income	49	104.17	Increase in other income
Other impairment losses on assets	178	-57.72	Decrease in other impairment losses on assets
Other business costs	65	124.14	Increase in other business costs
Non-operating expenses	220	39.24	Non-operating expenses increased
Income tax expense	7,590	35.90	Increase in income tax expenses

3.8 LOAN QUALITY ANALYSIS

3.8.1 Five-tier loan classification

The Company uses a five-tier classification approach to loan management strictly in accordance with CBIRC's *Guidelines on Risk-Based Loan Classification*. Loans are classified into five categories, namely, pass, special mention, substandard, doubtful and loss, of which pass and special mention loans are regarded performing, while the last three categories are regarded as non-performing loans.

As at the end of the reporting period, the Group's balance of special mention loans stood at RMB68.529 billion, a decrease of RMB3.781 billion over the end of the previous year, and accounted for 3.10% of total loans, down 0.33 percentage point from the end of the previous year. The balance of NPLs stood at RMB39.073 billion, an increase of RMB1.097 billion over the end of the previous year, and accounted for 1.77% of total loans, down 0.03 percentage point from the end of the previous year.

(Unit: RMB1 million)

Item	End of 2021		Increase/ decrease compared with the end of previous year (%)	End of 2020	
	Balance	Percentage (%)		Balance	Percentage (%)
Pass loans	2,105,927	95.13	5.36	1,998,707	94.77
Special-mention loans	68,529	3.10	-5.23	72,310	3.43
Substandard loans	14,169	0.64	-13.02	16,290	0.77
Doubtful loans	13,278	0.60	-4.79	13,946	0.66
Loss	11,626	0.53	50.21	7,740	0.37
Total	2,213,529	100.00	4.96	2,108,993	100.00
Performing loans	2,174,456	98.23	4.99	2,071,017	98.20
NPLs	39,073	1.77	2.89	37,976	1.80

3.8.2 Distribution of loans and NPLs by product type

As at the end of the reporting period, the Group's balance of corporate loans recorded RMB1,426.665 billion, an increase of RMB34.585 billion or 2.48% over the end of the previous year. The balance of personal loans reached RMB650.3 billion, an increase of RMB55.789 billion or 9.38% over the end of the previous year. The balance of discounted bills was RMB136.564 billion, an increase of RMB14.162 billion or 11.57%. Specifically, the balance of corporate NPLs stood at RMB27.618 billion, down RMB574 million, representing a NPL ratio of 1.94%, down 0.09 percentage point over the end of the previous year. The balance of personal NPLs stood at RMB11.455 billion, up RMB1.671 billion, representing a NPL ratio of 1.76%, up 0.11 percentage point over the end of the previous year.

(Unit: RMB1 million)

Product type	End of 2021				End of 2020			
	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Corporate loans	1,426,665	64.45	27,618	1.94	1,392,080	66.01	28,192	2.03
Personal loans	650,300	29.38	11,455	1.76	594,511	28.19	9,784	1.65
Discounted bills	136,564	6.17	–	–	122,402	5.80	–	–
Total	2,213,529	100.00	39,073	1.77	2,108,993	100.00	37,976	1.80

3.8.3 Distribution of loans and NPLs by industry

During the reporting period, the Group kept close track of the national macroeconomic and financial conditions, resolutely implemented the national and regulatory policies, actively responded to the triple pressures of shrinking demand, disrupted supply and weakening expectations in a full effort to support the real economy. At controlled risks, the Group continued to adjust its asset mix, made the credit policies more fine-grained and adaptive, enhanced differentiated management and rigid policy implementation, and stepped up credit support for key areas such as strategic emerging industries, manufacturing in key regions, SMEs, green credit and consumer spending, thereby continuously enhancing the ability to serve the real economy.

Manufacturing and wholesale & retail pooled most of the Group's NPLs, collectively accounting for 39.87% of the Group's total NPLs, down 8.58 percentage points from the end of the previous year. The NPL ratio was 5.14% and 4.19% for the two industries, down 0.45 and 1.23 percentage points from the end of the previous year, respectively. As a few large corporate loans went non-performing, the NPL ratio rose over the end of the previous year in construction, leasing and commercial services and real estate industries.

(Unit: RMB1 million)

Industry	End of 2021				End of 2020			
	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Leasing and commercial services	408,692	18.46	2,284	0.56	379,629	18.00	952	0.25
Manufacturing	190,744	8.62	9,807	5.14	192,254	9.12	10,748	5.59
Water conservancy, environment and public facilities management	165,691	7.48	857	0.52	143,721	6.81	504	0.35
Wholesale and retail	137,672	6.22	5,773	4.19	141,197	6.69	7,651	5.42
Real estate	125,953	5.69	835	0.66	153,005	7.25	14	0.01
Construction industry	100,084	4.52	2,318	2.32	104,095	4.94	1,633	1.57
Electric power, heat, gas and water production and supply industry	62,844	2.84	570	0.91	63,174	3.00	399	0.63
Transportation, warehousing and post industry	53,069	2.40	1,929	3.63	51,183	2.43	2,247	4.39
Mining industry	31,258	1.41	1,892	6.05	31,752	1.51	2,109	6.64
Other corporate industries	150,658	6.81	1,353	0.90	132,070	6.26	1,935	1.47
Discounted bills	136,564	6.17	–	–	122,402	5.80	–	–
Personal loans	650,300	29.38	11,455	1.76	594,511	28.19	9,784	1.65
Total	2,213,529	100.00	39,073	1.77	2,108,993	100.00	37,976	1.80

Note: Other corporate industries mainly comprise agriculture, forestry, animal husbandry and fishery, information transmission, software and IT services, accommodation and catering, culture, sports and recreation, etc.

3.8.4 Distribution of loans and NPLs by geographical area

Staying close to China's regional strategy arrangements, the Group continued to implement the differentiated regional development strategy of "Three Regions, Two Lines and Multiple Points". Bank-wide transformation was pursued, led by Beijing, Shanghai, Guangzhou, Shenzhen and the Yangtze River Delta as the focus of asset allocation. The priorities of regional development were defined according to regional industrial strengths and economic characteristics, in a bid to meet the needs of regional financial services and optimize asset allocation persistently.

At the end of the reporting period, the Group recorded RMB2,213.529 billion in total loans and advances to customers, up RMB104.536 billion or 4.96% over the end of the previous year. By total size, the Yangtze River Delta, the Beijing-Tianjin-Hebei Region and Central and Eastern China were the top three regions by outstanding loans, which were RMB617.129 billion, RMB569.468 billion and RMB339.472 billion, accounting for 27.88%, 25.73% and 15.34%, respectively. By growth rate, the Group recorded faster growth in loans for the Guangdong-Hong Kong-Macao Greater Bay Area and the Yangtze River Delta, which reached 10.25% and 6.39%, up 0.47 and 0.38 percentage point, respectively.

The Group's loans were mainly exposed to regional risks in the Beijing-Tianjin-Hebei Region, Western China and Northeastern China where the NPL ratio was higher than the Group's average. The risk in the Beijing-Tianjin-Hebei Region was concentrated in Tianjin and Hebei, with the regional NPL ratio up 0.13 percentage point from the end of the previous year. Due to additional NPLs to a few big clients, the regional NPL ratio for Western China rose by 0.25 percentage point from the end of the previous year. The regional NPL ratio for Northeastern China dropped by 1.24 percentage points from the end of the previous year.

(Unit: RMB1 million)

Geographical area	End of 2021				End of 2020			
	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Beijing-Tianjin-Hebei Region	569,468	25.73	16,878	2.96	537,563	25.49	15,201	2.83
Yangtze River Delta	617,129	27.88	5,624	0.91	580,053	27.50	4,799	0.83
Guangdong-Hong Kong-Macao Greater Bay Area	219,037	9.89	1,740	0.79	198,665	9.42	1,585	0.80
Central and Eastern China	339,472	15.34	5,959	1.76	331,537	15.72	7,416	2.24
Western China	282,174	12.75	5,679	2.01	279,830	13.27	4,914	1.76
Northeastern China	61,188	2.76	2,473	4.04	64,969	3.08	3,431	5.28
Subsidiaries	125,061	5.65	720	0.58	116,376	5.52	630	0.54
Total	2,213,529	100.00	39,073	1.77	2,108,993	100.00	37,976	1.80

3.8.5 Distribution of loans and NPLs by guarantee type

During the reporting period, the Group kept the security structure of loans basically stable. Its unsecured loans accounted for 23.24%, up 0.49 percentage point over the end of last year; its guaranteed loans took a 29.15% share, down 1.29 percentage points from the end of last year; and its collateral-backed loans made up 47.61%, up 0.80 percentage point from the end of last year.

(Unit: RMB1 million)

Guarantee method	End of 2021				End of 2020			
	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Unsecured loans	514,475	23.24	9,509	1.85	479,821	22.75	7,149	1.49
Guaranteed loans	645,243	29.15	15,484	2.40	641,954	30.44	18,013	2.81
Collateral loans	1,053,811	47.61	14,080	1.34	987,218	46.81	12,814	1.30
– Mortgage loans	728,974	32.93	11,190	1.54	687,866	32.62	9,500	1.38
– Pledged loans	324,837	14.68	2,890	0.89	299,352	14.19	3,314	1.11
Total	2,213,529	100.00	39,073	1.77	2,108,993	100.00	37,976	1.80

3.8.6 Distribution of loans by overdue period

As at the end of the reporting period, the balance of overdue loans at the Group was RMB41.557 billion, an increase of RMB310 million over the end of the previous year, with a ratio of 1.88%, down 0.08 percentage point compared with the end of the previous year. Specifically, loans overdue for up to 90 days amounted to RMB10.222 billion, accounting for 0.46%, and loans overdue for more than 90 days stood at RMB31.335 billion, accounting for 1.42%. The Group adopted prudential classification standards for overdue loans and continued to cement the foundation of asset quality. At the end of the reporting period, the Group's loans overdue for more than 90 days and NPLs accounted for 80.20% of total overdue loans, down 1.49 percentage points year-on-year.

(Unit: RMB1 million)

	End of 2021		End of 2020	
	Balance	Percentage (%)	Balance	Percentage (%)
Performing loans	2,171,972	98.12	2,067,746	98.04
Overdue loans	41,557	1.88	41,247	1.96
Of which: Overdue for 1 to 90 days (inclusive)	10,222	0.46	10,223	0.49
Overdue for 91 days to 360 days (inclusive)	15,991	0.72	16,159	0.77
Overdue for 361 days to 3 years (inclusive)	11,787	0.54	10,245	0.48
Overdue for more than 3 years	3,557	0.16	4,620	0.22
Total	2,213,529	100.00	2,108,993	100.00
Overdue for more than 90 days	31,335	1.42	31,024	1.47

Note: Overdue loans include the loans with overdue principal or interest. If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

3.8.7 Restructured loans

At the end of the reporting period, the book balance of the Group's restructured loans amounted to RMB1.157 billion, an increase of RMB465 million and accounting for 0.05%, up 0.02 percentage point over the end of the previous year.

(Unit: RMB1 million)

Item	End of 2021		End of 2020	
	Amount	Percentage in total loans (%)	Amount	Percentage in total loans (%)
Restructured loans	1,157	0.05	692	0.03

3.8.8 Particulars of top 10 borrowers

During the reporting period, the Company strictly controlled the loan concentration risk. The balance of top 10 borrowers amounted to RMB57.032 billion, accounting for 2.73% of total loans and 17.35% of net capital at the end of the period, respectively. The balance of single largest legal-person customer loans of the Company was RMB11.85 billion, accounting for 0.57% of total loans of the Company at the end of the reporting period and 3.60% of net capital.

(Unit: RMB1 million)

Item	End of 2021		End of 2020	
	Balance	Percentage in total loans (%)	Balance	Percentage in total loans (%)
Top 10 borrowers	57,032	2.73	51,586	2.59

3.8.9 Loan migration

Item (%)	End of 2021	End of 2020	End of 2019
Pass loan migration ratio	2.58	4.61	3.82
Special-mention loan migration ratio	22.68	28.43	33.35
Substandard loan migration ratio	64.39	69.00	71.00
Doubtful loan migration ratio	23.19	23.90	47.74

Note: Migration ratios were calculated according to relevant rules of CBIRC.

Pass loan migration ratio = downward migrating amount of pass loans at the beginning of the period/(balance of pass loans at the beginning of the period – decreased amount of pass loans at the beginning of the period) x 100%;

special-mention loan migration ratio = downward migrating amount of special – mention loans at the beginning of the period/(balance of special-mention loans at the beginning of the period – decreased amount of special-mention loans at the beginning of the period) x 100%;

sub-standard loan migration ratio = downward migrating amount of sub-standard loans at the beginning of the period/(balance of sub-standard loans at the beginning of the period – decreased amount of sub-standard loans at the beginning of the period) x 100%; and

doubtful loan migration ratio = downward migrating amount of doubtful loans at the beginning of the period/(balance of doubtful loans at the beginning of the period – decreased amount of doubtful loans at the beginning of the period) x 100%.

3.8.10 Basic Information on repossessed assets

(Unit: RMB1 million)

Category	End of 2021		End of 2020	
	Amount	Allowance for impairment losses	Amount	Allowance for impairment losses
Repossessed assets to be disposed of	2,414	1,121	2,328	970

3.8.11 Charge and write-off of allowance for impairment losses on loans

(Unit: RMB1 million)

Item	End of 2021	End of 2020
Balance at the beginning of the period	55,908	48,590
Charge for the year	25,692	36,307
Less: write-offs and transfer-out in the year	25,056	30,603
Recovery in the year	2,460	1,628
Change in exchange rate	-7	-14
Balance at the end of the period	58,997	55,908

Charge method for allowance for impairment losses on loans: The Group sets aside allowances for impairment losses on loans based on expected loss model as required by the new accounting standards in the light of customers' probability of default, loss given default, other quantitative risk parameters and macro forward-looking information, and states them in profit or loss.

3.9 CAPITAL MANAGEMENT

3.9.1 Capital composition and its changes

(Unit: RMB1 million)

Item	31 December 2021		31 December 2020		31 December 2019	
	Consolidated	Unconsolidated	Consolidated	Unconsolidated	Consolidated	Unconsolidated
1. Net core tier-1 capital	240,073	224,226	222,230	208,463	209,148	199,951
2. Net tier-1 capital	300,279	284,197	282,413	268,434	269,302	259,922
3. Net capital base	350,673	328,743	330,769	311,880	314,020	301,242
4. Risk-weighted Assets	2,735,128	2,606,592	2,529,132	2,410,045	2,260,986	2,157,978
Of which: Credit risk-weighted assets	2,547,742	2,427,573	2,361,335	2,248,351	2,111,272	2,012,281
Market risk-weighted assets	16,150	16,149	12,655	12,655	14,103	14,103
Operational risk-weighted assets	171,236	162,870	155,142	149,039	135,611	131,594
5. Core tier-1 CAR (%)	8.78	8.60	8.79	8.65	9.25	9.27
6. Tier-1 CAR (%)	10.98	10.90	11.17	11.14	11.91	12.04
7. CAR (%)	12.82	12.61	13.08	12.94	13.89	13.96

Note: According to the *Regulation Governing Capital of Commercial Banks (Provisional)* (CBRC No. 1 Decree in 2012) and relevant regulatory rules, the minimum CAR requirement is 8%, and the capital conservation buffer and counter-cyclical capital buffer is 2.5%. In October 2021, the Company entered the list of China's domestic systemically important banks (D-SIBs) issued by PBOC and CBIRC, subject to a capital surcharge requirement of 0.25% for D-SIBs. The Company met the capital surcharge requirement for D-SIBs.

3.9.2 Leverage ratio and its changes

(RMB1 million)

Item	31 December 2021	30 September 2021	30 June 2021	31 March 2021
Net tier-1 capital	284,197	277,429	271,545	272,674
Adjusted on and off-balance sheet asset balance	4,087,631	3,914,902	3,850,427	3,797,787
Leverage ratio (%)	6.95	7.09	7.05	7.18

Note: The above are unconsolidated data calculated according to the *Regulation Governing Leverage Ratio of Commercial Banks (Revised)* (CBRC Decree No. 1 in 2015). In October 2021, the Company entered the list of China's domestic systemically important banks (D-SIBs) issued by PBOC and CBIRC, subject to an additional leverage ratio of 0.125% for D-SIBs. The Company met the additional leverage requirements for D-SIBs.

3.9.3 According to the *Capital Rules for Commercial Banks (Provisional)* (CBRC Decree No. 1, 2012), the *Regulation Governing Leverage Ratio of Commercial Banks (Revised)* (CBRC Decree No. 1 in 2015) and other relevant regulatory rules, please refer to the special column of investor relationship at www.hxb.com.cn, the Company's official website, for disclosure of capital adequacy ratio and leverage ratio of the Group.

3.10 ANALYSIS OF INVESTMENTS

3.10.1 Material equity investments

During the reporting period, the Company contributed RMB250 million to National Financing Guarantee Fund Co., Ltd.

Holdings in other listed companies

(Unit: RMB1 million)

Stock code	Stock name	Initial investment cost	Shareholding percentage (%)	Book value at the end of the period	Return during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
V	Visa Inc.	1	0.0003	11.11	0.08	-0.30	Other equity instrument investments	Membership fees converted to shares

Holdings in unlisted companies and companies to be listed

(Unit: RMB1 million)

Name	Initial investment cost	Shares held (Million shares)	Shareholding percentage (%)	Book value at the end of the period	Return during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
National Financing Guarantee Fund Co., Ltd.	1,000	–	1.51	1,000	–	–	Other equity instrument investments	Investment with self-owned capital
China UnionPay Co., Ltd.	81	62.50	2.13	1,776	16.25	–	Other equity instrument investments	Investment with self-owned capital
Beijing Daxing Hua Xia Rural Bank Co., Ltd.	100	–	80	100	–	–	Long-term equity investments	Investment with self-owned capital
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	35	35	70	35	–	–	Long-term equity investments	Investment with self-owned capital
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	35	52.50	70	35	2.63	–	Long-term equity investments	Investment with self-owned capital
Huaxia Financial Leasing Co., Ltd.	4,920	–	82	4,920	–	–	Long-term equity investments	Investment with self-owned capital
Huaxia Wealth Management Co., Ltd.	3,000	–	100	3,000	–	–	Long-term equity investments	Investment with self-owned capital

Note: The cost method was adopted for accounting of the Group's long-term equity investments. Except actual payments upon investment or announced but unpaid cash dividends/profits in consideration, cash dividends/profits announced by investees for distribution were recognized as return on investment into current profit or loss.

3.10.2 Analysis of major controlling and equity participation companies

3.10.2.1 Huaxia Financial Leasing Co., Ltd.

The company, with a registered capital of RMB8 billion, started operation in April 2013, in which the Company holds an 82% stake. Its business scope covers financial leasing, transfer of financial leasing assets, fixed-income securities investment and acceptance of lease premium from lessees.

At the end of the reporting period, the company's total assets and net assets were RMB129.405 billion and RMB12.897 billion, respectively. For the reporting period, the company realized operating income of RMB4.634 billion and net profit of RMB2.005 billion.

3.10.2.2 Huaxia Wealth Management Co., Ltd.

The company, with a registered capital of RMB3 billion, started operation in September 2020, in which the Company holds a 100% stake. Its business scope covers issuing wealth management products to the public, and investing and managing the investors' assets as trustee, issuing wealth management products to qualified investors and investing and managing the investors' assets as trustee and financial advisory and consulting services.

At the end of the reporting period, the company's total assets and net assets were RMB3.474 billion and RMB3.337 billion, respectively. For the reporting period, the company realized operating income of RMB662 million and net profit of RMB295 million.

3.10.2.3 Beijing Daxing Hua Xia Rural Bank Co., Ltd

The bank with a registered capital of RMB1.25 billion started operation in September 2010, in which the Company holds an 80% stake. Its business scope covers deposits taking, extension of loans on a short-term, medium-term and long-term basis, domestic settlement, bill acceptance and discounting, inter-bank lending, bank card (debit card) business, etc.

At the end of the reporting period, the bank's total assets and net assets reached RMB1,040,286,900 and RMB128,586,300, respectively. The deposit balance stood at RMB678,896,600 and total loans at RMB810,774,400. For the reporting period, the bank realized operating income of RMB34,524,700 and net profit of RMB5,256,800.

3.10.2.4 Kunming Chenggong Hua Xia Rural Bank Co., Ltd.

The bank, with a registered capital of RMB50 million, started operation in July 2011, in which the Company holds a 70% stake. Its business scope covers deposits taking, extension of loans on a short-term, medium-term and long-term basis, domestic settlement, bill acceptance and discounting, inter-bank lending, bank card business, commissioned issuance, encashment and underwriting of government bonds, agency payment and insurance, etc.

At the end of the reporting period, the bank's total assets and net assets reached RMB562,329,700 and RMB74,975,300, respectively. The deposit balance stood at RMB312,959,400 and total loans at RMB450,290,200. For the reporting period, the bank realized operating income of RMB23,404,400 and net profit of RMB9,407,000.

3.10.2.5 Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.

The bank, with a registered capital of RMB75 million, started operation in September 2011, in which the Company holds a 70% stake. Its business scope covers deposits taking, extension of loans on a short-term, medium-term and long-term basis, domestic settlement, bill acceptance and discounting, bank card business, commissioned issuance, encashment, underwriting and trading of government bonds, guarantees, etc.

At the end of the reporting period, the bank's total assets and net assets reached RMB1,309,613,700 and RMB132,915,200, respectively. The deposit balance stood at RMB1,109,560,500 and total loans at RMB1,074,502,400. For the reporting period, the bank realized operating income of RMB60,770,400 and net profit of RMB12,115,500.

3.10.3 Material non-equity investments

During the reporting period, the Company did not make any material non-equity investment.

3.11 OTHER INFORMATION DISCLOSED PURSUANT TO REGULATORY REQUIREMENTS

3.11.1 Interest receivable

According to the *Notice on Amending and Issuing the Formats of Financial Statements for Financial Enterprises in 2019* (C.K. [2019] No. 36), the interest accrued on financial instruments using the effective interest rate method shall be included in the book balance of relevant financial instruments and presented in relevant statement items. Interest due and receivable but not received is stated under “other assets”.

Charge of allowance for bad debts of interest receivables:

During the reporting period, the Group examined interest receivable based on the expected credit loss (ECL) model and accrued the allowance for impairment of financial instruments.

Writing-off procedures and policy of bad debts:

As for the items in line with the conditions of writing-off, the Company adopted the procedures of declaration by the branches and approval by the Head Office: relevant departments of branches organized the declaration and review for the bad debts writing-off, submitted to the president panel of branches for review and approval and then reported it to the Head Office; after being reviewed by relevant departments of the Head Office and approved by the Risk Disposal Committee, the items were written off.

In the process of bad debts writing-off, the Company followed the principles of “confirming to identification conditions, following effective evidence, filing after writing-off, and maintaining recovery rights”. After the bad debts were written off, the management responsibility was strictly carried out and diversified methods were adopted in the continuing recourse.

3.11.2 Financial assets measured at fair value

For financial assets stipulated by standard articles and traded on the active market, the Company determines their fair value separately with reference to the buy-in and sell-out prices available on the market.

As for the financial assets without an active market, the Company adopts valuation techniques to determine their fair value. The valuation technologies include using recent far market transactions (if available) voluntarily conducted by parties to transaction familiar with market conditions, using the present fair value of other financial instruments that are substantially the same for reference and discounted cash flow analysis and option pricing models. The valuation technologies should use market parameters where possible. If market parameters are unavailable, the valuation management department shall estimate its and the counterparty's credit risk, market volatility and relevance, regularly review the above estimates and assumptions and make adjustments where necessary.

(Unit: RMB1 million)

	Amount at the beginning of the period	Changes in fair value through profit or loss in the year	Accumulated changes in fair value through equity	Allowances for impairment losses during the period	Amount at the end of the period
Derivative financial assets	12,361	-4,162	–	–	8,199
Loans and advances to customers measured at fair value through other comprehensive income	117,723	–	-78	66	141,753
Held-for-trading financial assets	123,848	2,481	–	–	234,757
Other debt investments	172,926	–	1,758	46	196,272
Other equity instrument investments	5,484	–	-1,286	–	6,924
Others	51	-3	–	–	–
Total financial assets	432,393	-1,684	394	112	587,905
Derivative financial liabilities	12,365	4,483	–	–	7,882
Financial liabilities for trading	–	2	–	–	206
Total financial liabilities	12,365	4,485	–	–	8,088

Note: There is no necessary articulation in the table.

3.11.3 Off-balance-sheet items that may have material impact on financial position and operating results

(Unit: RMB1 million)

Item	Balance at the end of 2021	Balance at the end of 2020
Credit commitments	856,793	720,606
Of which:		
Irrevocable loan commitments	9,222	2,411
Bank acceptance drafts	384,281	319,239
L/Gs and other payment commitments issued	32,665	27,764
L/Cs issued	155,963	146,970
Unused credit card limit	265,981	222,178
Financial lease commitments	8,681	2,044
Capital expenditure commitments	1,915	888

The above-mentioned off-balance-sheet items might have impact on the Group's financial position and operating results, which depends on whether the related matters will occur in the future. Under certain conditions in the future, they may be converted to the actual obligation of the Group in accordance with the recognition principle of contingencies.


3.11.4 Gain/loss on asset securitization in the reporting period

During the reporting period, the Company originated the "Longju Anying 2021 Series 1 Residential Mortgage Backed Security" with an issue size of RMB5.406 billion. The asset securitization business helped the Company liquidize idle assets, improve business structure, boost service efficiency and quality and transform business model.

3.11.5 Innovative products

The Company remains customer-centric and oriented to customer demand. In light of policy and market changes, technology has been leveraged to empower the creation and refinement of products, in a bid to create value for customers and serve the real economy.

By improving product functions, enriching product application channels and boosting user experience of products, corporate finance has stronger ability to provide integrated financial services for customers. Relevant financing products were created or improved with a focus on key national policies, including green credit and rental housing. Credit support was strengthened for key fields including green finance, manufacturing and strategic emerging industries. Settlement and liability products moved online. Online product features were optimized for All-in-One Corporate Account, Smart Bill Payment and large-denomination negotiable certificate of deposit. Trade finance upheld the digital transition strategy, showing technology-empowered acceleration of product innovation. Explorations were made to advance the "platform + scenario" service chain model focused on core enterprises in the supply chain. Non-recourse re-factoring and online auto finance products were optimized, the electronic letter of credit features were enriched and the application of new technologies and development of scenarios were strengthened to further boost service quality and efficiency.



Industrial digital finance manifested richer mix of digital products and multi-point breakthroughs. Such cutting-edge technologies as Internet of Things and blockchain were aligned with the industrial ecosphere to harness the value of industry chain data. Digital credit and smart risk controls were leveraged to develop such financing products as digital product pool, digital factoring and digital logistics loans, enabling the digital, smart, mobile and automatic processing of credit granting, loan disbursement and fund payment and significantly enhancing efficiency.

Retail finance strengthened product innovation and accelerated online migration of services. An enterprise-level WeChat cloud studio was built, and an elderly version of the mobile banking was launched to show care and provide considerable online services for senior people. The online appointment for card application was launched via mobile banking, the mobile PAD integrated financial services were launched and the convenient card issuance features was optimized. The Hua Xia e Loan risk control model was upgraded and the online customer acquisition tool for Elite Credit Loan was launched to increase intakes of personal loan applications and efficiency of approval. Credit card products built on core customer groups to build a diverse product family. Virtual and physical product features were developed to create the experience of integrated and convenient product service featuring use immediately upon application.

Inclusive finance actively implemented China's major strategy of digital development, used technology to empower inclusive financial services for MSBs and strengthened the capability of contactless financial services. Leveraging on FinTech, the "Hua Xia Bank Inclusive Private Enterprise Express" was fully upgraded to allow online processing of customers' application, document uploading, automatic filing, drawdown request, contract signing and repayment. The MSBs lending became smarter and more automatic, providing MSBs with a package of contactless, invisible and efficient financial services, thus promoting the development of inclusive finance. A number of standard MSB products were launched, including Mortgage Link, POS Loan and NFGF-Guaranteed Loan, and promoted bank-wide. In addition, MSB products tailor-made for particular customer groups in different regions were developed to precisely meet the diverse demand of MSBs.

The financial market business segment pushed for innovation on various fronts to boost market influence. The Fullgoal Carbon Neutrality One-year Open-ended Bond Sponsored Securities Investment Fund was created in cooperation with Fullgoal Fund Management, with its proceeds earmarked for investing in bonds themed by carbon neutrality. The AVIC Ruihua One-year Open-ended Bond Sponsored Securities Investment Fund developed jointly with AVIC Fund Management got officially approved. It came as the first ESG-themed bond investment fund offered publicly in China, and will be put in the custody of the Company. The CSI Hua Xia Bank ESG Select Bond Index was issued jointly with China Securities Index Co., Ltd., as part the effort to impellent the ESG development strategy and tap deeper into the financial market to serve the real economy. Asset custody pursued innovation in products and services, making breakthroughs in various fields. The Company took custody of Fullgoal CSI ESG 120 Strategy ETF, one of the first ESG-themed ETFs in the market. It also took custody of GF-BSE Select Two-year Open-ended Hybrid Securities Investment Fund, one of the first funds themed by Beijing Stock Exchange.

3.11.6 Structured entities controlled by the Company

For the consolidated structured entities of the Group and the interests and rights enjoyed in structured entities excluded from the consolidated financial statements in detail, please refer to Note XIV. Structured Entities.

3.11.7 Material asset and stock right sales

During the reporting period, the Group did not make any material asset or stock right sales.

3.12 BUSINESS REVIEW

3.12.1 Corporate banking

During the reporting period, the Company transformed corporate banking toward “commercial banking + investment banking” at a faster pace and built an “industry + customer” operation system. Resource integration and collaborative marketing were strengthened to shift faster from a traditional financing intermediary to a provider of integrated financial services, showing effective transformation of the development model. The Company pursued a customer-centric approach to manage customers more meticulously. While working harder to enhance its comprehensive financial service capacity, it rendered customers with a full package of financial services including deposit, loan, investment banking, trade finance, green finance and cash management, thus serving and supporting the development of real economy in a substantive way.

Corporate customer management

The Company actively fit into national strategies and regional mainstream economy on a customer-centric basis. Focusing on high-end customers in traditional industries and emerging entities in high-end industries, the Company carried out “industry + customer” marketing, created a marketing whitelist system and structurally adjusted the corporate customer base. A “core – strategic – institutional – basic customers” hierarchical and classified marketing system was created and improved to strengthen professional management of customer groups. The “commercial banking + investment banking” collaborative service model was deepened. From the perspective of finance product aggregate (FPA), the ability to provide integrated financial services for customers was boosted by creating a closed loop composed of traditional on-balance-sheet and off-balance-sheet credit, bond underwriting, interbank matchmaking, active investment, financial lease, wealth management financing, cash management and intermediate business. At the end of the reporting period, the Company had 610,900 corporate accounts, an increase of 3.64% over the end of the previous year.

The Company further implemented the “3-3-1-1” customer strategy in line with the national industrial policies. Following a path of “development in batches, improvement over years”, customer development was strengthened to optimize the customer mix. The whitelist of “3-3-1-1” strategic customers were adjusted from time to time, the hierarchical and classified marketing was continued and the “commercial banking + investment banking” financial service model was further applied, providing integrated financial services including credit, bond underwriting and M&A financing to meet the customer demand for financial services. The Company strengthened the strategic cooperation with local governments, key enterprises and key institutions. Strategic partnership agreements were signed with 17 government agencies and business conglomerates, including Hunan Provincial Government, Fujian Provincial Government, China Communications Construction Group, Jinneng Holdings Power Group, Zhongguancun Development Group and China Electronics Corporation to actively deepen overall business cooperation. At the end of the reporting period, the Company had 103 Head Office-level strategic customers, up 24 from the end of the previous year. The Company had business cooperation with 5,129 or 30.73% of the 16,690 whitelisted “3-3-1-1” customers. The above whitelisted “3-3-1-1” customers contributed RMB273.115 billion of corporate deposits per day in average, up 4.98% from the previous year, with a balance of loans standing at RMB268.82 billion, up 10.53% from the end of the previous year.

The Company strengthened professional research and marketing guidance on institutional banking, tapped deep into key fields of institutional customers and worked closely with government agencies to enhance the bank-government cooperation. It kept boosting the overall service level and laid a solid foundation for institutional banking development with a focus on “attaining important qualifications, marketing major projects and developing key areas”. The Company was granted over 600 institutional banking qualifications. The Company proceeded with building the treasury centralized electronic payment system, optimized the non-tax business system of central and local governments, provided electronic agency payment service for public finance departments at all levels, and was rated as “excellent” by the Ministry of Finance in its comprehensive evaluation of non-tax revenue collection service for the central government for five consecutive years. The Company renewed the framework cooperation agreement with the National Healthcare Security Administration, and carried out comprehensive services such as the electronic certificate for basic medical insurance and drug volume-based procurement in 24 provinces, winning the praise from the National Healthcare Security Administration for two consecutive years. Business development was stepped up in the fields of land, housing, public resources, social security, education and tobacco. Riding on the trend of service-oriented government, smart cities and digital development, the Company effectively enhanced the IT service capacity to develop unique financial service solutions and boost the loyalty of institutional customers.



Corporate deposits

The Company strengthened the marketing of corporate deposits, deepened the guide to deposit sources, made ongoing and in-depth efforts to provide “integrated financial service solutions”, carry out list-based marketing, boost cross-application of products, enhanced the customer service capacity and achieved high-quality growth of corporate deposits. As at the end of the reporting period, the balance of corporate deposits of the Company increased by 3.48% year-on-year to RMB1,515.758 billion. The cost of corporate deposits was 1.83%, still a relatively low level among joint-stock commercial banks.

Corporate loans

The Company deepened financial services and increased lending with a focus on key regions, key branches and key customers while serving the national development objectives and the real economy, responding to the national macro-economic policies and industrial policies and the national major development strategies, including the coordinated development of the Beijing-Tianjin-Hebei Region, the Yangtze River Delta integration and the Guangdong-Hong Kong-Macao Greater Bay Area. As at the end of the reporting period, outstanding corporate loans (excluding discounted bills) of the Company amounted to RMB1,306.509 billion, up 2.34% compared with the end of the previous year. Outstanding corporate loans (excluding discounted bills) to the Three Regions amounted to RMB824.711 billion, up 4.79% compared with the end of the previous year.

Corporate internet finance

Corporate banking further went online. Online service scenarios were continuously developed to effectively enhance contactless service capacity. The corporate internet finance customers increased steadily. At the end of the reporting period, the Company had 17,200 new registered users and 414,500 cumulative registered users of corporate internet finance, up 4.33% from the end of the previous year, and active users accounted for 87.89%. Corporate mobile banking had 137,500 registered users cumulatively, up 31.72% from the end of the previous year.

By continuously optimizing product features and providing customized service solutions to key customers, internet finance-based cash management products were promoted faster. At the end of the reporting period, the Company's cash management platform series products registered 134 new clients, providing services for 610 corporate customers from more than ten industries such as transportation, wholesale, retail and foreign trade and assisted customers in managing RMB38.453 billion of funds in aggregate.

Investment banking

The Company is steadfast in implementing the “commercial banking + investment banking” transition strategy. The foundation of “commercial banking” is fortified with “investment banking”, with a focus on systematizing investment banking and persistently enhancing market competitiveness and customer recognition.

At the end of the reporting period, the Company recorded RMB528.382 billion in size of investment banking, up 17.96% year-on-year, and registered 678 new customers served. Thanks to the persistent efforts to expand the corporate customer base with a better structure and higher level, the domestic underwritings totaled RMB302.701 billion (including asset securitizations), up 29.48% from the end of last year, including RMB227.224 billion (including asset securitizations) of credit bond issuance in the interbank market.

During the reporting period, the Company issued a number of carbon-neutral bonds and rural vitalization bonds in response to the carbon peak and carbon neutrality, and provided investment banking support for the shift to new drivers of economic growth and performance of social responsibility. In terms of green bonds, the Company advanced the green finance with its own characteristics, attaching great importance to the work related to green finance. A total of four carbon-neutral bonds and green mid-term notes were issued in the year, with an aggregate underwriting amount of RMB5 billion. In terms of rural vitalization, a handful of NAFMII mid-term notes and CFAE debt financing plan projects were implemented. In terms of support for high-tech startups, the startup-innovator bonds and high growth bonds were issued to fuel high-tech business and innovation. The asset securitization business supported the national food security strategy and serving the local real economy. The Company issued China's first deleveraging asset-backed note (ABN) of agriculture enterprise, which was also the first deleveraging ABN among central enterprises directly managed by the Ministry of Finance and in the first deleveraging ABN in Heilongjiang Province. The Company also issued the first deleveraging ABN in Anhui Province. Issuers were helped to reduce their liabilities-to-assets ratio.

The Company seized market opportunity to issue China's first green green mid-term note with a participating equity. The overseas bond underwriting took its first step and grew rapidly. The capability of integrated financial service at home and abroad was further enhanced. The Company's investment banking advisory and matchmaking services become available more broadly with a wider range of offerings.

Trade finance

Trade finance remained asset-light, fitting into the new development pattern featuring dual circulation, which takes the domestic market as the mainstay while letting domestic and foreign markets boost each other. In pursuit of platform-based, scenario-based, online and digital transformation, trade finance has shown stronger capacity of integrated financial services to better serve the real economy. At the end of the reporting period, the Company recorded RMB645.059 billion in balance of trade finance assets on and off the balance sheet, up 14.88% year-on-year. The balance of domestic L/Cs and other capital-light business assets stood at RMB189.039 billion, an increase of 0.55% over the end of the previous year. The international settlements for the year reached USD164.667 billion, an increase of 15.27% year-on-year. The Company expanded the correspondent banking network serving the Belt and Road Initiative, with 630 or 52.68% of its correspondent banks located along the Belt and Road.

3.12.2 Retail finance

During the reporting period, the Company got the basics of service right, adhered to market orientation, strengthened innovation drive and devoted itself to value creation. The retail transformation strategy was accelerated, the wealth management features were further developed, the digital transition of retail finance was deepened and new retail products and service models were introduced, providing professional, convenient and high-quality retail financial services for individual customers.

Retail customers

During the reporting period, the Company adhered to the “customer-centric” business philosophy, continued to enrich the retail product and service offerings and enhanced the customer service experience. It deepened key projects of retail-corporate collaboration, unleashed the synergy of sectors, integrated financial products, services, scenarios and other resources and provided customers with “1+N” one-stop comprehensive financial service solutions through bulk referral. The first phase of the bank-wide reward points redemption system went live for trial run, providing diverse value added services to meet key needs of customers during their lifecycle and key journeys.

The individual customer groups kept expanding. As at the end of the reporting period, the Company had 31,469,100 individual customers (excluding credit cards), up 6.26% over the end of last year, 502,800 VIP customers², up 7.97% over the end of last year, 289,600 wealth management customers³, up 14.02% over the end of last year, 26,000 quasi-private banking customers⁴, up 16.20% over the end of last year, and 13,600 private banking customers⁵, up 19.18% over the end of last year. The Company had 689,000 consumer credit customers, up 6.38% over the end of last year, and 507,500 acquiring customers, up 15.79% over the end of last year.

Personal deposits

The Company responded actively to changes in the market and policy environment. With a focus on customer base management, model innovation, management promotion and products/services, the personal deposit business saw upgrades to product combination, to integrated customer service, to integrated online and offline channels and to platform-based bulk referral of customers, thereby building a long-term growth mechanism for personal deposits. **Precision marketing was enhanced.** The digital technology was leveraged in customer management to enable precise identification of customer needs and well-targeted products and services, thus effectively expanding the sources of deposit. **Ongoing innovation of the product system was carried out.** A deposit product line encompassing all channels was created to provide various types of products for different customer groups. Given a range of products with short, medium and long terms, the product brand building was integrated into product innovation and marketing activity. The personal deposit brand became increasingly popular. **Marketing upgrades were accelerated.** The Company stepped up biosphere development, platform-based customer acquisition and scenario-based operation and intensified customer referral to attract and retain deposits, breaking new ground in marketing models. As at the end of the reporting period, the balance of personal deposits of the Company stood at RMB386.503 billion, up 10.16% from the end of the previous year.

² VIP customer means a customer with an average daily AUM worth at least RMB200,00 but less than RMB600,000 in the previous month.

³ Wealth management customer means a customer with an average daily AUM worth at least RMB600,00 but less than RMB3 million in the previous month.

⁴ Quasi-private banking customer means a customer with an average daily AUM worth at least RMB3 million but less than RMB6 million in the previous month.

⁵ Private banking customer means a customer with an average daily AUM worth at least RMB6 million in the previous month.



Personal loans

The Company keeps getting the basics of banking services right, steadfastly following the national policy guidance. The personal loan business has moved forward in a well-ordered manner, thanks to the persistent efforts to enrich the personal loan offerings and enhance the capability of digital risk control. **The housing loan business grew steadily.** The Company earnestly implemented the national macro-control policies and financial regulatory requirements on real estate and strengthened compliance management of the real estate loan business. The housing loan business adhered to the doctrine that the “houses are for living in, not for speculation” and the “city-specific policy” strategy. With enhanced control over the size, growth and structure of housing loans, the credit supply was reasonably arranged to ensure the needs of first-home buyers and home upgraders were met and maintain reasonable growth of personal housing loans. **The consumer loan products were optimized faster.** The Company stepped up efforts to innovate consumer credit products and create consumer scenarios in line with consumer financing needs. Products and scenarios were further integrated to drive the growth of consumer finance. The product features of Hua Xia e Loan were optimized, differentiated customer application and scenario marketing were promoted and risk control models were refined iteratively, in a bid to develop online consumer loan products under proprietary brands, in-house models and self-dependent risk control. **The personal loan process was further automated.** System features for the personal credit factory were updated and optimized. The features regarding automatic approval of personal loans, automatic day-to-day examination and automatic check of loan proceeds use were upgraded and the monitoring strategy and deployment rules were updated iteratively to enhance risk prevention and control. **The personal credit structure continued to improve.** The Company successfully issued the “Longju Anying 2021 Series 1 Residential Mortgage Backed Security” with a total size of RMB5.406 billion, further revitalizing idle assets, accelerating asset circulation and enhancing the customer service capability. At the end of the reporting period, the Company's balance of personal loans (excluding credit cards) was RMB471.047 billion, up 11.03% over the end of the previous year.

Wealth management and private banking

2021 marked the beginning year of the Company's five-year plan for “building a wealth management bank with distinctive features”. Headway was made in the marketing mechanism, product shelves, equity services, the investment research and advisory system and professional teams. The wealth management system has been upgraded on every front. As of the end of the reporting period, 13 key branches of the Company established the tier-one wealth management and private banking departments, showing significantly stronger capability of professional wealth management and private banking services.

The wealth management and private banking product shelves were diversified to build an open platform. The product system was continuously improved, shaping product shelves covering fixed income, equity income, structured investment, infrastructure REITs, private equity investment, insurance protection and family trusts. The Company remained oriented to customer demand, cooperated with selected external partners, including fund, securities, trust and insurance institutions, and strengthened the selection of quality products and innovation of products. Based on market-wide product lifecycle research and management, the Company endeavored to build an open product platform to meet customers' demand for comprehensive, one-stop product supply.

The investment research and advisory system was improved to improve the ability to allocate customer assets. The Company has established an investment research system covering macro-economy, major asset classes, investment strategies and follow-up on key products and created a multi-frequency lifecycle research mechanism investment research capability was enhanced, manifesting stronger capability of investment research. The Daily Newsletter on Wealth Management and Private Banking platform went live to develop social marketing scenarios. New marketing service models were introduced, with the public offering fund “Pulse Plan” setting new records of issuance many times. The “Family Wealth Growth Festival” brand event was launched to provide customer-centric product allocations and a series of special product offers to customers. At the end of the reporting period, the Company recorded RMB456.935 billion in balance of personal wealth management, up 8.86% year-on-year, with a balance of agency fund sale of RMB64.612 billion, up 142.57% year-on-year. During the reporting period, the Bank recorded a net fee and commission income of RMB1.912 billion from wealth management, up 14.29% from the previous year.

The professional team building was intensified for higher service quality. The “four-pronged” professional team composed of wealth managers, investment advisors, product managers and customer managers was established to provide integrated wealth management services for customers. Professional skills of the team were enhanced through tiered training of wealth managers, investment advisors and product managers.

At the end of the reporting period, the Company recorded RMB977.406 billion in total financial assets of personal customers, up 13.33% over the end of the previous year. VIP customers had RMB177.168 billion in total financial assets, up 8.19% over the end of the previous year. Wealth management customers had RMB338.914 billion in total financial assets, up 14.20% over the end of the previous year. Quasi-private banking customers had RMB104.363 billion in total financial assets, up 14.01% over the end of the previous year. Private banking customers had RMB221.097 billion in total financial assets, up 15.64% over the end of the previous year.

Box 1: Developing a New Signature of Wealth Management

Under the five-year plan for “building a wealth management bank with distinctive features”, the Company endeavors to develop a new signature of wealth management and enhance the value of both business and customers through long-term relationship, professional research capability, product and service mechanisms and wealth management team building.

The wealth management brand and the private banking brand were launched. Based on its strategic development plan and cultural characteristics, the Company established “harness value for you” as the core value of wealth management. It created a wealth management brand value system “dedicated to growing your family wealth” and a private banking brand value system positioned to be “with you all the way”. The Hua Xia Bank dual brands of wealth management and private banking were launched at the “Family Wealth Growth Festival”, with wonderful marketing events and products carried out simultaneously at 40 branches nationwide.

The Company issued the first new economy equities-bonds rotation index in China. The CSI Hua Xia Bank New Economy Wealth Index was launched. The index came as the first new economy index linked to a bank’s customer strategy, and also the first equities-bonds rotation index focused on new economy. It points to the diversification trends of bank activity and the Company’s development in lockstep with national strategic transition. The index provides forward guidance for product development, serving as a more scientific, professional reference tool for investors’ asset allocation.

A “research, allocation and portfolio” integration mechanism was created. The Company established an integrated service mechanism extending from investment research to asset allocation and to product portfolio. The buyer’s opinion on macro-economy and capital market is derived from professional investment research, and the asset allocation strategy is developed from an informed decision making mechanism and the advice on product portfolio is given based on asset allocation, thus transitioning from product-driven to customer-centric asset allocation service.

The Company made an ambitious foray into personal pension finance. It seized the market opportunity of third-pillar pension development to launch a FOF mutual fund for all pensioners and a customized FOF fund for selected pensioners. A variety of pension finance products were offered to foster the brand of “pension investment at Hua Xia”.

A value added service entitlements system was created. Based on a “customer-centric” service philosophy and the dual service brands of “Gain Better Future” and “Together We Prosper”, the Company has pooled high-quality non-financial service resources from various channels and worked with premier service organizations to establish a one-stop value added service entitlements system covering business trip, health management, quality life, education and growth and audiovisual entertainment, so as to enhance the level of comprehensive customer service.

The professional management team and service are recognized in market. The Company has persistently enhanced its comprehensive service capability in wealth management and private banking and built a wealth management team with professional competencies and proven services. In 2021, the Company won the “Outstanding Private Banking Award” from Pystandard and the “Best Organization Award of China Private Banker Competition (2021)” from FPSB China.



Debit cards and acquiring and payment services

The debit card service system has been improved for better customer experience. Key projects served people's livelihood. The Company played its part in the third-generation social security card project and the Beijing-Tianjin-Hebei Integration Card project. With flexible business models and considerate service offerings, the Company provided a package of financial and public wellbeing services for a broad customer base. With a focus on serving the real economy and people's better life, the Hi-tech Elite Card was introduced for high-tech startups. The Lucid Water & Lush Mountain Card, among others, was upgraded. Customer experience was further improved by a combination of online card application and offline card issuance, thus meeting customers' needs for convenience of card application. During the reporting period, the Company issued 2,119,700 debit cards (including plastic cards and electronic cards).

The scenario-based acquiring service was advanced, with the Hua Xia Cashier brand refined. Acting on the "Pay for People" philosophy, the payment product line was improved. A link was created with top service organizations nationwide to set up consumer scenarios and shape a "payment + scenario" consumer ecosystem, empowering the business of merchants and refining the Hua Xia Cashier brand. The Merchants Thriving Initiative was launched bank-wide to boost the capability of providing comprehensive, differentiated merchant services and creating value for merchants. Acquiring services such as facial recognition payment and integrated payment were provided for sports, culture and tourism merchants in key places of Beijing Winter Olympics, supporting the scenario-based digital dimension of the Winter Olympic Games.

Credit card

The credit card risk control system has been upgraded across the board. The credit card business grew steadily with better customer engagement and enhanced user experience, showing a faster pace of digital transformation.

The Company kept developing a multi-tiered, multi-brand product system with robust scenarios. The Company issued its first American Express RMB credit card in line with the changing clearing landscape. Women-themed cards with a traditional Chinese design style were issued. The Beijing Winter Olympics credit card was launched. The Tencent Video co-branded credit card was rolled out as part of the explorations for cooperation with internet platforms.

The customer lifecycle management was enhanced with a differentiated customer engagement strategy. Scenario-based marketing for online channels was deepened. The Company partnered with some top platforms to activate the accounts of cardholders and increased the granularity of customer management to boost customer activity. The digital and smart features of the installment payment service were deepened, with the big data technology further applied to create a platform-enabled closed loop of business through precision marketing.

The "Splendid Life" APP was upgraded faster and the consumer scenarios were developed with vigor to provide customers with comprehensive, multi-dimensional services. As of the end of the reporting period, 10,053,500 users were registered for the credit card "Splendid Life" APP, up 47.54% from the end of the previous year.

The rapid iteration mechanism for risk decision making was refined, the new card risk strategy system was improved, the differentiated regional policy was made a routine and the customer mix was reasonable. Technology was fully leveraged to keep improve the total-process risk control system featuring an integration of data, models, strategies and systems, thereby effectively boosting the capability of digital, automatic and intelligent risk management.

As at the end of the reporting period, the Company had issued a cumulative number of 31,367,300 credit cards, an increase of 16.11% over the end of the previous year, and recorded RMB174.348 billion in balance of credit card loans, a growth of 2.99% over the end of the previous year. There were 20,592,000 ending valid credit cards, an increase of 10.34% over the previous year. The number of valid credit card holders⁶ was 16,942,700, up 6.22% year-on-year. During the reporting period, value of credit card-based transactions totaled RMB1,043.275 billion, representing a decrease of 0.69% year-on-year. The Company realized RMB15.07 billion income from credit card business, a growth of 6.94% over the previous year.

Transformation of retail business towards digital operation

The Company stepped up agile organization management and deepened the technology embedding mechanism. The "digital vanguard" retail technology team was built, with enhanced effort to attract talent in requirements, development and data. Endeavors were stepped up to develop a "professional, devoted and specialist" versatile team. The mechanism for posting IT staff to business departments was deepened. The "business-driven" agile iteration mechanism was enhanced to serve customers better.

The key retail customer groups were further tapped with stronger digital capacity. The lifecycle marketing model for key customer groups was further applied and a digital customer engagement process was created. The differentiated product sale based on "precise model + whitelist" was carried out to improve customer experience.

The "cloud access" series service tools were developed to provide high-quality, efficient financial services. The Company continued to build an online cloud studio. The 5G and AI technologies were leveraged to link Unicom WeChat banking, mobile banking and WeChat applets, create a digital marketing service window and provide "contactless but heart-warming" retail sales channels. The mobile PAD service features were upgraded, and the dual-card integration, loan integration and facial recognition features were upgraded to shape an all-channel service system of "outlets + APPs+ ecosystems".

⁶ Valid credit card holder means a customer with at least one valid credit card in his/her name.

The retail channel network was optimized for better mobile banking that is “fast, user friendly, interesting, preferential and fun”. The mobile banking capability in terms of innovation, data, agility and operation was enhanced in a bid to develop personal mobile banking into the primary retail channel. The product matrix was improved iteratively and value added service features were enriched to improve the customer experience of “fast, user friendly, interesting, preferential and fun” mobile channels. An elderly version of mobile banking was launched to provide a considerate online channel for senior people, helping get elderly customers through the “digital divide”. During the reporting period, personal mobile banking had 154 new features launched and 597 existing features optimized. During the reporting period, the Company registered 22,891,900 personal mobile banking users with an average monthly active users of 3,666,000, an increase of 36.35% year-on-year.

3.12.3 Financial market business

During the reporting period, The Company made solid moves to implement the diversification strategy while maintaining compliance of operations, striving to become an “integrator of financial services”. Faced with the increasing uncertainty and complexity of the financial market environment, the Company strengthen the analysis of macroeconomic trends, bond markets and foreign exchange markets at home and abroad, pressed forward with investment, financing, trading, wealth management and asset custody service and enhanced the ability to comprehensively serve the real economy and customers.

Financial market business

The financial market business was further transformed. The Company performed the market maker duties to expand trading assets and boost trading income. To become the “best partner in interbank business”, a circle of friends was established to accelerate asset trading and transfer among financial institutions. Pursuant to regulatory requirements, product innovation was stepped up to steadily expand interbank investment and financing and stabilize the return on financial investment. The CSI Hua Xia Bank ESG Select Bond Index was launched to implement the ESG development strategy. The enterprise-level interbank customer management system project was kicked off and trading systems were refined to digitally transform the financial market business.

During the reporting period, the Company conducted 49,313 unsecured inter-bank lending and pledge-style repurchase transactions totaling RMB53,278.047 billion, down 22.90% from the previous year. The RMB and foreign-currency treasury transactions (full scale) totaled RMB61,521.228 billion, down 18.03% from the previous year. Specifically, the Company's derivatives trading volume reached RMB4,944.448 billion cumulatively. During the reporting period, the Company was named by China Foreign Exchange Trade System (CFETS) the “Most Improved Foreign Currency Pair Member” and the “Active Dealer in Repo Innovation” in the interbank RMB market. It also won the “Market Influence of the Year” and “Market Innovation Award” from the National Interbank Funding Center, the “Top 100 Proprietary Settlements” from China Central Depository & Clearing Co., Ltd. (CCDC) and the “Excellent Settlement Member” award from the Interbank Market Clearing House Co., Ltd.

Asset management services

Huaxia Wealth Management has completed the NAV-based transformation of products, upholding the philosophy of “building a premier wealth management factory”. Some outstanding assets moved back onto the balance sheet pursuant to the new regulation and product migration was carried out successfully. The third-party distribution was advanced rapidly and the efforts to build a direct selling system made headway. The “Wealth Management Factory” model has begun to take shape, high-tech investment made breakthroughs and the leading edge in ESG was sharpened. In addition, the “commercial banking + investment banking” strategy will, the comprehensive risk management system was further improved and the FinTech support for business development was enhanced.

During the reporting period, the Group issued a total of 709 wealth management products with total sales of RMB2,122.681 billion, down 5.62% over the previous year. At the end of the reporting period, there were 429 existing wealth management products with a balance of RMB610.054 billion, up 3.66% from the end of the previous year. Among the existing wealth management products of the Group, the balance of personal wealth management products rose by 12.18% over the end of the previous year, and the balance of corporate wealth management products rose by 4.52% over the end of the previous year. The Company realized RMB2.832 billion of fee-based income from wealth management, a growth of 0.78% over the end of the previous year.

Asset custody services

The asset custody business was transformed to a model that puts efficiency first. Collaborative marketing was enhanced based on internal and external resources for the financial market business line. The marketing of key products such as public offering funds was strengthened to further improve the business structure. The custody operations management and system development were strengthened with a higher operations service level and a broader spectrum of products. The securities investment product operation capacity and business continuously were effectively boosted. Anti-money laundering work on the custody front was intensified to enhance compliance and risk management.

During the reporting period, the Company moved faster forward in securities investment funds and insurance fund custody. A total of 115 mutual funds under custody amounted to RMB250.049 billion, up 61.28% from the end of the previous year. They generated RMB188 million of fee-based income, up 60.83% year-on-year. The insurance funds under custody totaled RMB148.271 billion, up 54.96% from the end of the previous year. The Company registered 9,301 products under custody, covering securities investment funds, securities dealers' asset management plans, banks' wealth management, insurance-related asset management schemes, asset-backed special plans, and equity investment funds. The assets under custody reached RMB5,139.881 billion, down 1.18% year-on-year, and custody fee income was RMB1.181 billion, down 0.84% year-on-year.

3.12.4 Digital technology

During the reporting period, the Company stayed close to plans of the CPC Central Committee and the State Council and adhered to the first-and-foremost strategy of digital transformation. It seized opportunities to make a strong start to the year, marked by its faster move to build digital infrastructures. The Company carried out seven major projects including data governance, established six major mechanisms such as incentives and fault tolerance and built an enterprise-level agile organizational system. Digital innovation applications were launched for industrial digital finance. With in-depth integration of digitalization and business, the transformation was furthered and the ability to financially serve the real economy enhanced continuously.

Digital transformation was well underway. In response to China's strategic plan for digital economy and accelerating the call for faster digital transition and under the strategic guidance of the 14th Five-Year Plan, the Company formulated a five-year action plan for digital technology-driven transformation. It adhered to the strategic vision of "Smart Finance, Digital Hua Xia" and set the goal of "first-class smart eco-bank" focused on industrial digital ecosphere and consumer digital ecosphere. Six platforms were created under the themes of open ecosystem, precision marketing, smart operation, intelligent risk control, compliance and value management, respectively. These platforms span all business lines and subsidiaries and extend from the headquarters to branches, giving an overall boost to the capacity and level of digital transformation. 120 key tasks and 22 business line plans were introduced, and seven key projects were carried out to increase the depth of digital transformation. Party building was embedded into the digital technology culture. The digital Party building and interactive forums were used to ensure smooth front-line communication. The awareness of digital philosophy was transmitted and an expedited problem reporting and solving process was established. A total of 2,633 optimization suggestions were adopted and implemented.

The industrial digital finance broke new ground in innovation. Explorations were made for innovation in industrial digital finance, shaping a paradigm where innovation efforts were made across the bank while focused on the Beijing-Tianjin-Hebei Region, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area and central and western China. The industrial digital finance platform was created with a focus on distinctive industry fields, enhancing alignment of ecospheres and integration of scenarios. The industrial digital models made breakthroughs. Four digital finance models were created, including digital factoring, digital product pool and digital logistics loan, with an initial size of RMB2.834 billion. The Company tapped deep into core enterprises and the Direct Industry Link platform and the partnership-based ecosphere. Services cover all key strategic industries of China, including advanced manufacturing, energy renewal, smart logistics and fine chemicals, preliminarily shaping a system of industry service solutions. The Company was among the first to establish a link with the National Carbon Emissions Registration System. At the Global Digital Economy Industry Conference 2021, the Company's industrial digital finance project was included in the national top ten cases of digital transformation of enterprises.



Digital business operations yielded results. The digital RMB system went live to support digital RMB use in such scenarios as tick payments at the Beijing Winter Olympics. The Company launched the “Clearing Express” service for commodities together with Shanghai Clearing House as one of its first banking partners. The acquiring scenarios were further developed to improve the payment product family and build the “payment + scenario” consumer ecosystem. With access to 24 scenario-based ecosystem platforms including catering, retail, automobile, medical aesthetics and property management service, the Company had 23,000 customers under acquiring scenarios and attracted RMB3.426 billion of personal deposits (excluding structured products) and RMB4.385 billion of corporate deposits. Based on branches’ fee-based business cloud platforms, the Hua Xia Loan and Cloud e Bid” security deposit were developed to fuel business innovation among branches. As part of the smart transition of outlets, the new-generation smart counters were promoted bank-wide to develop a new model of intelligent, immersive customer services. The application of robotic process automation (RPA) was promoted. A big data-based risk identification and early warning system was built. Internal and external risk data were fully integrated, with big data and knowledge map technologies used to develop the enterprise risk database, risk profile, risk control rules and models and boost the efficiency and accuracy of risk control.



Intelligent services in branch outlets

The data infrastructure capacity was effectively enhanced. The King Yu Program was launched in a full scale, aiming for higher quality and efficiency of data governance driven by data application. The Company remodeled the three-layer pyramid structure for data governance composed of planning, business application and technical support layers. A 801-member data governance grid team composed mainly of data officers and data administrators was established bank-wide. The “two warehouses, two lakes” were further developed. An enterprise-level data middle office was built based on enterprise-level infrastructure including data lake, virtual lake, graph technology and blockchain. The four horizontal, two longitudinal” data architecture has pooled internal and external data to solve isolated data island problems. A data asset management system was created. The quality of the Examination and Analysis System Technology (EAST) system data was improved in accordance with regulatory standards. A data accountability mechanism was developed to clarify the responsible departments for 1,659 basic data items and 291 indicator data items. The “Free the Hands” campaign was carried out effectively, with 43 standard regulatory reports processed online to reduce the manual workload by 183.18 man-months. A pilot program was successfully launched under four themes of big data application, namely precision marketing, smart risk control, regulatory compliance and smart operation. The Company was honored as an “Excellent Data Furnisher in 2021” by PBOC, and named by CBIRC a member of the high-level steering committee on data governance.

The overall technological capacity was enhances substantially. During the reporting period, the IT investment reached RMB3.319 billion, representing a year-on-year increase of 13.66%. An enterprise-level digital technology management mechanism was created to further boost integration synergy. The number of development and launch requirements nearly doubled year-on-year, giving a boost to the technological productivity. Key projects were accelerated to make breakthroughs and accomplish major tasks of digital transformation. The iterative cloud-native development continued with an increasing number of supporting systems going live. The new version of data service platform was launched to provide customized data products and self-service data analysis service across the Company. The electronic business license system was created to allow online signing of supply chain contracts and online appointment for account opening, thus boosting the ability to serve the real economy. The elder version of mobile banking was launched to provide old-age users with the convenience of bigger fonts and bigger icons. The mobile employee platform was optimized to provide such basic services as mobile app integration, QR code login and message center for higher efficiency of office work. In support of the innovation project incubation of the Head Office and branches, the Hainan Smart Community and other representative projects were implemented.

The enterprise-level agile organization system was built in a full scale. “Two Groups” and “Two Committees” were established, namely, the Leading Group on Digital Transformation, the Leading Group on King Yu Program, the Innovation Committee and the Judgment Committee. Six mechanisms were developed for personnel, finance, materials, projects, fault tolerance and judgment respectively. An agile practice guide was formulated. The digital innovation factory was launched on dedicated premises, with the startup zone, incubation zone and pilot run zone set up in ascending order. A horse racing mechanism was introduced to pool the bank-wide digital research forces and support the implementation of digital innovation projects. A digital talent development system was created. The One Thousand Digital Talents Plan was piloted. Through a combination of internal training and external attraction and joint efforts with pilot partners, explorations were made in innovation areas to develop a digital talent courses and training system. The data analyst basics training was carried out and the modeling training camp was organized to enhance business personnel’s capability of data analysis and modeling.



Box 2: Financial Digitalization Adds Wings to Digital Industrialization and Industrial Digitalization

"Promoting digital industrialization and industrial digitalization" is one of China's major strategies during the 14th Five-Year Plan Period. It has become a public consensus to develop the digital economy. Financial services generate blood for the economic body. During the reporting period, the Company furthered its cooperation with industry chain biospheres following the prevailing trends and keeping in line with needs of the real economy. With breakthroughs made at "four digital tiers", namely accumulating digital assets, tapping digital value, establishing digital credibility and creating digital guarantee, the Company developed three types of new digital finance models, i.e. core enterprises, industrial parks and industrial link. Business lines worked together to develop the digital credit services and products integrated with industrial scenarios and biosphere scenarios, providing the upgrading of traditional economy and industry with easier access to efficient and diverse digital financial services. The vertical chain of advanced manufacturing for example:

Pain points of participants in the industry chain ecosphere: (1) Upstream: Suppliers are mainly small and medium-sized enterprises in a disadvantageous position in the chain. They supply goods to the core manufacturer on a payment-after-delivery basis, so suppliers are in need of financing to accelerate cash backflows and reduce capital occupation. (2) Downstream: Mainly purchasers of finished products. As the advanced manufacturing sector is on the rise now, the core manufacturer has a dominance in the sale chain of finished products, requiring full advance payment from downstream buyers before production scheduling and delivery. Downstream buyers are under a funding pressure and in need of financing. (3) The core manufacturer and its subsidiaries or branches have demand for fund pooling, cash management, account service and payroll service in the course of business.

New financial service solutions were created to meet industry chain needs. Oriented to customer needs, the Company provides convenient, fast and efficient digital financial solutions for the core manufacturer and the upstream and downstream players in the industry chain, shifting from the traditional credit granting to stand-alone entities to service for the supply chain biosphere covering procurement, production, warehousing and sales, relying on new technologies and big data to cross-verify the genuineness of transactions. In this way, the Company has further implemented the Central Government's policy requirements regarding "financial services for the real economy", "chain stabilization, protection and reinforcement" and "integration of two chains". Specifically: (1) Digital finance services including order financing, digital factoring and digital product pool are provided to meet the financing needs of upstream suppliers, thus easing their liquidity stress and unleash their productivity. (2) To meet the financing needs of upstream buyers of finished products, relevant digital credit services are provided to help them accelerate cash flows, expand production and enhance competitiveness. (3) For the core manufacturer and its production/operation entities, such services as fund pooling, cash management and payroll service are provided to meet its day-to-day fund management needs and employees' financial service needs.

Technical breakthroughs have been made in digital credit and smart risk control. According to the idea of "finding, selecting and using data", the Company has created financial credit models, commercial credit models, credit line models, pricing models and risk monitoring and early warning models based on transaction data regarding the flows of funds, information, goods and trade in the industry biosphere scenarios as well as third-party data regarding credit reporting, industry and commerce administration, public security, justice, taxation, invoices, social security and transportation using algorithm modeling techniques such as machine learning, neural network and simulation, coupled with expert judgment. The digital credit models and smart risk control system have been established to enhance the capability of digital, smart financial risk prevention, control and management and keep business risks under control.

3.13 RISKS AND RISK MANAGEMENT

During the reporting period, the Company earnestly implemented the CPC Central Committee's decisions and plans for boosting the quality and efficiency of serving the real economy and forestalling and defusing financial risks. The long-term mechanism for comprehensive risk management was improved, the risk government system was refined, risk control was enhanced in key fields and major areas and the key systems of risk management were developed faster. The risk management methods and tools were improved and the professional management of stand-alone risks was boosted to ensure compliance. The risk culture development was intensified to forestall systemic, regional and large risk exposures, driving quality development of the Company.

3.13.1 Credit risk status

Credit risk refers to the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to the Company, when the bank operates credit, inter-bank lending and investment businesses. The credit risk of the Company mainly exists in the on-balance-sheet and off-balance-sheet businesses including loans and advances, placements with banks and other financial institutions, interbank lending, bond investments, bill acceptance, letters of credit, and letters of guarantee.

3.13.1.1 Organizational framework and division of responsibilities of credit risk management

The Company has established a credit risk management organizational framework with reasonable duty division and definite responsibilities. Established under the Board of Directors, the Related Party Transactions Control Committee is responsible for managing related party transactions and the Risk & Compliance Management Committee is responsible for formulating risk management policies and supervising the management of various risks by the senior management. Established under the senior management, the Credit Investment and Financing Policy Committee of the Head Office is responsible for the formulation, organization and implementation of material credit risk management policies; risk management and internal control committees of the Head Office and branches review comprehensive risk management matters, arrange and coordinate risk management and internal control work; the Asset Risk Disposal Committee is responsible for researching and approving matters on asset risk handling; the risk management departments of the Head Office and branches are responsible for credit risk management of the whole bank and local branches; according to the authorization system and business risk profile, the Company conducts professional approval and authorization approval of important industries and businesses; the Company strengthens functions of each link of credit business, and sets up positions with definite responsibilities and smooth operation.

3.13.1.2 Credit asset risk classification procedures and methods

Pursuant to the requirements of the former CBRC's *Guidelines on Loan Risk Classification*, the Company classified credit asset risks in consideration of such non-financial factors as the solvency, willingness to repay, repayment records and guarantee condition of the borrowers and their internal management, according to the step-by-step identification procedures: preliminary classification by the customer manager, review by the customer manager in charge, and then review, recheck and identification by the branches' credit risk management personnel.

3.13.1.3 Credit risk profile

Credit exposures: At the end of the reporting period, without regard to the available collateral or other credit enhancements, total on – and off-balance-sheet credit exposures of the Group amounted to RMB4,293.685 billion, including on-balance sheet business exposure of RMB3,439.247 billion, 80.10% of the total, and off-balance sheet business exposure of RMB854.438 billion, 19.90% of the total.

Large-value risk exposure management. Pursuant to the *Administrative Measures for Large Risk Exposures of Commercial Banks*, the Company carried out large risk exposure management, monitored and reported large risk exposures on a quarterly basis, proceeded with building of the large risk exposure system and kept enhancing large client risk control at the Head Office and branches. At the end of the reporting period, the Company and the Group saw all their non-banking single customers, non-banking related customers, interbank single customers and interbank group customers meeting the regulatory requirements.

For further details of credit risk management of the Company, please refer to "3.14.1 Loan quality management" in this report.

3.13.2 Liquidity risk status

Liquidity risk is the risk that a commercial bank may be potentially unable to meet the asset growth and debt obligations when due at a reasonable cost. Main factors affecting the liquidity risk include: sudden tightening of market liquidity, substantial deposit runoff and the debtor's default and weakening financing capacity.

The Company attaches great importance to liquidity risk management and keeps improving the liquidity risk management system. First, the governance framework was improved. The decision-making system consists of the Board of Directors and its special committees as well as the Asset and Liability Management Committee of the Head Office. The supervisory system consists of the Board of Supervisors and the Audit Department and the Legal and Compliance Department of the Head Office. The execution system consists of the Budget and Finance Department and other specialized management departments of the Head Office and branches. Each of these systems performs corresponding decision making, supervision and execution functions according to division of responsibilities. Second, the system of policies and procedures have been refined. The Company has in place a fairly complete set of liquidity risk appetite, strategy, procedures, and measures, and introduced specific management responsibilities, flows and methods. Third, management measures have been optimized. The Company set a system of liquidity risk monitoring indicators, conducted stress tests and emergency drills, created a liquidity risk assessment mechanism, established an information management system and effectively managed the identification, measurement, monitoring and control of liquidity risk.

During the reporting period, the prudent monetary policy remained prudent. PBOC used a package of monetary policy tools to keep market interest rates stable, the banking system liquidity reasonably ample in general and the money market rates basically stable. The Company adhered to a prudent liquidity risk appetite, ensured liquidity safety and kept liquidity general stable. First, assets and liabilities arrangements were coordinated. The management of loan-to-deposit ratio and maturity mismatch was enhanced to keep assets and liabilities structurally stable. Second, funds were raised through various channels. The sizes and proportions of funds from various sources were reasonably arranged to ensure stability and diversification of financing channels. Third, liquidity was managed more dynamically. Sufficient liquid assets were kept in reserve to manage the position well and meet all payment requirements. Fourth, liquidity extension was managed properly. The subsidiary liquidity management was further improved based on the plans for subsidiary's liquidity rebalancing, concentration management and limit control that were formulated in accordance with the business characteristics of subsidiaries. The foreign-currency fund pool management was strengthened, with the sourcing and use of foreign currency funds coordinated to ensure dynamic balance of scale and maturity. Fifth, emergency management was enhanced. Real-world stress testing and emergency drills were carried out in batches to enhance the capability of emergency management. During the reporting period, the Company's liquidity position remained stable without any payment difficulties, default or deferred payment. All regulatory indicators relating to liquidity reached the prescribed standards. At the end of 2021, liquidity coverage ratio was 138.15% and net stable funding ratio was 107.83%.

Next, the Company will strengthen market analysis and forecast, make liquidity management more forward-looking and adaptive, continue to improve the liquidity management system and enhance the risk resilience.

Liquidity coverage ratio

(Unit: RMB1 million)

Item	31 December 2021
Stock of high-quality liquid assets	417,319
Net cash outflows over a 30-day time period	302,073
Liquidity coverage ratio (%)	138.15

Note: The above are consolidated data calculated according to the *Notice of CBIRC on 2021 Offsite Regulatory Statements Preparation and Reporting* (Y.B.J.F. [2020] No. 55) and the *Liquidity Risk Management Measures of Commercial Banks* (CBIRC No. 3 Decree in 2018).

Information on net stable funding ratio

(Unit: RMB1 million)

Item	31 December 2021	30 September 2021
Available stable funding	2,014,619	1,995,518
Required stable funding	1,868,380	1,861,653
Net stable funding ratio (%)	107.83	107.19

Note: The above are consolidated data calculated according to the *Notice of CBIRC on 2021 Offsite Regulatory Statements Preparation and Reporting* (Y.B.J.F. [2020] No. 55) and the *Liquidity Risk Management Measures of Commercial Banks* (CBIRC No. 3 Decree in 2018).

3.13.3 Market risk status

Market risk is defined as the risk of loss to the Bank's on – and off-balance sheet activities caused by adverse movements in market rates (including interest rates, exchange rates, stock prices and commodity prices). The main market risk confronting the Company includes interest rate risk and exchange rate risk. The Company established a sound market risk management system appropriate for the Company's business nature, size and complexity and spanning the entire process of identification, measurement, monitoring and control.

The global economy showed an uneven recovery in 2021 as the economic fallout from COVID-19 varied across countries. China's economic growth softened markedly after an earlier rapid recovery. Under a flexible and appropriate monetary policy, the lending rate decreased steadily, the bond yield dropped to an all-time low and the RMB exchange rate was generally stable with two-way fluctuations. The Company developed a moderately conservative market risk appetite and issued the annual target for market risk limit. In particular, special analysis was strengthened for bonds, foreign exchange settlement and sales on behalf of customers and derivatives, with control measures formulated and implemented on an ongoing basis. The term structure of assets and liabilities was reasonably adjusted, with the IRRBB risk control enhanced. The market risk management system was further improved as part of the efforts to implement the market risk management requirements set forth in the New Basel Capital Accord. During the reporting period, the Company managed market risk well, keeping all market risk limits within the appetite range and the market risk at a controlled level.

3.13.3.1 Interest rate risk management

As for the trading book, the Company set limit indicators for interest rate trading instruments such as bonds, funds and interest rate swaps in line with the moderately conservative market risk appetite and risk management strategy, including exposure, stop loss, interest rate sensitivity and value at risk (VaR). It continuously strengthened the monitoring and analysis of limit indicators and dynamically adjusted duration and other risk indicators to ensure all business activities remained within the market risk appetite and limit range.

In the banking book, the IRRBB management system was further refined to enhance risk control in every respect. The system and management toolkit were diversified to increase the granularity of measurement. Based on strengthened forecasts on interest rate trends, the Company dynamically adjusted the management requirements and strengthened the quality and efficiency of strategy implementation. At the end of 2021, the re-pricing maturity of major currency types like RMB and USD at the Company was distributed reasonably. The impact of interest rate risk changes on the Company's earnings and value was under control.

3.13.3.2 Exchange rate risk management

In the trading book, the Company kept strengthening limit control and actively managed exchange rate risk with such limit indicators as exposure, stop-loss and market VaR. Relevant policies and procedures were improved to strengthen the exposure management of foreign exchange settlement and sales and margin management and effectively control the exchange rate risk. System development was advanced for stronger capability of measurement and monitoring.

In the banking book, the Company reasonably matched assets and liabilities in RMB and foreign currencies and controlled the currency mismatches through such methods as scenario analysis and stress testing. The Company kept improving the position-closing management process for proprietary foreign exchange settlement and sales, completed system optimization and strengthened the management of proprietary exposures of foreign exchange settlement and sales.



3.13.4 Operational risk status

Operational risk is the risk of loss arising from the Company's inadequate and faulty internal processes, staff and IT systems or caused by external events. It includes legal risk but not strategic or reputational risk.

The Company strictly follows regulatory requirements on operational risk management. The Board of Directors assumes the ultimate responsibility for monitoring the effectiveness of the operational risk management, and the Senior Management is responsible for implementing the strategy, overall policy and system for operational risk management approved by the Board of Directors. The Risk Management and Internal Control Committee under the Senior Management, as the organizer and coordinator of operational risk management, is responsible for hearing reports on operational risk management and carrying out work according to the working rules for the committee. The Company adopts an operational risk management framework based on three lines of defense. Business and functional departments, as the first line of defense against operational risk, are responsible for carrying out all the work on operational risk management within their respective business line. The legal and compliance departments as the second line of defense against operational risk are responsible for the arrangement and organization for the establishment and implementation of operational risk management system. Security, human resources, IT, finance and accounting, operation management, credit approval and risk management departments at all levels are classification control departments for operational risk in institutions at various levels, which are responsible for management and control on specific types of operational risk. These departments, together with legal and compliance departments, form the second line of defense of operational risk management. The internal audit departments as the third line of defense against operational risk are responsible for assessing the effectiveness of the operational risk management system and uncovering and reporting problems during assessment in line with provisions.

During the reporting period, the Company continued to strengthen operational risk control and organized efforts to identify, monitor, assess, measure and report on operational risk and carry out other relevant day-to-day management work. First, the Company effectively used a variety of operational risk management tools to strengthen operational risk identification, prevented and controlled operational risk at the source, deepened the review and verification mechanism, expanded the scope of data verification, emphasized ongoing improvements for problems found and kept enhancing the quality and efficiency of operational risk and control self-assessment. It strengthened the monitoring and follow-up evaluation of key risk indicators, optimized key risk indicators, extended management to Hong Kong Branch, continuously improved the real-time operational risk monitoring capability and issued early risk warnings. The Company collected operational risk events and loss data in a timely manner, enhanced the analysis and notification of typical incidents and strengthened the internal control mechanism. Second, the Company strengthened risk prevention and control in key fields, released timely risk information, issued risk cases and caused prominent operational risk issues to be solved. Third, the Company strengthened the development of operational risk culture, refined the employee conduct management and assessment standards, revised the employee code of conduct, provided multi-level training on management of operational risk and employee behaviors and promoted the operational compliance employees throughout the bank. Fourth, preparatory work was well done for implementation of the new standardized approach to operational risk, the consulting project and the system development project were carried out effectively, the loss data management mechanism and process were optimized and the data cleaning, entry and calculation were carried out to comprehensively improve data quality. During the reporting period, the operational risk management system of the Company enjoyed stable operation, placing operational risk under control in the overall sense.

3.13.5 Explanation on status of other risks

Compliance risk status

Compliance risk is the risk of legal sanction, regulatory punishment, material financial losses or reputational damage arising from the failure to comply with laws, rules and standards.

The Company has in place an organizational structure for compliance management commensurate with its scope of business, organizational framework and business scale. The Board of Directors is ultimately responsible for the compliance of business operations. The Board of Supervisors supervises the performance of compliance management duties by the Board of Supervisors and the Senior Management. The Senior Management effectively manages the compliance risk of commercial banking. The compliance chief is responsible for coordinating the identification and management of compliance risk across the board and supervising the duty performance of the compliance management department according to the annual compliance work arrangements. The compliance management department, administered by the compliance chief, is responsible for assisting the Senior Management in effectively identifying and managing compliance risks facing the Company. The head of a business line, branch or subsidiary is primarily responsible for the compliance of the business activities of the business line, branch or subsidiary.

During the reporting period, the Company insisted on protecting the bank with compliance risk control, improved the compliance work mechanism, fortified the foundation for compliance risk prevention and control, intensified process

control, refined the supervision and inspection mechanism and furthered the compliance culture development, laying a solid foundation for comprehensive, total-process compliance of all personnel. First, the Company thoroughly implemented CBIRC's requirements on the "Year of Improving Internal Control and Compliance Management" campaign to cement the achievements in crackdown on irregularities. It held a kick-off meeting and issued a work plan to intensify the efforts on internal control and compliance management. The culture of prudent operation has taken hold to promote the quality growth and sustainable development across the bank. Second, the Compliance Policy of Hua Xia Bank Co., Limited was formulated to establish a Group-wide framework for compliance management and laying the policy groundwork for safe, stable and high-quality development. Third, the scope of "Four Focus Points" was defined for swindle prevention and control. Swindle cases were notified in a timely manner and key fields of financial crimes were closely watched, with greater efforts made to forestall and defuse swindles. Fourth, the priority areas of business examination were defined, the Head Office's inspection process control was intensified and the quality and efficiency of business line-wide compliance inspection were boosted. Fifth, the due diligence policy system was created and improved, the due diligence procedures were standardized and the credit liability determination mechanism was refined. Sixth, the accountability criteria for problem credit were refined and serious non-compliances were investigated strictly and quickly for liability determination, giving full play to the warning and deterrent effect of accountability. Seventh, increasingly more resources were allocated for anti-money laundering in pursuit of overall rectification and improvement on this front. The anti-money laundering data governance was advanced and system features optimized to enhance the ability to forestall money laundering risks. Eighth, the compliance culture development was furthered. The Company held the multi-level, matrix-like "legal compliance lecture series" and organized the "case study tour lectures at outlets", ensuring compliance requirements are embedded into mind and action and fostering a good compliance culture atmosphere of being loyal to the bank, law-abiding, honest, professional, diligent and service-oriented.

IT risk status

IT risk means operational, legal and reputational risk arising from natural factors, man-made factors, technical vulnerabilities or management deficiencies in the use of information technology by the Company. During the reporting period, the Company continued to strengthen the ability to prevent and control IT risk. Smart operation and security management were intensified. An across-the-board local disaster recovery drill was completed for the first time, providing effective protection for continuity of systems. The cyber-security defense-in-depth system was further fortified to enhance operational security management. The screening and rectification of security vulnerabilities were enhanced. Cyber-security was assured for special periods such as the 100th anniversary of the founding of the Communist Party of China. The ability to prevent and control cyber-security risks was increasingly boosted. During the reporting period, the Company kept its information systems running stably and maintained a 100% overall availability of important information systems. The IT risk management system ran steadily and IT risk was kept under control overall.

Reputational risk status

Reputation risk refers to the risk of negative assessment or comments on Company from stakeholders, the public and media as a result of the Company's behavior, employee behavior or external events, thus undermining its brand value, adversely affecting its normal operation and even affecting the market stability and social stability. During the reporting period, the Company took the opportunity of implementing the *Administrative Measures for Reputational Risk of Banking and Insurance Institutions (Trial)* to clearly assign the management duties to relevant entities and individuals, improve relevant mechanisms and processes, foster the reputational risk culture and steadily enhance the reputational risk management. In fully implementing the CBIRC requirements, the Company followed the principle of being forward-looking, matched, all-encompassing and effective, remained focused on central areas of business and problem-oriented with stronger risk awareness and forestalled reputational risk in a more proactive and forward-looking manner. Stronger screening, higher assessment frequency and enhanced warnings were realized for reputational risk, and the prevention of reputational risk was brought forward to earlier stages. The Company created and refined the reputation risk management mechanism to enable coordinated efforts against risks relating to complaints, whistleblowing and lawsuits and boost coordination of work. The reputation risk management system and mechanism were refined and the response processes were streamlined to effectively improve the reputation risk management to a higher level of quality and efficiency. Positive publicity and brand awareness were enhanced by remaining responsive to public concerns and hot issues, effectively guiding public opinions and actively shaping and safeguarding the Company's reputation and brand image.

Country risk status

Country risk is the risk of losses incurred in certain countries or regions due to local economic, political and social changes or local borrowers' inability and unwillingness to repay debts arising therefrom.

During the reporting period, the Company kept strengthening the management of country risk limit, paid timely and due attention to the sovereign credit ratings of relevant countries and regions published by external rating agencies, kept a close eye on the country risk and allocated sufficient country risk reserves. The Company's country risk exposure accounted for a low proportion of the on-balance-sheet assets. So the country risk remained under control on the whole.

3.14 KEY CONCERNS IN OPERATION

3.14.1 Loan quality management

At the end of the reporting period, the Group recorded 3.10%, 1.77% and 1.88% in ratio of special mention loans, NPLs and overdue loans respectively, down 0.33, 0.03 and 0.08 percentage points from the end of the previous year, respectively. The Group's loans overdue for more than 90 days and NPLs accounted for 80.20% of total overdue loans, down 1.49 percentage points year-on-year.

During the reporting period, the Company followed the principles of “clearing the old and controlling the new” and “tackling both the symptoms and the root causes”, delivered solid results of key work, flexibly responded to changes in internal and external risk situations, systematically enhanced the risk control capacity and kept improving the quality of assets.

First, the risk governance system continued to improve on coordinated top-level design of risk management. A five-year action plan for risk management was formulated to make strategic arrangements for the risk management system and mechanism in the new plan period. Base on asset lifecycle management divided into three stages, namely, allocating new assets reasonably and effectively, preventing deterioration of existing “pass” assets and defusing risks in existing assets in an orderly manner, the Company improved the “four long-term mechanisms”, namely the risk appetite and policy transmission and implementation mechanism, the split of duties and cooperation mechanism between business lines and institutions, the business and product risk management and control mechanism, and the risk-return balancing mechanism. Five enhancement projects were carried out in the fields of technological empowerment, retail finance, corporate banking, market-oriented business and environmental and social risk management. The annual risk appetite and risk management strategy was improved comprehensively to enhance its constraint and guidance on business management.

Second, the credit policy and strategy system was refined to effectively promote structural optimization of business. Following the national policy orientation and the Company's strategic transition, the credit, investment and financing policies were refined to integrate four dimensions, namely geography, industry, customer and business, and the management of policy implementation was intensified. The credit approval strategy system was enriched in various forms, with a focus on strategic emerging industries, carbon finance and “commercial banking + investment banking”. The approval strategy for key fields was refined in the forms of guidelines for industry credit approval, key points of business risk examination and product credit access criteria. The regional credit strategy review and improvement were accelerated, with branches encouraged to tap deep into regional economies and allocate assets optimally.

Third, the credit approval management was systematically enhanced, with significantly higher quality and efficiency of credit access. The professional management of credit investigation was refined to enrich the elements of investigation and boost the quality of credit reporting. The risk manager system was implemented in a full scale, with the risk manager check playing a positive role. Harnessing the efficiency of authorization approval and regional approval, a credit approval capability evaluation system was created to optimize the authorization assessment metrics, further enhance the differentiated management of credit authorization and quality management of power exercise and systematically boost both volume and speed, efficiency and quality of credit approval.

Fourth, risk controls subsequent to investment/lending and in key fields were robust to make the second line of defense more effective. The post-investment/lending management was further standardized, coupled with differentiation, to standardize the contents, methods and steps of the work and strictly oversee the quality of post-lending inspections. An online loan monitoring and review system and a regular monitoring mechanism were created. The Company intensified risk control over real estate, worked hard to forestall and defuse the hidden debt risk of local governments and stressed differentiated management of branches, thereby supporting solid business development and orderly resolution of risks across the bank.

Fifth, breakthroughs were made in the transition of NPA disposal, showing a significantly higher cost efficiency. The Company further refined the management of NPA disposal by bringing forward the management to earlier stages, moving the gravity to lower tiers and transforming the work philosophy. With stronger collection efforts, incentives and accountability, the disposal of NPAs became markedly more efficient. During the reporting period, RMB38.911 billion of NPAs were recovered or disposed of, including RMB12.18 billion of cash collection, RMB23.435 billion of bad debt write-offs and RMB3.296 billion of repossessed assets.

Sixth, the risk control tools became more advanced, with credit risk controls effectively digitalized. The internal ratings-based (IRB) model for credit risk was optimized in a faster pace. The IT systems for risk management were optimized and explorations were made for digital and smart transition of credit in line with market changes, thus driving and serving the transition of business development model.

Seventh, the risk management team became more professional, with risk culture development advanced in a well-ordered manner. The Company worked harder to build its risk management team by providing multi-level risk training and business guidance to all employees, strengthening the lecturing on risk philosophy and cases and boosting the awareness and capability of risk compliance.

In 2022, the global COVID-19 pandemic continues. The external environment is becoming increasingly complicated, grim and uncertain, placing a tougher challenge and pressure on the prevention and control of financial risks and the quality of assets. For effective and proactive response to the situation, the Company will hold firm to the underlying principle that the asset quality is the lifeline, keep seek progress while ensuring stability and remain guided by the development plan. We will unwaveringly proceed with the risk management enhancement program and support the development of the real economy. The Company will, staying true to the guiding principles of “clearing the old and controlling the new” and “tackling both the symptoms and the root causes”, adopt a package of steps to adjust the business mix and strengthen the market and policy tracking and analysis. While properly managing new customers and new transactions, the Company will carry out ongoing management of existing customers and transactions, enhance risk control in key fields and strictly prevent regional risks and risks in key fields. The Company will thoroughly implement the risk management philosophy and make risk management more advanced. Risk management will be more forward-looking, further digitalized and more capable of identifying risks in complex businesses, thus promoting high-quality business development.

3.14.2 Net interest margin

During the reporting period, the Group's net interest margin was 2.35%, a decrease of 24 bps from the previous year. The Company actively implemented the policy encouraging financial institutions to make interest concessions for the real economy and stepped up its efforts to serve the real economy, thus seeing a decline in return on assets. Meanwhile, the Company endeavored to stabilize the cost of liabilities by accelerating business transformation and optimizing the resource allocation strategy, and managed to keep the NIM decline generally under control.

During the reporting period, the Company enhanced its support for the real economy and persisted in tapping the potential internally while expanding externally, in a bid to accommodate the economic demand for high-quality development. First, the Company upheld the principle of getting the basics right, strengthened structural adjustments and forward-looking management of business to stabilize the asset-side return. Integrating itself into national strategies and regional mainstream economy, the Company played its part in shaping China's new development pattern featuring dual circulation, which takes the domestic market as the mainstay while letting domestic and foreign markets boost each other. The "industry + customer" fine-grained management was enhanced and the credit mix was optimized. The "commercial banking + investment banking" transition strategy was furthered to fortify the foundation of "commercial banking" with "investment banking". The transition of retail finance was accelerated to create a differentiation strategy based on customer segmentation, tap deep into the five key customer groups (i.e. bulk referral, consumer loan, wealth management & private banking, inclusive finance and credit card) and increase the overall value of customers. Second, the volume-price balance of liabilities was properly managed to maintain appropriate cost advantage. The Company expanded the sources of deposits, improved the product system and upgraded the organizational modes for customer marketing to drive high-quality growth of general deposits, with the cost of deposits kept at a relatively low level among joint-stock banks. The management of market-oriented liability costs was strengthened through reasonable pacing of market-based financing and proper comparison of the costs of funds from different sources.

Currently, the domestic economic recovery faces some temporary, structural and cyclical headwinds. The monetary policy remains prudent and the policy stance will remain unchanged to bring down the overall financing costs for the real economy. The banking sector still finds it difficult to stabilize the NIM. The Company will keep close track of market conditions, step up business transformation and rebalancing and remain on track for asset-light, differentiated, digital and integrated development to boost the resilience of development, reasonably control the cost and enhance the quality and efficiency of development on every front, so as to keep the Company's NIM at a reasonable level.

3.14.3 Inclusive finance

The Company follows the policy guidance from the central government and regulatory authorities and heightens its political stance, adding luster to its brand image as a "SME financial service provider". Toward its distinctive development goals, the Company has kept deepening its systems and mechanisms to create a new pattern of development led by strategy, driven by innovation and full of energy in a faster pace of transformation.

First, the Company continued to focus on MSB financial services while remaining oriented to serving national macro policies and serving the real economy. As at the end of the reporting period, the Group's balance of MSB loans recorded RMB490.749 billion, an increase of RMB34.337 billion or 7.52% over the end of the previous year; the number of MSB borrowers was 643,548, an increase of 334,164 from the end of the previous year, up 108.01%. The balance of MSB loans within the scope of "two no-less-than" stood at RMB138.039 billion, up RMB26.44 billion or 23.69% over the end of the previous year, 19.81 percentage points above the growth rate of total domestic loans. A total of 634,739 customers had outstanding loans with the Company, an increase of 335,028 over the end of the previous year. The MSB loans within the scope of "two no-less-than" carried an interest rate of 5.92% with an NPL ratio of 1.39%, both at a reasonable level.

Second, the allocation of resources was strengthened to continuously improve the "Head Office – branches – sub-branches" MSB service system. The internal drivers of MSB financial services were strengthened by improving the MSB assessment policies, separate credit plans for MSBs and providing 100% support in terms of credit resources. As of the end of the reporting period, the Company has set up the Inclusive Finance Departments at the Head Office and 43 tier-one branches, and establish the MSB Customer Department at 142 sub-branches. The three sub-branches in Shaoxing, Changzhou and Wenzhou played a prominent demonstration role in inclusive finance. In addition, a reasonable number of MSB customer managers were appointed in line with the development of the MSB credit business volume.

Third, the Company strengthened support for MSBs to better fulfill its political responsibility. The Company launched a variety of customized products, loan forbearance, re-lending and renewal services, and implemented process streamlining measures such as phased simplification of materials, remote interview and online data migration to provide enterprises with reliefs and fulfill the corporate social responsibility.

3.14.4 “Three Regions” development strategy

The Three Regions development strategy represented a move to implement the national strategies launched by the CPC Central Committee and the State Council to pursue the coordinated development of the Beijing-Tianjin-Hebei Region, integrated regional development of the Yangtze River Delta and development of the Guangdong-Hong Kong-Macao Greater Bay Area. Following the principle of concentrating resources in development of key regions, the Company formulated special financial service plans, promoted innovation in mechanisms and products and carried out differentiated management. Branches in the Three Regions have moved onto the “fast track” for development. At the end of the reporting period, the Company's outstanding loans at branches in the Three Regions amounted to RMB1,405.634 billion, up 6.79% year-on-year, with a balance of deposits of RMB1,235.465 billion, up 6.99% year-on-year. The regional profit for the year totaled RMB20.887 billion, up 3.27% year-on-year.

In the Beijing-Tianjin-Hebei Region, the Company takes “integrating into local mainstream, promoting business transformation” as the main task, with a focus on serving the “One Core and Two Wings”. Based on the economic characteristics and industry trends in the Beijing-Tianjin-Hebei Region, the Company has seized market opportunities derived from decentralization of the non-capital functions of Beijing, technological innovation, industrial upgrading, transportation integration, holistic environmental management, new infrastructure, and improvement of people's livelihood and public well-being to build the Beijing-Tianjin-Hebei region into a model for collaborative development, an example for transformation and a growth pole for business development. With a focus on key customers, key projects and key fields, regional coordination of financial services was enhanced, and stronger financial support was provided for key enterprises and Beijing Winter Olympics. Geographically focused on Beijing, institutional banking gained pace. Retail finance and capital-light business grew rapidly based on the local customer resources. The Company took an active part in construction of the Beijing Municipal Administrative Center and Xiongan New Area. With stronger financial support for key enterprises and projects, the Company sped up its branching in the Beijing Municipal Administrative Center and got shortlisted as qualified contractors for a number of projects in the Xiongan New Area. Personal banking services are provided in the Beijing-Tianjin-Hebei Region as a “greater city”, registering a rapid increase in holders of the Beijing-Tianjin-Hebei Integration Card and users of ETC service. At the end of the reporting period, the Company's outstanding loans to the Beijing-Tianjin-Hebei Region amounted to RMB569.468 billion, up 5.94% year-on-year, with a balance of deposits of RMB402.578 billion, up 5.95% year-on-year. The regional profit for the year totaled RMB7.638 billion, up 2.94% year-on-year.



Supporting the construction project of Beijing Sub-city Center

In the Yangtze River Delta region, systems and mechanisms were strengthened to promote high-quality integrated development across the board. The Company contributed to the endeavors to develop the Yangtze River Delta into a self-dependent innovation hub and took part in a number of key projects with great influence in the Yangtze River Delta, where world-class innovative industrial clusters are taking shape. Serving the Yangtze River Delta's strategic orientation to "faster push for a world-class new retail network" and "accelerating Shanghai's development as an international consumption center", branches in the Yangtze River Delta sped up their retail finance development in a bid to become a model for retail transition. Seizing the opportunity in building the Shanghai International Financial Center, the Company endeavors to develop Shanghai Branch into a hub for financial market trading, funding sources, financial factor market matchmaking and service and asset transfer as well as an important growth pole. Keeping aligned with the transition to a "Digital Yangtze River Delta", the Company established a Yangtze River Delta data management platform, increased the innovation fund support for the local branches' incubation and implementation of innovative projects and explored innovative products such as scenario-based acquiring service and carbon emissions permit-backed loans. Based on green development projects, the Company achieved rapid development in green finance, helping the Yangtze River Delta take the lead in meeting the "carbon peak, carbon neutrality" goals in China. At the end of the reporting period, the Company's outstanding loans to the Yangtze River Delta amounted to RMB617.129 billion, up 6.39% year-on-year, with a balance of deposits of RMB569.608 billion, up 6.74% year-on-year. The regional profit for the year totaled RMB10.288 billion, up 7.17% year-on-year.

In the Guangdong-Hong Kong-Macao Greater Bay Area, the Company accelerated the development of a cross-border financial service system, in a push for in-depth cooperation between local branches and overseas branches. Focused on four major fields and two industrial priorities, the Company has made headway in asset-light trade finance, professional retail finance, differentiated financial market business and digital FinTech. Green finance grew rapidly, with stronger support provided for major infrastructure projects. Haikou Branch was included in the Greater Bay Area for integrated management. The branch harnessed the free trade and free cross-border capital flows, facilitated by the national policy for the Hainan Province, and conducted the first settlement transaction for new forms of offshore international trade and the first bill-treasury link transaction. Haikou Branch continued to enhance its ability to provide comprehensive services relating to new forms of offshore international trade. Guangzhou Branch and Shenzhen Branch registered substantial expansion in investment banking and green finance. Hong Kong Branch as an offshore platform secured the Type 1 and Type 4 licenses during the reporting period and cooperated with domestic branches in a number of collaborative deals, making innovative breakthroughs in business development. At the end of the reporting period, the Company's outstanding loans to the Guangdong-Hong Kong-Macao Greater Bay Area amounted to RMB219.037 billion, up 10.25% year-on-year, with a balance of deposits of RMB263.279 billion, up 9.17% year-on-year. The regional profit for the year totaled RMB2.961 billion, down 7.64% year-on-year.

3.14.5 Management of real estate loans

During the reporting period, the Company strictly implemented the underlying policy that "houses are for living in, not for speculation", accurately grasped and implemented the prudent management policy for real estate finance and answered the regulator's call for "maintaining the healthy development of the real estate market and safeguarding the legitimate rights and interests of housing consumers". It adhered to the overall strategy of "reasonable lending, optimal structure, regional focus, selected customers and enhanced compliance" according to the property curb policies, regulatory requirements and industry conditions of the real estate industry. The credit policies were differentiated according to "geography, customers, forms of business and projects", with credit arrangements rationalized to meet the needs of home buyers with real demand to own a home or upgrade their housing conditions.

At the end of the reporting period, the Company recorded RMB125.953 billion in balance of corporate loans to the real estate industry, with a NPL ratio of 0.66%, and registered RMB277.696 billion in balance of residential mortgages with a NPL ratio of 0.39%. At the end of the reporting period, the Company met the regulatory requirement on the concentration of real estate loans of commercial banks. The Company will continue to implement the national macro-control policies and financial regulatory requirements on real estate, effectively analyze the property market risk profile in a forward-looking manner, keep rebalancing the customer base and regional asset portfolios in the real estate sector, optimize the business layout, strengthen risk monitoring and process management and ensure the stable quality of real estate credit assets.

3.15 DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY

3.15.1 Development trends, risks and challenges in the future banking sector

The development environment is generally good. China makes economic stability its top priority and pursues progress while ensuring stability, with the task of ensuring stable growth occupying an even more prominent position. As part of the endeavors to maintain stable macroeconomic performance, China will continue to ensure stability on six key fronts and maintain security in six key areas and use macro-policy tools to intensify cross- and counter-cyclical adjustments and provide strong support for a stable economic performance. China will pursue prudent and effective macro policies, micro policies that can continuously energize market entities and structural policies that facilitate smooth flows in the economy. Science and technology policies will be fully implemented, reform and opening up policies will lend impetus to development, regional policies should ensure more balanced and coordinated development, and social policies will meet basic living needs. The proactive fiscal policy will be more effectual to increase government spending, increase the central government's transfer payments to local governments and expand effective investment. The prudent monetary policy will be both flexible and appropriate to increase new lending, keep the RMB exchange rate generally stable at an adaptive, balanced level, make the monetary policy transmission mechanism unimpeded and maintain the liquidity reasonably ample. The mechanism to forestall and defuse major risks will continue to improve. A fund for ensuring financial stability will be established and market- and law-based methods will be used to defuse risks and potential dangers in accordance with the fundamental principles of maintaining overall stability, ensuring coordination, implementing category-based policies and defusing risks through targeted efforts.

Risks and challenges are on the rise. The COVID-19 pandemic is still ongoing. The world economic recovery lacks drive, coupled with escalating geopolitical conflicts and commodity prices remaining high and prone to fluctuation. All of this is making our external environment increasingly complicated and grave. International supply chains are challenged, global liquidity faces a turning point and international financial markets become more volatile. In pursuing economic development, China is under the triple pressures of shrinking demand, disrupted supply and weakening expectations. There are more destabilizing and uncertain factors that threaten the stable and healthy economic growth. Local COVID-19 cases are still occurring sporadically. The recovery of consumption and investment is sluggish. It is getting more difficult to maintain steady growth in exports, the supply of energy resources and raw materials remains inadequate, and imported inflationary pressure has increased. Many micro, small and medium-sized enterprises and self-employed individuals face difficulty in production and business operations, and the task of stabilizing employment is more formidable. Regulatory policies will be more oriented to enhancing financial risk control and prevention and providing a broader range of financial services to key fields and weaker areas in bigger volume and at lower cost. Commercial banks will transform their development and business models, and feel it more urgent to heighten the standard of comprehensive financial services and the ability to prevent and control risks.

The Company will, fully aware of the opportunities and challenges in the new development stage, follow the trends in social and economic development during the 14th Five-Year Plan period, apply the new development philosophy in full, in the right way, and in all fields of endeavor and take the initiative to serve and integrate into the new development pattern. We will adhere to the guiding principles of upholding the Party leadership, pursuing high-quality development, seeking progress while ensuring stability and ensuring coordination, and take enhancing the quality and efficiency of development across the board as the main task. Regarding mechanism reform, transformation/upgrading and stimulating vitality as the fundamental driving forces, the Company will coordinate the efforts to stabilize growth with risk prevention, placing a focus on transformation-driven development, risk control, structural adjustments, differentiated development and business diversification. Quality and efficiency will be improved through innovation and reform, targeted policy, system optimization and resource integration. The abilities to serve customers, manage risks and create value will be enhanced in pursuit of high-quality development.

3.15.2 Operating plan and measures

In 2022, the Company will further implement the core messages conveyed at the 19th CPC National Congress and its plenary sessions and the Central Economic Work Conference, act on the general principle of "pursuing progress while ensuring stability", apply the new development philosophy in full, in the right way, and in all fields of endeavor the new development philosophy and actively integrate itself into the new development pattern in a proactive manner. The Company will take enhancing the quality and efficiency of development across the board as the main task and regard mechanism reform, transformation/upgrading and stimulating vitality as the fundamental driving forces in an all-out effort to pursue high-quality development.

First, transformation-driven development will be strengthened, with quality and efficiency boosted through innovation and reform.

Digital transformation will be accelerated across the board. With laser-focused, large-scale scenarios as a powerful driver, the Company will leverage on the industrial digital ecosystem to expand support for advanced manufacturing and traditional manufacturing activities vital to the national economy. A distinctive digital consumption ecosystem will be created to shape a financial service system featuring integration of industry and consumption. The Company will enhance the sense of innovation, refine the innovation system, promote operation of the digital innovation factory, create a project-level agile organization mechanism and improve the fault-tolerant mechanism. Data management will be coordinated to build a data lifecycle management platform. Open banking will be sped up to drive growth and make new breakthroughs.

Corporate banking transformation will be promoted across the board. Putting deposits at the heart of the bank, the Company will move faster forward to build the settlement and cash management platform and enhance its customer service capability. The Company will enhance professional capabilities and grow stronger and better in the direction of transition to "commercial banking + investment banking". Growth will shift to new drivers in the context of serving the real economy, and research service capability will be enhanced for advanced manufacturing, strategic emerging, green and technology industries. A unified "industries + customers" management strategy will be created to ensure unimpeded workflows in terms of risks, approval, credit and resource allocation. Mechanisms will be improved to cater for emerging investment banking activities, and conventional credit financing will be shifted to integrated financing management. The "3-1-1-1" strategy will be further implemented to diversify the product/service offerings, extend the customer chain and strengthen marketing services.

The transition of retail finance will be more effective. The retail customer base will be expanded and deepened, the total financial assets of individual customers will be increased and customer groups will be further developed to create a distinctive

ecosystem. The allocation chain, service chain and value chain in the wealth management and private banking will be smoothed via professional skills to boost the core competitiveness in wealth management. The investment research capability will be enhanced to develop a full range of open-ended products, thus offering competitive asset allocation solutions and tailor-made service solutions to customers. New growth drivers for retail finance will be tapped, with a focus on the young customers' demand for credit card service, and consumer credit will be developed with vigor. The Company will speed up development of the enterprise-level digital ecosystem, enhance the capability of customer behavior data analysis and processing and improve the operating efficiency and customer service experience.

Capital-light transition of the financial market business will be promoted in an all-round way. The trading and circulation of assets will be accelerated to boost profitability and customer service capability. Market opportunities and pace will be grasped to increase the trading volume and enrich product/service offerings. The mechanism for market-based incentives and talent attraction and training will be improved to improve the trading skills across the board. Financial service resources will be integrated with a focus on comprehensive customer marketing and market-wide asset allocation, so as to create an integrated financial institution customer management system.

Second, quality management will be enhanced, with quality and efficiency boosted in the course of forestalling and defusing risks.

Capacity building will be stepped up. Modern technologies will be fully employed to boost risk controls and refine the risk control and digital credit system. The big data-based risk identification and early warning system will be optimized, with explorations made in predictive risk management. An emerging industry approval strategy system will be created to boost the effectiveness of approval quality examination and risk control. Cash collection will be strengthened to increase the efficiency and proceeds of NPA disposal. The loan lifecycle (before, during and after lending) management and supervision and accountability mechanism will be further improved to ensure authenticity and effectiveness.

Mechanisms will be improved. The key asset management mechanism will be refined to make risk resolution and disposal more forward-looking and professional. The risk appetite transmission mechanism will be streamlined to define a well-oriented risk appetite fit for the reality and reflecting changes in external situation. Quantitative analysis of credit risk will be carried out by business line, industry, geography, customer and product.

Compliance management will be kept stringent. The results of the "Year of Improving Internal Control and Compliance Management" campaign will be cemented to firm up all employees' awareness of compliance and persistently promote the compliance culture development. The Company will avoid crossing the line of compliance and adhere to the principle of authenticity in disposing of bad debts in accordance with laws and regulations. The fine-grained management and system control of credit reports will be strengthened in strict accordance with regulatory requirements. Strict examination will be conducted, with compliance checks and audits enhanced over deficiencies in internal control and prominent risks and hidden dangers. Employee conduct management will be intensified through ongoing assessment of employee conduct to hold the line against any serious non-compliance.

Third, structural adjustments will be intensified, with quality and efficiency boosted through well-targeted policy implementation.

The foundation for operating income growth will be fortified. The Company will keep a close eye on policy and market in ongoing NIM management, enhance the risk-return management of assets and strengthen the dual control over fund costs and growth structure. Non-interest income growth will be accelerated by persistently enriching product offerings and diversifying income streams. The investment system will be further refined to increase its income contribution.

Assets and liabilities will make steady headway. The macro policy adjustments and market trends will be closely watched to make operation management more forward-looking, targeted and effective, in a bid to maintain overall stability. Quality and efficiency will be enhanced by centering on deposit growth with appropriate diversification of liabilities to improve the growth structure. Resource allocation will be further optimized to revitalize idle assets and improve incremental assets, thus making assets more liquid and allocated more efficiently. The capital efficiency management will be enhanced by allocating more capital to capital-light business while controlling and reducing capital-intensive activities.

The role of operations as a value guide will be enhanced. The process reengineering of operations will be fully leveraged to build a digital process management platform that will gradually encompass all products, scenarios and channels, thereby increasing the efficiency of intensive operations. An enterprise-level quality and efficiency control center will be built and an enterprise-level customer information management system will be created for higher efficiency of process management. The smart transition and upgrading of outlets will gain momentum to realize scenario-based transactions, standardized procedures and smart risk control, and eventually to provide higher efficiency and better customer experience.

Fourth, differentiated development will be intensified, with quality and efficiency boosted in stimulating vitality.

The Company will integrate itself deeply into the high-quality development of Beijing. It will efficiently serve Beijing's push for "Four Centers" and support the capital's development in key fields, including the high-end, precision and sophisticated industries. The Company will efficiently serve Beijing's drive for the Model City for Global Digital Economy and the International Consumption Center City and take an in-depth part in public wellbeing projects. As a financial vanguard in serving high-quality development of the capital, the Company will also efficiently serve the coordinated development of the Beijing-Tianjin-Hebei Region and support high-quality development of the Beijing Municipal Administrative Center, "Three Cities and One District" and Xiongan New Area.

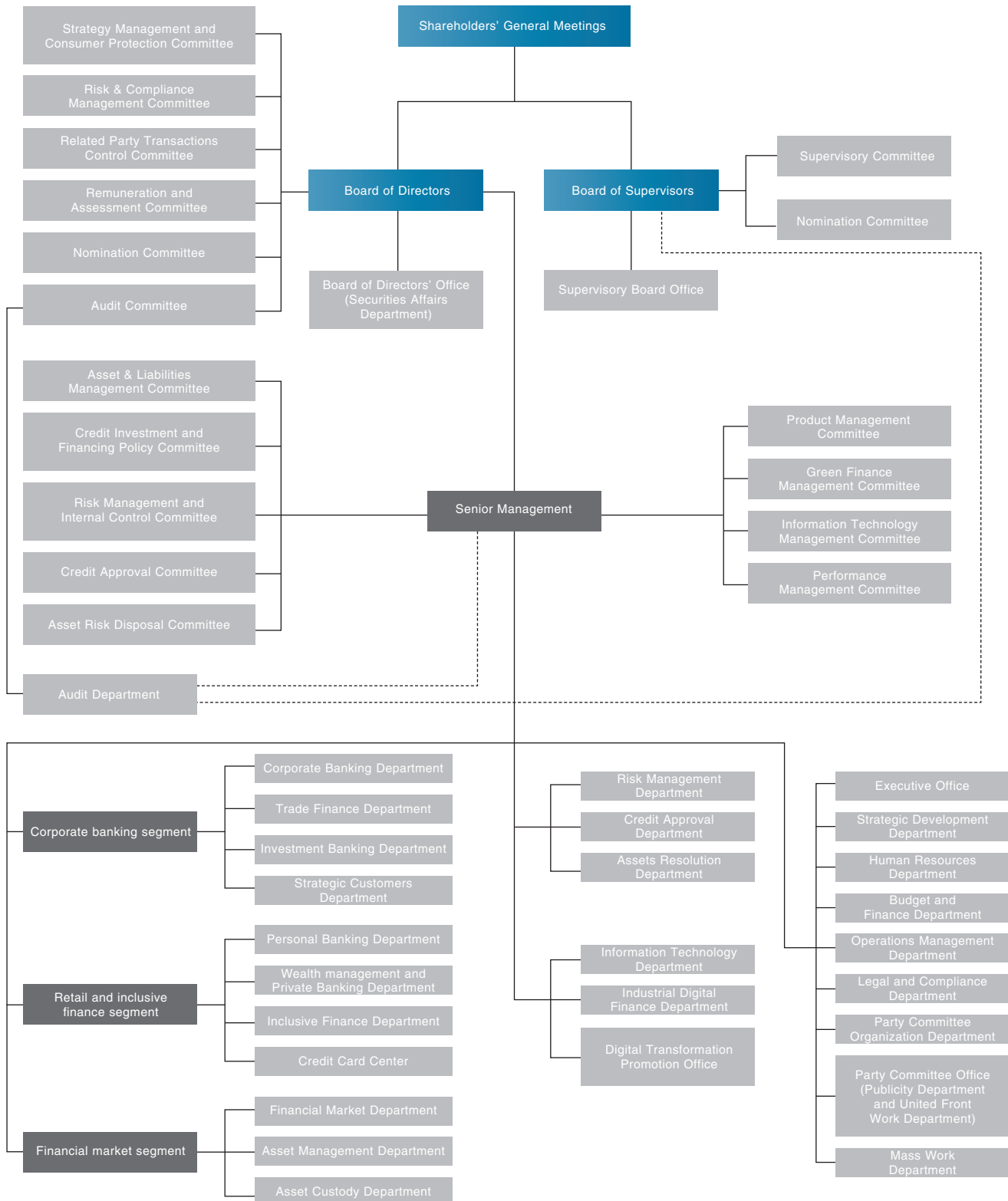
Branches in the "Three Regions" will gain pace on all fronts. The Company will give full play to the leading role of branches in the "Three Regions" and seize strategic opportunities to sharpen their overall edge. These branches will focus on major projects and high-end industries to break new ground and drive development to a higher standard. Mechanisms will be streamlined to provide services that are more integrated and efficient, such as joint customer marketing and joint business development, to empower bank-wide development.

"Two Lines" and "Multiple Points" branches will pursue development with local characteristics. Under stronger policy guidance, these branches will tap into local markets under a differentiated development strategy to foster their own characteristics. Branches featuring retail finance and branches featuring inclusive finance will be further built to develop unique competitive advantage harnessing local resources.



SECTION IV CORPORATE GOVERNANCE

4.1 CORPORATE STRUCTURE



4.2 CORPORATE GOVERNANCE PRACTICE

During the reporting period, the Company earnestly implements the *Company Law*, the *Commercial Bank Law*, the *Securities Law*, the *Code of Corporate Governance for Listed Companies*, the *Code of Corporate Governance for Banking and Insurance Institutions*, the *Guidelines on the Work of the Board of Supervisors of Commercial Banks* and other relevant laws and regulations. The Company integrated the Party leadership into every respect of corporate governance to establish the statutory role of Party organizations in the corporate governance framework. Ongoing improvements were made to the organizational structure for corporate governance composed of the Shareholders' General Meeting, the Board of Supervisors, the Board of Directors and the Senior Management. The Party Committee and these corporate governance bodies, with well-defined roles and responsibilities, functioned properly and diligently to demonstrate an improving level and capacity of corporate governance. The actual condition of corporate governance has no material discrepancies with the laws, regulations and the CSRC rules for governance of listed companies.

The Party Committee mainly charts the course, crafts overall plans and ensures their implementation, with a focus on political direction, leadership team, basic policies, major decisions and Party building. The Party Committee assumes the duty of strict Party self-governance and conducts early research and discussion before any major operation and management issues are put into action. The Shareholders' General Meetings effectively function as the ultimate power in the Company. The Company has a clear and stable shareholding structure, with the conduct of shareholders increasingly improved. Substantial shareholders actively support the Company's equity structure. Small and medium-sized shareholders take part in decision making by attending general meetings to maintain stable foundation for the Company's development. The Board of Directors mainly sets strategies, makes decisions and prevents risks. It keeps playing the role of providing strategic guidance and making scientific decisions, has in place an effective risk control mechanism and a reasonable incentives and accountability mechanism, actively performs social responsibility and protects the legitimate rights and interests of stakeholders. The Board of Supervisors fully performs its supervisory function and conducts supervisory inspections focused on strategy management, financial activity, risk management, risk control and duty performance of the Board of Directors, the senior management and their members in line with regulatory orientation and the bank's business activity. It effectively performs its statutory supervisory duties in an objective, impartial and scientific manner in compliance with laws and regulations and effectively acts in the best interests of the Company and all its shareholders and protects the legitimate rights and interests of stakeholders. The Senior Management mainly plans operation, works hard on implementation and strengthens management. It carries out operation management activities in accordance with the Articles of Association and upon authorization by the Board of Directors. It earnestly implements resolutions adopted by the Shareholders' General Meeting and the Board of Directors, accepts supervision by the Board of Supervisors and unite and lead all employees of the Company to fully accomplish annual operation and development tasks for the year.

According to the Shanghai Stock Exchange's *Notice on Disclosure of 2021 Annual Reports of Listed Companies on the Main Board*, a listed company shall separately disclose its rectification of problems found in self-examination in the special campaign launched to enhance corporate governance. According to the corporate governance self-examination, two independent directors, Mr. Chen Yonghong and Mr. Wang Huacheng continued to carry out the functions and powers of independent directors after expiration of their term of office. Since the resignation of Mr. Chen Yonghong and Mr. Wang Huacheng caused the number of independent directors on the Board of Directors of the Company to become less than one third of the members of the Board of Directors, Mr. Chen Yonghong and Mr. Wang Huacheng continued to carry out the functions and powers of independent directors in accordance with laws and regulations and the Articles of Association before new directors are elected by the Shareholders' General Meeting and approved by regulators. The Company has started the independent director election process pursuant to regulatory requirements. At the First Extraordinary General Meeting of 2022, Mr. Chen Shenghua and Mr. Cheng Xinsheng were elected independent directors of the Company, and their eligibility will become effective upon approval by regulatory authorities.

4.3 STATEMENT ON INDEPENDENCE FROM THE LARGEST SHAREHOLDER

The Company has no controlling shareholder or de facto controller. The Company is fully independent from the largest shareholder in terms of business, personnel, assets, institutional set-up and financials and is capable of independent business operation.

4.4 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

4.4.1 Changes in shares held by directors, supervisors and senior management members and their remunerations during the reporting period

Name	Position	Gender	Year of birth	Tenure	Shares held at the beginning of the year	Shares held at the end of the year	Increase/decrease of shares during the reporting period	Remuneration (in RMB10,000) paid by the Company during the reporting period	Equity incentives granted by the Company during the reporting period	Paid by related party of the Company (yes/no)
Li Minji	Chairman of the Board of Directors, Executive Director	Male	1965	14 April 2017 to expiration of the Eighth Board of Directors	0	0	0	67.81	None	No
Wang Hongjun	Non-executive Director Vice Chairman of the Board of Directors	Male	1969	30 November 2016 to expiration of the Eighth Board of Directors 26 December 2019 to expiration of the Eighth Board of Directors	0	0	0	0	None	Yes
Luo Qiangyi	Former Non-Executive Director Former Vice Chairman of the Board of Directors	Male	1965	10 July 2020 to 29 January 2022	0	0	0	0	None	Yes
Zhang Jianhua	Former Executive Director Former President	Male	1965	14 April 2017 to 17 February 2022	0	0	0	67.85	None	No
Guan Wenjie	Executive Director Vice President Principal of Financial Affairs	Male	1970	8 September 2020 to expiration of the Eighth Board of Directors Since 24 January 2017 Since 27 February 2014	0	0	0	62.40	None	No
Wang Yiping	Executive Director Vice President	Male	1963	8 September 2020 to expiration of the Eighth Board of Directors Since 24 January 2017	0	0	0	62.36	None	No
Song Jiqing	Executive Director Secretary to the Board	Male	1965	8 September 2020 to expiration of the Eighth Board of Directors Since 2 November 2019	0	0	0	254.11	None	No
Ma Xiaoyan	Non-executive Director	Female	1969	18 September 2019 to expiration of the Eighth Board of Directors	0	0	0	0	None	Yes
Zou Libin	Non-executive Director	Male	1967	19 June 2014 to expiration of the Eighth Board of Directors	0	0	0	0	None	Yes
Zeng Beichuan	Non-executive Director	Male	1963	29 November 2021 to expiration of the Eighth Board of Directors	0	0	0	0	None	Yes
Chen Yonghong	Independent Director	Male	1962	19 June 2014 to the new independent director taking office upon regulatory approval	0	0	0	43.20	None	No
Wang Huacheng	Independent Director	Male	1963	20 June 2014 to the new independent director taking office upon regulatory approval	0	0	0	40.80	None	No
Ding Yi	Independent Director	Female	1964	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	43.20	None	No
Zhao Hong	Independent Director	Female	1963	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	44.40	None	No
Guo Qingwang	Independent Director	Male	1964	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	42.00	None	No
Gong Zhiqiang	Independent Director	Male	1972	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	43.20	None	No
Lu Wendong	Independent Director	Male	1967	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	43.20	None	No

Name	Position	Gender	Year of birth	Tenure	Shares held at the beginning of the year	Shares held at the end of the year	Increase/decrease of shares during the reporting period	Remuneration (in RMB10,000) paid by the Company during the reporting period	Equity incentives granted by the Company during the reporting period	Paid by related party of the Company (yes/no)
Wang Minglan	Chairman of Board of Supervisors Employee Supervisor	Female	1963	5 January 2021 to expiration of the Eighth Board of Supervisors 31 December 2020 to expiration of the Eighth Board of Supervisors	0	0	0	58.96	None	No
Deng Kang	Supervisor Representing Shareholder	Male	1985	31 March 2022 to expiration of the Eighth Board of Supervisors	-	-	-	-	-	Yes
Ding Zhaohua	Supervisor Representing Shareholder	Male	1973	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	20.40	None	Yes
Lin Xin	Former External Supervisor	Male	1966	12 May 2015 to 31 March 2022	0	0	0	38.40	None	No
Zhu Xiaofang	External Supervisor	Female	1963	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	38.40	None	No
Zhao Xijun	External Supervisor	Male	1963	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	36.00	None	No
Guo Tianyong	External Supervisor	Male	1968	31 March 2022 to expiration of the Eighth Board of Supervisors	-	-	-	-	-	No
Zhang Hong	External Supervisor	Female	1965	31 March 2022 to expiration of the Eighth Board of Supervisors	-	-	-	-	-	No
Zhu Jiang	Employee Supervisor	Male	1968	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	194.83	None	No
Xu Xinming	Employee Supervisor	Male	1969	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	174.47	None	No
Yang Wei	Vice President	Male	1966	Since 12 February 2019	0	0	0	62.36	None	No
Zhang Wei	Former Non-Executive Director	Male	1975	29 December 2017 to 7 April 2021	0	0	0	0	None	Yes
Zou Xiulian	Former Non-Executive Director	Female	1965	9 September 2020 to 15 April 2021	0	0	0	0	None	Yes
Hua Shiguo	Former Supervisor Representing Shareholder	Male	1971	21 April 2020 to 21 December 2021	0	0	0	0	None	Yes
Wu Changqi	Former External Supervisor	Male	1955	12 May 2015 to 3 November 2021	0	0	0	26.58	None	No
Ma Yuanju	Former External Supervisor	Male	1957	12 May 2015 to 3 November 2021	0	0	0	32.58	None	No
Sun Tongjun	Former Employee Supervisor	Male	1961	12 May 2015 to 3 November 2021	0	0	0	179.55	None	No
Li Min	Former Vice President	Male	1976	14 February 2019 to 9 February 2021	0	0	0	10.48	None	No
Total	/	/	/	/	0	0	0	1,687.54	/	/

Notes:

- Remunerations of the Chairman of the Board of Directors, President and other principals of the Company are subject to the policy of Beijing government on reform of remunerations of executives of local state-owned enterprises.
- Pre-tax remunerations of the Chairman of the Board of Directors, President, employee supervisors and other senior management members serving the Company in 2021 include the contribution by the Company to social insurance, enterprise annuity, additional medical insurance and housing provident fund.
- Pre-tax remunerations of the Chairman of the Board of Directors, President, employee supervisors and other senior management members serving in the Company are under confirmation and will be disclosed thereafter.
- The total remuneration received by the directors and supervisors except for executive directors and employee supervisors from the Company during the reporting period was determined according to the *Regulations of Hua Xia Bank Co., Limited on Allowance of Directors* and the *Regulations of Hua Xia Bank Co., Limited on Allowance of Supervisors*.
- Non-executive directors Mr. Wang Hongjun, Mr. Luo Qianyi, Ms. Ma Xiaoyan, Mr. Zou Libin, Mr. Zeng Beichuan, Mr. Zhang Wei, Ms. Zou Xiulian and Supervisor Representing Shareholder Hua Shiguo voluntarily gave up receiving allowance from the Company.

The rest-part remuneration of company officers in 2018-2020 approved and verified by the competent authorities is disclosed as below:

Name	2020			
	Incentive income paid for service in 2018 (RMB10,000)	Incentive income paid for service in 2019 (RMB10,000)	The rest part of pre-tax remunerations (RMB10,000)	Incentive income paid for service in 2020 (RMB10,000)
Li Minji	25.17	24.82	39.26	25.17
Zhang Jianhua	25.17	24.82	39.26	25.17
Guan Wenjie	21.61	21.35	31.87	21.64
Wang Yiping	21.61	21.35	30.14	21.14
Yang Wei	–	17.79	30.14	21.14
Li Min	–	17.79	31.87	21.65

The rest-part remuneration for other personnel in 2020:

Name	The rest part of pre-tax remunerations for 2020 (RMB10,000)
Song Jiqing	94.86
Sun Tongjun	59.9
Zhu Jiang	63.47
Xu Xinming	47.75

Note: Part of remunerations paid to the Secretary to the Board and employee supervisors during the reporting period have been disclosed in the Annual Report 2020, and the rest part of pre-tax remunerations for such personnel in 2020 is hereby disclosed. Bonus to the above-mentioned persons shall be delayed in payment. The total bonus subject to delayed payment in 2020 is RMB2,879,200 and is not paid to those individuals yet.

4.4.2 Changes in directors, supervisors and senior management members of the Company

4.4.2.1 Directors

On 7 April 2021, Mr. Zhang Wei resigned from the posts of the Company's non-executive director and member of relevant committees of the Board of Directors due to work engagement.

On 15 April 2021, Ms. Zou Xiulian resigned from the posts of the Company's non-executive director and member of relevant committees of the Board of Directors as she reached the retiring age.

On 25 May 2021, Mr. Xie Yiqun resigned from the posts of the Company's non-executive director and member of relevant committees of the Board of Directors due to work engagement.

On 28 October 2021, Mr. Li Zhuyong resigned from the post of the Company's non-executive director due to work engagement.

On 29 November 2021, Mr. Zeng Beichuan was approved by regulatory authority to serve as non-executive director of the Company, with the tenure starting on the date of approval and end upon expiration of the Eighth Board of Directors.

On 29 January 2022, Mr. Luo Qianyi resigned from the posts of the Company's Vice Chairman of the Board of Directors, non-executive director and member of relevant committees of the Board of Directors due to work engagement.

On 17 February 2022, Mr. Zhang Jianhua resigned from the posts of the Company's executive director, President and member of relevant committees of the Board of Directors due to work engagement.

On 31 March 2022, Ms. Zhu Min, Mr. Cai Zhiwei and Mr. Guan Jifa were elected non-executive directors of the Company and Mr. Chen Shenghua and Mr. Cheng Xinsheng were elected independent directors of the Company at the first Extraordinary General Meeting of 2022. The eligibility of the above directors will become effective upon approval by regulatory authorities.

4.4.2.2 Supervisors

On 5 January 2021, the Eighth Board of Supervisors of the Company held the seventh meeting. Ms. Wang Minglan was elected Chairman of Eighth Board of Supervisors of the Company. Her tenure started on 5 January 2021 and will end upon expiration of the Eighth Board of Supervisors.

On 12 May 2021, Mr. Lin Xin, Mr. Wu Changqi and Mr. Ma Yuanju resigned from the posts of external supervisors and members of relevant committees of the Board of Supervisors due to tenure expiration. To ensure external supervisors account for at least one third of the members of the Board of Supervisors of the Company, Mr. Lin Xin, Mr. Wu Changqi and Mr. Ma Yuanju continued to perform the duties of external supervisors.

On 3 November 2021, Mr. Sun Tongjun resigned from the posts of the Company's employee supervisor and member of relevant committees of the Board of Supervisors due to his age. Mr. Wu Changqi and Mr. Ma Yuanju ceased to work as external supervisors on the same date.

On 21 December 2021, Mr. Hua Shiguo resigned from the posts of the Company's supervisor representing shareholder and member of relevant committees of the Board of Supervisors due to work engagement.

On 31 March 2022, the Company held the First Extraordinary General Meeting. Mr. Deng Kang was elected supervisor representing shareholder and Mr. Guo Tianyong and Ms. Zhang Hong were elected external supervisors of the Company. Their tenure started on 31 March 2022 and will end upon expiration of the Eighth Board of Supervisors. Mr. Lin Xin ceased to work as external supervisors on the same date.

4.4.2.3 Senior managers

On 9 February 2021, Mr. Li Min resigned from the post of the Company's Vice President due to work engagement.

4.4.3 Main work experiences and current or concurrent jobs of directors, supervisors and senior management members

Li Minji, Chairman and Executive Director, male, was born in January 1965, and holds the title of senior economist. He majored in Finance in Renmin University of China and graduated with a Master's Degree in Economics. He majored in Business Administration in Huazhong University of Science and Technology and graduated with a PhD in Management. He ever held such positions as Member of the Party Committee, Director and Executive Deputy General Manager at Beijing State-owned Assets Management Co., Ltd.; Party Committee Secretary and Chairman of Beijing International Trust Co., Ltd.; and Deputy President of China Trustee Association and Member of China Trust Protection Fund Council concurrently. He now serves as a Member of the 12th CPC Beijing Municipal Committee and Member of the 13th CPPCC Beijing Municipal Committee; and Party Committee Secretary, Chairman and Executive Director of Hua Xia Bank.

Wang Hongjun, Vice Chairman, Non-executive Director, male, was born in March 1969. He holds a master's degree and is a senior accountant. He was Deputy Chief Accountant and Chief Accountant of BBMG Corporation, as well as Head of Financial Department, CFO and Director of BBMG Corporation and CFO of Shougang Group. He currently serves as Chief Accountant of Shougang Group.

Guan Wenjie, Executive Director, Vice President, Principal of Financial Affairs and CFO, male, was born in October 1970. He holds a master's degree and is a senior accountant. He was once Deputy Chief of the Finance Section of Taidong District Representative Office and Chief of the Accounting Section and Chief of Finance Section of the Railway Sub-branch, Qingdao Branch of China Construction Bank; the Deputy Chief (in charge of specific work) and Chief of Budget & Finance Division of Qingdao Sub-branch of Hua Xia Bank, General Manager of Budget & Finance Department of Qingdao Branch of Hua Xia Bank, Member of Party Committee and Vice General Manager of Qingdao Branch of Hua Xia Bank, Secretary of Party Committee and General Manager of Qingdao Branch of Hua Xia Bank, General Manager of Accounting Department, Principal of Financial Affairs and General Manager of Budget and Finance Department of Hua Xia Bank, CFO, General Manager of Budget and Finance Department and General Manager of Financial Markets Department of Hua Xia Bank. Now, he is Member of the Party Standing Committee, Executive Director, Vice President, Principal of Financial Affairs, and CFO of Hua Xia Bank.

Wang Yiping, Executive Director, Vice President, male, was born in June 1963. He holds a master's degree and is a senior economist. The positions he ever held are: Secretary of Secretariat, General Office, Ministry of Energy; Secretary to Minister (director level) of Secretariat, General Office, Ministry of Coal Industry; Secretary (director level) of Secretariat, General Office, the State Bureau of Coal Industry; Assistant President of China Coal Trust & Investment Co., Ltd.; Deputy General Manager of Corporate Financing Department and General Manager of Financial Interbank Department of Hua Xia Bank; and Party Committee Secretary and General Manager of Taiyuan Branch, Hua Xia Bank. Now, he is Member of the Party Standing Committee, Executive Director and Vice President of Hua Xia Bank.

Song Jiqing, Executive Director and Secretary to the Board, male, was born in January 1965. He holds a PhD and is a senior economist. He once served as a Consultant (deputy director level) of Beijing Municipal Finance Bureau, Member of the Party Leading Group and Deputy Director General of the Local Taxation Bureau of Beijing Mentougou District, Deputy Secretary of the Party Leading Group and Director General of the Beijing Mentougou District Bureau of Finance & Secretary of the Party Leading Group and Director General of the Local Taxation Bureau of Beijing Mentougou District & Director General of the State-Owned Assets Administration Bureau of Beijing Mentougou District; Member of the Party Leading Group and Deputy Head of the Government of Beijing Mentougou District; Deputy Director of Fund Finance Department, Deputy Director of General Office, Director of General Office and Director of Information Research Department of the National Council for Social Security Fund; Deputy Chief Financial Officer and General Manager of Planning and Finance Department of Hua Xia Bank; Principal of Financial Affairs, Chief Financial Officer and General Manager of Planning and Finance Department of Hua Xia Bank; Principal of Financial Affairs, Chief Financial Officer and General Manager of Development Research Department of Hua Xia Bank; Chief Financial Officer and General Manager of Development Research Department of Hua Xia Bank; Director of Marketing and General Manager of Strategic Development Department of Hua Xia Bank; Director of Marketing and Director of Executive Office of Hua Xia Bank. He currently serves as Party Committee Member, Executive Director, Secretary to the Board of Directors and Director of Executive Office of Hua Xia Bank.

Ma Xiaoyan, Non-executive Director, female, was born in July 1969. She holds a bachelor's degree and is a senior accountant. She once served as Deputy Director of the Audit Department of Henan Electric Power Company; Chief Accountant and Member of the Party Leading Group of Chang'an Insurance Broker Co., Ltd.; Head of the Financial Assets Division of the Financial Asset Management Department of State Grid Corporation of China (State Grid Asset Management Co., Ltd.); Chief Accountant of Yingda International Holdings Group Ltd.; Chief Accountant and Member of the Party Committee of State Grid Yingda International Holdings Group Ltd. She is now Deputy General Manager and Party Committee Member of State Grid Yingda International Holdings Group Ltd. and Chairman and Head of Party Organization of Yingda Asset Management Co., Ltd.

Zou Libin, Non-Executive Director, male, was born in September 1967. He holds a master's degree and is a senior accountant. He was ever a clerk of Malaysia Division of International Trade Department, JV Division of Overseas Headquarters, JV Division of International Trade Department and Foreign Economic Division of Economic and Trade Department of Shougang, a professional of JV Management Division of Industrial Development Department of Shougang. Then he served as Assistant to Chief and Deputy Chief of Listed Company Management Division of Capital Operation Department of Shougang Corporation, Deputy Division Chief of Bodi Investment Co., Ltd., Deputy Chief of Treasury Division of Budget and Finance Department of Shougang Xingang Co., Ltd., and Assistant to Head and Head of Capital Operation Department, Head of Investment Management Department, and Head of Planning and Finance Department of Shougang Corporation. He currently serves as Head of Operation and Finance Department of Shougang Group.

Zeng Beichuan, Non-executive Director, male, was born in March 1963. He holds a PhD and a senior engineer. Previously he was Deputy Chief of the General Affairs Division, International Finance Bureau, China Development Bank; Deputy General Manager, Deputy General Manager (acting as principal), Deputy General Manager (equivalent to branch head) and Deputy Secretary of the Party Leading Group of Beijing Administrative Department of Hua Xia Bank; Deputy General Manager (equivalent to branch head) of Banking Department, Deputy Secretary of the Party Leading Group, General Manager of Audit Department and Employee Supervisor at the Head Office of Hua Xia Bank; General Manager of Marketing Department of China Life Insurance Co., Ltd.; Member of the Preparation Group for PICC Financial Holding; Director, President and Party Secretary of China Huawen Investment Holding Co., Ltd. (Shanghai New Huawen Investment Co., Ltd.); Chairman of Zhongtai Trust Co., Ltd., Vice President and Party Committee Member of PICC Investment Holding Co., Ltd.; Member of Standing Committee of the Municipal CPC and Deputy Mayor (seconded) of Liuzhou, Guangxi; Director, President and Party Committee Secretary of PICC Capital Investment Management Co., Ltd. Now, he is Vice Chairman, President and Party Secretary of PICC Asset Management Company Limited.

Chen Yonghong, Independent Director, male, was born in December 1962. He holds a bachelor's degree and is a Chinese CPA and senior accountant. He is a leading talent in China's accounting sector. He was ever Senior Staff Member and Principal Staff Member of Investment Audit Division of Hunan Audit Office; Deputy Director and Director of Hunan Auditors Office, Chairman and Chief Accountant of Baker Tilly China, and Principal Partner and Chief Accountant of Baker Tilly China Certified Public Accountants. Now, he is Partner of Baker Tilly China Certified Public Accountants and Chairman of Greetec Co., Ltd.

Wang Huacheng, Independent Director, male, was born in January 1963. He is a PhD and professor. He was once Teaching Assistant, Lecturer, Associate Professor and Deputy Director of Accounting Department and Vice Dean of School of Business of Renmin University of China. Now, he is a professor and tutor to PhD students at Division of Accounting & Finance, School of Business of Renmin University of China.

Ding Yi, Independent Director, female, was born in May 1964. She holds a PhD and is a senior economist. She previously was a Lecturer at the School of Finance Renmin University of China, Deputy General Manager of the Investment Management Department of the People's Insurance Company of China, Assistant to President of PICC Asset Management Company Ltd.; General Manager and Chairman of Huaneng Capital Service Co., Ltd., Chairman of Huaneng Guicheng Trust Corporation Ltd., Chairman of China Great Wall Securities Co., Ltd. and Chairman of Invesco Great Wall Fund Management Co., Ltd. Now, she is Senior Consultant at Chinese Academy of Financial Inclusion.

Zhao Hong, Independent Director, female, was born in January 1963. She is a PhD and professor. She previously was Head of the Teaching-Research Section and Associate Dean of the Economics & Management School of Beijing University of Technology and Associate Dean of School of Economics and Management of the Graduate School of Chinese Academy of Sciences and Associate Dean of College of Economics and Management, University of Chinese Academy of Sciences. Now, she is Dean of the Sino-Danish College, University of Chinese Academy of Sciences and Vice Chairman of the University of Chinese Academy of Sciences Education Foundation.

Guo Qingwang, Independent Director, male, was born in February 1964. He is a PhD and professor. He was the Vice Dean, Executive Vice Dean and Dean of the School of Finance of Renmin University of China. Now, he is a professor and tutor to PhD students at Division of Public Finance, School of Finance of Renmin University of China.

Gong Zhiqiang, Independent Director, male, was born in January 1972. He holds a master's degree. He previously was a Judge at the Economical Division of the Intermediate People's Court of Handan City, Hebei Province, a lawyer at Hylands Law Firm, and Deputy Director and Senior Partner at Sino-integrity Law Firm. Now, he is director and senior partner of S&P Law Firm.

Lv Wendong, Independent Director, male, was born in September 1967. He is a PhD and professor. He previously was a member of the Scientific and Technological Commission of Taiyuan City, Shanxi Province, a clerk at the Intellectual Property Affairs Center of the Ministry of Science and Technology and professor at the School of Insurance and Economics, University of International Business and Economics. Now, he is a professor at the Business School of University of International Business and Economics.



Wang Minglan, Chairman of the Board of Supervisors and Employee Supervisor, female, was born in December 1963. She holds a master's degree and is a researcher. She previously was Head of the Industrial Division and Head the Social Division of the Beijing Municipal Government Research Office, Member of Leading Party Group and Deputy Head of the Beijing Municipal Government Research Office, Deputy Party Secretary and Deputy General Manager of Zhongguancun Development Group, and Deputy Party Secretary and Director of Zhongguancun Development Group. She currently serves as Deputy Party Committee Secretary, Chairman of Board of Supervisors and Employee Supervisor of Hua Xia Bank.

Deng Kang, Supervisor Representing Shareholder, male, was born in December 1985. He holds a master's degree and is an economist. Previously he was Salesman for Yunnan Province, Salesman for Shandong Province and Salesman for Shandong Sub-center at Yunnan China Tobacco Industrial Co., Ltd. Marketing Center; Project Manager at the Financial Assets Department of Yunnan Hehe (Group) Co., Ltd. (seconded to Investment Banking Department of Hongta Securities Co., Ltd. as Deputy General manager during the term of office). He currently serves as Senior Management Executive of Yunnan Hehe (Group) Co., Ltd.

Ding Zhaohua, Supervisor Representing Shareholder, male, was born in December 1973. He holds a master's degree and is a senior economist. He previously was Financial Manager, Regional Financial Director, Regional General Manager, Chief Financial Officer and director of Runhua Group Co., Ltd. Now he is Director, President and Chief Financial Officer of Highgo Software Co., Ltd.

Zhu Xiaofang, External Supervisor, female, was born in June 1963. She is a PhD and associate professor. She previously was an Assistant Researcher at the Chinese Academy of Fiscal Sciences, Project Manager of the World Bank On-lending Department of China Economic Development Trust and Investment Co., Ltd., Deputy General Manager of Direct Investment Department of China International Capital Corp. Ltd., Senior Investment Manager of Actis Capital LLP, Project Consultant of International Expert Group on China's Foreign Debts at Asian Development Bank, Chairman of Aureos China Investment Committee and Distinguished Chair Professor at Hanqing Advanced Institute of Economics and Finance, Renmin University of China. Now, she is a CFC Senior Lecturer.

Zhao Xijun, External Supervisor, male, was born in August 1963. He is a PhD and professor. He previously was an assistant and lecturer at the Finance Department of Renmin University of China, Head of the Finance Department of the School of Finance, Renmin University of China, Researcher at the Department of International Affairs of CSRC (seconded); Director of International Office of Renmin University of China, Deputy Dean of School of Finance, Renmin University of China. Now, he is Co-president of China Capital Market Research Institute at Renmin University of China.

Guo Tianyong, External Supervisor, male, was born in August 1968. He is a PhD and professor. Previously he was an officer at Yantai Branch of the People's Bank of China; a lecturer and associate professor at the School of Finance, Central University of Finance and Economics. Now, he is a professor and tutor to PhD students at the School of Finance, Central University of Finance and Economics.

Zhang Hong, External Supervisor, female, was born in April 1965. She is a PhD and professor. Previously she was a lecturer, associate professor and professor and MA student adviser at School of Economics, Shandong University. Now, she is a professor and tutor to PhD students at School of Economics, Shandong University.

Zhu Jiang, Employee Supervisor, male, was born in June 1968. He holds a master's degree and is an economist. He previously was Deputy General Manager of Special Assets Resolution Department, Deputy General Manager of the Special Assets Resolution Center of Credit Risk Management Department, Deputy Director of Executive Office, Deputy General Manager of Development Research Department (in charge of specific work), Director of Party Committee Office and Director of Party Committee Office (Publicity Department) of Hua Xia Bank. Currently, he serves as Employee Supervisor of Hua Xia Bank and Director of the Party Committee Office (Publicity Department and United Front Work Department).

Xu Xinming, Employee Supervisor, male, was born in February 1969. He holds a master's degree and is a senior accountant. He previously was General Manager of Audit Department, Manager of Nanjing Audit Office and Deputy Director and Director of Shanghai Audit Division of Hua Xia Bank. He currently serves as Employee Supervisor and General Manager of Audit Department of Hua Xia Bank.

Yang Wei, Vice President, male, was born in January 1966. He holds a bachelor's degree and is an engineer. He once served as Head of Special Assets Resolution Division II, Assistant to General Manager and Deputy General Manager of the Special Assets Resolution Department of Hua Xia Bank; Member of the Party Committee and Deputy Head of Xi'an Branch of Hua Xia Bank, Member of the Party Committee and Deputy Head of Kunming Branch & Secretary of the Party General Branch and Head of Yuxi Sub-branch of Hua Xia Branch; Deputy Secretary of the Party Committee, Secretary of the Party Committee and Head of Kunming Branch of Hua Xia Bank; Secretary of the Party Committee and Head of Beijing Branch of Hua Xia Bank, and Secretary of the Party Committee and Head of Guangzhou Branch of Hua Xia Bank. Now, he is Member of the Party Standing Committee and Vice President of Hua Xia Bank.

4.4.4 Positions or concurrent jobs of directors, supervisors and senior management members in shareholder entities or non-shareholder entities

Name	Shareholder entity	Position	Tenure
Wang Hongjun	Shougang Group	Chief Accountant	April 2020 to present
Ma Xiaoyan	State Grid Yingda International Holdings Group Ltd.	Deputy General Manager, Party Committee Member	Since January 2019
Zou Libin	Shougang Group	Head of Operation and Finance Department	Since December 2015
Zeng Beichuan	PICC Asset Management Company Limited	Vice Chairman, President, Party Committee Secretary	November 2019 to present
Deng Kang	Yunnan Hehe (Group) Co., Ltd.	Senior Management Executive	November 2021 to present
Ding Zhaohua	Runhua Group Co., Ltd.	Director	May 2015 to June 2021

Name	Position or concurrent position in other entities excluding shareholder entities
Ma Xiaoyan	Chairman and head of Party organization of Yingda Asset Management Co., Ltd.; executive director of CGN Industry Investment Fund Phase II Co., Ltd.
Zou Libin	Director of Beijing West Fund Management Co., Ltd.; Director of Beijing Shougang Construction Investment Co., Ltd.; Director of Shougang Shuicheng Iron & Steel (Group) Co., Ltd.; Director of China Bond Insurance Corporation; and Chairman of Shougang Group Finance Co., Ltd.
Chen Yonghong	Partner of Baker Tilly China Certified Public Accountants; Chairman of Tianzhi Engineering Project Management Co., Ltd., Executive Director of Beijing Greetec Project Management Technology Innovation and Investment Co., Ltd., Independent Director of Beijing Jiuqiang Bio-technology Co., Ltd. and Outside Director of Beijing Science Park Development (Group) Co., Ltd.
Wang Huacheng	Professor and tutor to PhD students at Division of Accounting & Finance, School of Business of Renmin University of China, Independent Director of Beijing International Trust Co., Ltd., Independent Director of BOE Technology Group Co., Ltd. and Independent Director of China Great Wall Securities Co., Ltd.
Ding Yi	Director of Tongwei Co., Ltd., Independent Director of Huatai Asset Management Co., Ltd., Independent Director of Zhenjiang Yuanshi Advanced Materials Co., Ltd. and Senior Consultant at Chinese Academy of Financial Inclusion.
Zhao Hong	Dean of the Sino-Danish College, University of Chinese Academy of Sciences, Vice Chairman of the University of Chinese Academy of Sciences Education Foundation, Executive Director of China Capital Market Research Institute at Renmin University of China and Executive Director of Chinese Marketing Association of Universities
Guo Qingwang	Vice President of Society of Public Finance of China, Vice President of China International Taxation Research Institute and professor and tutor to PhD students at Division of Public Finance, School of Finance of Renmin University of China
Gong Zhiqiang	Director and senior partner of S&P Law Firm; independent director of Capinfo Company Limited; director of Pengfeng Investment Co., Ltd
Lv Wendong	Independent Director of Founder Securities Co., Ltd., Independent Director of Henan Yuguang Gold & Lead Co. Ltd., Independent Director of Henan Pinggao Electric Co., Ltd., President of the <i>Scientific Decision Making</i> and professor at the Business School of University of International Business and Economics
Deng Kang	Director of Hongta Securities Co., Ltd.; Director of Jiangsu Tobacco Jinsili Financial Lease Co., Ltd.; Supervisor of KPC Pharmaceuticals, Inc.; Supervisor of Yunnan Tourism Co., Ltd.
Ding Zhaohua	Director, President and Chief Financial Officer of Highgo Software Co., Ltd.; General Manager of Beijing Huading Highgo Data Technology Research Institute Co., Ltd.; Financial Chief of Highgo Holdings (Shandong) Limited; Director of Shandong Runhua Dingye Cultural and Tourism Development Co., Ltd.
Zhao Xijun	Co-president of China Capital Market Research Institute at Renmin University of China, Member/Secretary General of the National Supervisory Committee for Professional Degrees in Finance, Independent Director of China National Foreign Trade Financial & Leasing Co., Ltd., External Supervisor of China Construction Bank Corporation, Independent Director of Shenzhen Sunline Tech Co., Ltd., Independent Director of Kaishi Fund Management Co., Ltd. and Independent Director of iFLYTEK Co., Ltd.
Guo Tianyong	Professor and tutor to PhD students at the School of Finance, Central University of Finance and Economics; Independent Director of Ping An Bank Co., Ltd.; Independent Director of AA Industrial Belting (Shanghai) Co. Ltd.
Zhang Hong	Professor and tutor to PhD students at School of Economics, Shandong University; Independent Director of Sinotruk Jinan Truck Co., Ltd.; Independent Director of Sunvim Group Co., Ltd.; Independent Director of Cisen Pharmaceutical Co., Ltd.; Independent Director of Shandong Hi-Speed Road & Bridge Co. Ltd.; External Supervisor of Shandong Chenming Paper Holdings Limited.
Yang Wei	Supervisor of China UnionPay Co., Ltd.

4.4.5 Establishment and implementation of performance evaluation and incentive mechanisms for directors, supervisors and senior management members

The total remuneration received by the directors and supervisors except for executive directors and employee supervisors from the Company was determined according to the the *Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and the Regulations of Hua Xia Bank Co., Limited on Allowance of Supervisors* approved by the Shareholders' General Meeting. As to the executive directors, other senior management members and employee supervisors who are included in the remuneration management scope of officers of SOEs governed by Beijing Municipal Government, their remuneration shall be determined as per the management policies fit for the abovementioned officers. As to the executive directors and other senior management members who are not included in the remuneration management scope of officers of SOEs governed by Beijing Municipal Government, their remuneration shall be determined as per the *Administrative Measures for Remunerations of Head Office-level Senior Management of Hua Xia Bank*. As to the employee supervisors who are not included in the remuneration management scope of officers of SOEs governed by Beijing Municipal Government, their remuneration shall be determined as per the Company's related employee remuneration management measures. As at the end of the reporting period, the Company had not provided any share incentives to directors, supervisors or senior management members.

The Board of Directors of the Company assessed the performance of senior managers appointed by the Board of Directors in accordance with the *Annual Performance Assessment Measures for Senior Management Members of Hua Xia Bank*. The annual duty performance of directors, supervisors and senior managers was evaluated by the Board of Supervisors according to the *Duty Performance Evaluation Measures for the Board Directors of Hua Xia Bank Co., Limited and Its Members*, the *Duty Performance Evaluation Measures for the Board of Supervisors of Hua Xia Bank Co., Limited and Its Members* and the *Duty Performance Evaluation Measures for the Senior Management of Hua Xia Bank Co., Limited and Its Members (Provisional)* and reported to the General Meeting of Shareholders and regulatory authorities.

The Remuneration and Assessment Committee of the Board of Directors has examined remuneration data of directors, supervisors and senior management members to be disclosed in the Annual Report 2021 of the Company. In the opinion of the committee, the remunerations of directors, supervisors and senior management members to be disclosed in the Annual Report 2021 of the Company comply with relevant assessment system and remuneration management policy of the Company, and are paid in overall consideration of the prevailing economic conditions, control policies of China and Beijing as well as actual operation of the Company and its peers, and the disclosure meets requirements of relevant laws and regulations.

During the reporting period, RMB16,875,400 (before tax) was actually paid to all of the directors, supervisors and senior management members.

4.4.6 Penalties imposed on directors, supervisors and senior management members by securities regulatory authority in the past three years

As far as the Company knows, there have been no penalties imposed on its directors, supervisors or senior management members, who remain in office now or were removed from office during the reporting period, by securities regulatory authorities in the recent three years.

4.5 BRIEFING OF THE SHAREHOLDERS' GENERAL MEETING

4.5.1 Duties of the Shareholders' General Meeting

The Shareholders' General Meeting holds the ultimate power of the Company. It is mainly responsible for: deciding on the Company's business policy and investment plan; electing and replacing directors and supervisors and deciding on the remuneration of directors and supervisors; hearing the Board of Supervisors' report on performance evaluation of directors and supervisors; reviewing and approving the reports of the Board of Directors and the Board of Supervisors; reviewing and approving the annual financial budget, final accounts plan, profit distribution plan and loss recovery plan of the Company; resolving on the Company's bond issuance, increase or decrease of registered capital, change of the purpose of raised funds, equity incentive plan, merger, split-up, dissolution and liquidation; amending the Articles of Association; engaging and disengaging accounting firm; reviewing the proposals of shareholders representing more than 3% of the total shares of the Company; reviewing the Company's purchase or sale of major assets or the guarantees within one year exceeding 30% of the latest audited total assets of the Company; deciding on or authorizing the Board of Directors to decide on matters related to the Company's issued preference shares; and reviewing other matters subject to decision making by the Shareholders' General Meeting under laws, regulations, supervisory rules and the Articles of Association.

4.5.2 Convening of Shareholders' General Meeting

Meeting	Date	Place	Attendance	Website designated for publishing resolution	Disclosure date	Resolutions
Annual General Meeting for 2020	28 May 2021	Beijing	1. 105 shareholders attended the meeting in person or by proxy, representing a total of 9,817,040,264 voting shares, accounting for 63.7999% of total voting shares in the Company. 2. Of the 16 directors of the Company, 10 directors were present, while Directors Wang Hongjun, Luo Qianyi, Wang Yiping, Zou Libin, Ma Xiaoyan and Wang Huacheng were absent for business affairs. 3. Of the 11 incumbent supervisors of the Company, 10 supervisors were present, while Supervisor Hua Shiguo was absent for business affairs. 4. Secretary to the Board Song Jiqing attended the meeting; Vice President Yang Wei was present as non-voting attendee.	http://www.sse.com.cn	29 May 2021	21 proposals were reviewed at the meeting, including the <i>2020 Work Report of the Board of Directors of Hua Xia Bank Co., Limited</i> . Proposals 12 to 19 were approved by over two thirds of attending shareholders with voting rights; other proposals were approved by more than one half of attending shareholders with voting rights. All the 21 proposals reviewed at the Shareholders' General Meeting were reviewed and approved.

4.6 DUTY PERFORMANCE OF THE DIRECTORS AND BOARD OF DIRECTORS

4.6.1 The Board of Directors

4.6.1.1 Duties and composition of the Board of Directors

The Board of Directors is the decision-making body of the Company. The Board of Directors is mainly responsible for: convening the Shareholders' General Meeting, reporting its work and implementing the resolutions of the Shareholders' General Meeting; deciding on the Company's business plan and investment plan; formulating the Company's annual financial budget, final accounts plan, profit distribution plan and loss compensation plan; formulating the Company's plans for increasing or decreasing registered capital, issuing bonds or other securities and listing; formulating the Company's risk tolerance and risk management policies; deciding on major investments of the Company within the scope authorized by the Shareholders' General Meeting; developing the major acquisition plan of the Company; deciding on the establishment of the working bodies of the Board of Directors, the internal management bodies of the Company and the unincorporated branches; formulating the standards for remuneration and allowances for directors of the Company, basic management policies, detailed articles of association, amendments to the articles of association and rules of procedure of the Shareholders' General Meeting and their amendments; formulating and revising the rules of procedure of the Board of Directors; appointing or dismissing the President, Vice President, Principal of Financial Affairs, Secretary to the Board and other senior management members of the Company, and deciding on their remuneration, rewards and punishments; hearing the work report of the President of the Company and checking the work of the President; taking the ultimate responsibility for the Company's risk management, capital adequacy ratio management, consolidated management, internal audit and other regulatory requirements; and reviewing the other matters that shall be decided on by the Board of Directors under laws, regulations, supervisory rules and the Articles of Association. The Board of Directors shall, before deciding on major issues of the Company, solicit opinions of the Party Committee of the Company. At the end of the reporting period, the Board of Directors of the Company was composed of 17 supervisors. For details, please see "4.4 Directors, Supervisors and Senior Management Members".

4.6.1.2 Meetings of the Board of Directors

Meeting	Date	Resolutions
The eighth meeting of the Eighth Board of Directors	22 March 2021	For details, please see the Announcement on Resolutions of the Eighth Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 24 March 2021.
The ninth meeting of the Eighth Board of Directors	22 April 2021	For details, please see the Announcement on Resolutions of the Ninth Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 24 April 2021.
The 10th meeting of the Eighth Board of Directors	28 April 2021	For details, please see the Announcement on Resolutions of the 10th Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 30 April 2021.
The 11th meeting of the Eighth Board of Directors	12 May 2021	For details, please see the Announcement on Resolutions of the 11th Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 13 May 2021.
The 12th meeting of the Eighth Board of Directors	20 July 2021	For details, please see the Announcement on Resolutions of the 12th Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 22 July 2021.
The 13th meeting of the Eighth Board of Directors	27 August 2021	For details, please see the Announcement on Resolutions of the 13th Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 31 August 2021.
The 14th meeting of the Eighth Board of Directors	28 October 2021	For details, please see the Announcement on Resolutions of the 14th Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 30 October 2021.
The 15th meeting of the Eighth Board of Directors	22 November 2021	For details, please see the Announcement on Resolutions of the 15th Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 23 November 2021.
The 16th meeting of the Eighth Board of Directors	22 December 2021	For details, please see the Announcement on Resolutions of the 16th Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 24 December 2021.

4.6.2 Duty performance of directors

4.6.2.1 Duty performance of directors

Director	Independent Director (Yes/no)	Board meetings to be attended this year	Meetings attended in person	Attendance at Board Meeting				Absent from two consecutive meetings (Yes/no)	Attendance at Shareholders, General Meetings
				Meetings attended by circulation	Meetings attended by proxy	Absence			
Li Minji	No	9	9	4	0	0	No		1
Wang Hongjun	No	9	8	4	1	0	No		0
Luo Qianyi	No	9	8	4	1	0	No		0
Zhang Jianhua	No	9	8	4	1	0	No		1
Guan Wenjie	No	9	7	4	2	0	No		1
Wang Yiping	No	9	9	4	0	0	No		0
Song Jiqing	No	9	9	4	0	0	No		1
Ma Xiaoyan	No	9	9	4	0	0	No		0
Zeng Beichuan	No	1	1	0	0	0	No		0
Zou Libin	No	9	9	4	0	0	No		0
Chen Yonghong	Yes	9	9	4	0	0	No		1
Wang Huacheng	Yes	9	9	4	0	0	No		0
Ding Yi	Yes	9	9	4	0	0	No		1
Zhao Hong	Yes	9	9	4	0	0	No		1
Guo Qingwang	Yes	9	9	4	0	0	No		1
Gong Zhiqiang	Yes	9	9	4	0	0	No		1
Lv Wendong	Yes	9	9	4	0	0	No		1
Zhang Wei	No	1	1	1	0	0	No		0
Zou Xiulian	No	1	1	1	0	0	No		0
Number of Board meetings held in the reporting period									9
Of which: Number of onsite meetings									5
Number of meetings held by circulation									4
Number of meetings held by onsite presence & correspondence									0

During the reporting period, all directors gave reasonable opinions and suggestions based on their own expertise and experience, covering the formulation and implementation of development plans, risk management, internal control and audit management, asset quality management and corporate governance. Relevant opinions and suggestions were effectively implemented. During the reporting period, directors of the Company did not raise any dissents on relevant issues of the Company.

4.6.2.2 Work of independent directors

During the reporting period, the Board of Directors of the Company kept the number of independent directors more than one third of its members and ensured independent in directors performed their duties in accordance with the law. All independent directors perform their duties in good faith, independently and diligently, with any influence from shareholders, senior managers and other entities and individuals having an interest in the Company, and attached importance to safeguarding the legitimate rights and interests of minority shareholders and other stakeholders. Independent directors have enough time and energy to perform their duties effectively, and work at the Company for no less than 15 working days each year. Independent directors attend meetings of the Board of Directors on time, understand the Company's business and operation, take the initiative to investigate and obtain the information and materials needed to make decisions and express objective and impartial independent opinions on matters considered by the Shareholders' General Meeting or the Board of Directors.

4.6.3 Special committees of the Board of Directors

4.6.3.1 Members of special committees of the Board of Directors at the end of the reporting period

Name of special committee	Name of member
Strategy Management and Consumer Protection Committee	Li Minji (chairman), Luo Qianyi, Wang Hongjun, Zhang Jianhua and Ding Yi
Related Party Transactions Control Committee	Lv Wendong (chairman), Wang Yiping, Song Jiqing, Chen Yonghong, Ding Yi and Gong Zhiqiang
Nomination Committee	Gong Zhiqiang (chairman), Wang Hongjun, Luo Qianyi, Wang Huacheng, Zhao Hong and Lv Wendong
Remuneration and Assessment Committee	Wang Huacheng (chairman), Ma Xiaoyan, Zou Libin, Zhao Hong, Guo Qingwang and Gong Zhiqiang
Risk & Compliance Management Committee	Zhang Jianhua (chairman), Guan Wenjie, Wang Yiping, Song Jiqing, Zeng Beichuan, Chen Yonghong, Zhao Hong and Guo Qingwang
Audit Committee	Chen Yonghong (chairman), Guan Wenjie, Ma Xiaoyan, Zeng Beichuan, Zou Libin, Wang Huacheng, Ding Yi, Guo Qingwang and Lv Wendong

4.6.3.2 Meetings of special committees

S/N	Meeting	Date	Agenda items	Important opinions and suggestions and other duty performance
1	The first meeting of the Related Party Transactions Control Committee of the Eighth Board of Directors	18 March 2021	Three proposals were reviewed and approved, including the <i>2021 Work Plan of the Related Party Transactions Control Committee of the Board of Directors of Hua Xia Bank Co., Limited.</i>	/
2	The third meeting of the Nomination Committee of the Eighth Board of Directors	19 April 2021	Two proposals were reviewed and approved, including the <i>2021 Work Plan of the Nomination Committee of the Board of Directors of Hua Xia Bank Co., Limited.</i>	/
3	The second meeting of the Remuneration and Assessment Committee of the Eighth Board of Directors of Hua Xia Bank	19 April 2021	Eight proposals were reviewed and approved, including the <i>2021 Work Plan of the Remuneration and Assessment Committee of the Board of Directors of Hua Xia Bank Co., Limited.</i>	The remunerations of directors, supervisors and senior management members to be disclosed in the Annual Report 2020 of the Company comply with relevant assessment system and remuneration management policy of the Company, and are paid in overall consideration of the prevailing economic conditions, control policies of China and Beijing as well as actual operation of the Company and its peers, and the disclosure meets requirements of relevant laws and regulations.
4	The third meeting of the Risk & Compliance Management Committee of the Eighth Board of Directors	20 April 2021	Seven proposals were reviewed and approved, including the <i>2021 Work Plan of the Risk & Compliance Management Committee of the Board of Directors of Hua Xia Bank Co., Limited</i> ; two special reports were read, including the <i>Report on Anti-Money Laundering Work of Hua Xia Bank Co., Limited for 2020.</i>	The meeting paid due attention to anti-money laundering (AML) management, building of AML mechanism and system and money laundering risk assessment of the Group. The senior management was required to resolutely implement the AML regulatory policy, improve the money laundering risk management mechanism at the Group level, improve the integrated management system of customers and products, deepen the institutional money laundering risk assessment, allocate more resources for AML and maintain good overall control of money laundering risks in business development.
5	First meeting of the Strategy Management and Consumer Protection Committee of the Eighth Board of Directors	20 April 2021	Ten proposals were reviewed and approved, including the <i>2021 Work Plan of the Strategy Management and Consumer Protection Committee of the Board of Directors of Hua Xia Bank Co., Limited</i> ; the <i>Report on Preparation for Implementation of Basel III Reform</i> was read.	/
6	The fourth meeting of the Audit Committee of the Eighth Board of Directors	21 April 2021	Thirteen proposals were reviewed and approved, including the <i>Proposal on the 2020 Annual Report of Hua Xia Bank Co., Limited</i> ; the <i>Report of Deloitte Touche Tohmatsu Certified Public Accountants LLP on External Audit on Hua Xia Bank Co., Limited for 2020</i> was heard.	The Audit Committee reviewed significant issues in the "key audit issues" section of the audit report and opined that a full explanation of these issues had been provided in the notes to financial statements and thus was not needed in the annual report.
7	Second meeting of the Strategy Management and Consumer Protection Committee of the Eighth Board of Directors	12 May 2021	The <i>Proposal on the Capital Plan of Hua Xia Bank Co., Limited for 2021-2025</i> was reviewed and approved.	/
8	Third meeting of the Strategy Management and Consumer Protection Committee of the Eighth Board of Directors	25 August 2021	The <i>Report on Consumer Protection Work of Hua Xia Bank Co., Limited in the First Half of 2021</i> was reviewed and adopted.	/
9	The fifth meeting of the Audit Committee of the Eighth Board of Directors	26 August 2021	Five proposals were reviewed and approved, including the <i>Proposal on the 2021 Interim Report of Hua Xia Bank Co., Limited</i> ; two special reports were heard, including the <i>Report of Ernst & Young Hua Ming LLP on Review Work for the First Half of 2021.</i>	/
10	The fourth meeting of the Risk & Compliance Management Committee of the Eighth Board of Directors	26 August 2021	Five proposals were reviewed and adopted, including the <i>Proposal on Liquidity Risk Management of Hua Xia Bank Co., Limited in the First Half of 2021.</i>	/
11	The third meeting of the Remuneration and Assessment Committee of the Eighth Board of Directors of Hua Xia Bank	8 October 2021	The <i>Proposal on the Performance Assessment of Senior Managers in 2021</i> was reviewed and approved.	/
12	The sixth meeting of the Audit Committee of the Eighth Board of Directors	27 October 2021	Two proposals were reviewed and adopted, including the <i>Quarterly Report of Hua Xia Bank Co., Limited for the Third Quarter of 2021.</i>	/
13	The fourth meeting of the Nomination Committee of the Eighth Board of Directors	27 October 2021	The <i>Proposal on Review of the Eligibility of Candidates for Directors</i> was reviewed and approved.	/
14	Fourth meeting of the Strategy Management and Consumer Protection Committee of the Eighth Board of Directors	15 November 2021	Two proposals were reviewed and approved, including the <i>Report of Hua Xia Bank on Ratification Plan for Problems Found in CBIRC Onsite Examination and Accountability Opinions.</i>	/



4.7 DUTY PERFORMANCE OF THE SUPERVISORS AND BOARD OF SUPERVISORS

4.7.1 Board of Supervisors

4.7.1.1 Duties and composition of the Board of Supervisors

The Board of Supervisors is the supervisory body of the Company. It is mainly responsible for: examining the Company's regular reports prepared by the Board of Directors and giving written audit opinions; examining the Company's financial affairs and investigating any detected abnormality in operating conditions of the Company; supervising the Board of Directors and the Senior Management in improving the internal control system and supervising the Board of Directors and the Senior Management and their members in performing their internal control duties; supervising directors' and senior managers' acts in their official capacities and requiring correction, proposing dismissal or bringing a lawsuit as appropriate; proposing Extraordinary General Meetings and making proposals to the Shareholders' General Meeting; and reviewing and approving other matters that shall be decided on by the Board of Supervisors under laws, regulations, supervisory rules and the Articles of Association. At the end of the reporting period, the Board of Supervisors of the Company was composed of seven supervisors. For details, please see "4.4 Directors, Supervisors and Senior Management Members".

4.7.1.2 Meetings of the Board of Supervisors and inspection and supervision

During the reporting period, the Board of Supervisors held seven meetings and reviewed and adopted 32 proposals covering work report of the Board of Supervisors, annual work plan for inspections and surveys, annual report, internal control evaluation report, duty performance evaluation report and social responsibility report and non-public offering of A shares, reviewed five special reports and heard three special reports. In light of the focal points of regulation, problems found in internal and external audits, the bank-wide work plans and strategic transition priorities, the Board of Supervisors carried out nine special survey and inspection events with respect to operating conditions, duty performance evaluation, money laundering risk management, non-performing assets management, reform of the enterprise risk management system, real estate loan business management, inclusive finance developments, internet loan risk management and digital transformation. Relevant survey and inspection reports were prepared, opinions and suggestions were put forward and rectification and correction were urged.

4.7.1.3 Explanation of the Board of Supervisors' no dissents on supervised matters during the reporting period

During the reporting period, the Board of Supervisors supervised duty performance of the Company's directors and senior management members, financial decisions and their implementation, internal control building, risk management, strategy formulation and implementation and implementation of information disclosure policies having no dissents on those matters under supervision.

4.7.2 Work of external supervisors

During the reporting period, the Board of Supervisors of the Company kept the number of external directors more than one third of its members, ensured external supervisors' right to be know and provided necessary assistance for external supervisors to perform their duties properly. All independent directors perform their duties with due care and prudence, with any influence from shareholders, senior managers and other entities and individuals having an interest in the Company, and attached importance to safeguarding the legitimate rights and interests of minority shareholders and other stakeholders. External supervisors have enough time and energy to perform their duties effectively, and work at the Company for no less than 15 working days each year. External supervisors attend the meetings of the Board of Supervisors on time, attend the meetings of the Board of Directors and Shareholders' General Meeting as nonvoting attendees, fully examine the resolutions of the Board of Supervisors, express their opinions independently, professionally and objectively, vote independently based on their prudent judgment and supervise the performance of duties of the Company's Board of Directors and Senior Management and their members.

4.8 SENIOR MANAGEMENT

The Senior Management, the executive body of the Company, reports to the Board of Directors and is supervised by the Board of Supervisors. The Company's Senior Management, with its functions and powers strictly separated from those of the Board of Directors, is responsible for deciding on the business management matters within their scope of duties upon authorization from the Board of Directors. Pursuant to the requirements of the Board of Directors and the Board of Supervisors, the Senior Management reports the Company's operating results, important contracts, financial status, risk profile and business prospects in a timely, accurate and complete manner and provide relevant materials. At the end of the reporting period, the Senior Management of the Company was composed of five senior managers. For details, please see "4.4 Directors, Supervisors and Senior Management Members".

4.9 TIERED MANAGEMENT AND NUMBER AND REGIONAL DISTRIBUTION OF INSTITUTIONS

4.9.1 Basic information on branches and overview of tiered management

The Company focuses on economically central cities while radiating over the whole country. It conducts the institutional planning and setup, routine operation and internal management under the three-level organizational management system which consists of the Head Office, branches and sub-branches.

As at the end of the reporting period, the Company had set up 44 tier-1 branches, 79 tier-2 branches, 7 non-local branches and 1,008 outlets in 122 Chinese cities at prefecture level and above.

4.9.2 Branches

Region	Institution name	Business address	Number of branches	Headcount	Asset size (RMB1 million)
Beijing-Tianjin-Hebei Region	Head Office	22 Jianguomennei Street, Dongcheng District, Beijing	–	4,217	2,400,687
	Beijing Branch	11 Financial Street, Xicheng District, Beijing	64	2,185	431,651
	Tianjin Branch	Tower E, Huanbohai Development Center, Zeng 9 Binshui Road, Hexi District, Tianjin	15	605	64,485
	Shijiazhuang Branch	48 Zhongshan West Road, Qiaoxi District, Shijiazhuang	65	1,825	87,997
	Tianjin FTZ Branch	Baofeng Building, No. 3678 Xinhua Road, China (Tianjin) Pilot Free Trade Zone (CBD)	9	127	2,773
	Beijing Municipal Administrative Center Branch	Building 2, Block 11, Xinhua East Street, Tongzhou District, Beijing	6	137	12,891
Yangtze River Delta	Nanjing Branch	333 and 329-2 (Jin'ao International Center) Jiangdong Middle Road, Jianye District, Nanjing	67	2,358	224,898
	Hangzhou Branch	No. 2 Building, Oceanwide International Center, 2 Xiangzhang Street, Sijiqing Subdistrict, Jianggan District, Hangzhou	59	1,745	189,465
	Shanghai Branch	256 Pudong South Road, China (Shanghai) Pilot Free Trade Zone	30	831	109,917
	Wenzhou Branch	Southeast of No.17-05 Plot, Riverside CBD, Wenzhou	15	528	33,273
	Ningbo Branch	366 Heyuan Road, Yinzhou District, Ningbo	12	487	21,448
	Shaoxing Branch	354 Zhongxing South Road, Yuecheng District, Shaoxing	14	395	34,161
	Changzhou Branch	No. 9 Building, Fuxi Garden, 1598 Longjin Road, Xinbei District, Changzhou	15	445	44,411
	Suzhou Branch	188 Xinghai Street, Suzhou Industrial Park, Suzhou	20	727	95,018
	Wuxi Branch	3 Finance No.1 Street, Binhu District, Wuxi	22	550	61,899
	Hefei Branch	Building C, Wealth Plaza, 278 Suixi Road, Luyang District, Hefei	16	641	52,426
	Shanghai FTZ Branch	No.569 Pudong Avenue, Pudong New Area, Shanghai; No.6, 10, 14 and 18, Lane 563; No.5, 9, 13 and 17, Lane 573; No.1, Lane 588, Changyi Road	1	38	3,253
Guangdong-Hong Kong-Macao Greater Bay Area	Shenzhen Branch	Zhongzhou Plaza, 3088 Jintian Road, Futian Sub-district, Futian District, Shenzhen	39	1,323	167,299
	Guangzhou Branch	Nanyue Mansion, 13 Huaxia Road, Tianhe District, Guangzhou	44	1,907	143,707
	Haikou Branch	61 Guoxing Avenue, Meilan District, Haikou	4	269	7,373
	Hong Kong Branch	F18, International Finance Center (Phase II), 8 Finance St., Central Hong Kong	1	82	31,396

Region	Institution name	Business address	Number of branches	Headcount	Asset size (RMB1 million)
Central and Eastern China	Ji'nan Branch	Building 3, Section 6, Hanyu Financial Business Center, No.7000 Jingshi Road, Licheng District, Jinan	54	1,938	92,961
	Wuhan Branch	786 Minzhu Road, Wuchang District, Wuhan	59	1,577	104,167
	Qingdao Branch	5 Donghai West Road, Shinan District, Qingdao	35	992	62,266
	Taiyuan Branch	113 Yingze Street, Yingze District, Taiyuan	30	983	75,330
	Fuzhou Branch	Huaxia Mansion, 1 Gutian Zhilu, Gulou District, Fuzhou	19	601	26,491
	Changsha Branch	Huameiou Mansion, 389 Wuyi Road, Furong District, Changsha	12	717	48,720
	Xiamen Branch	10, 11 and 16 Lingshiguan Road, Siming District, Xiamen	7	356	19,231
	Zhengzhou Branch	29 Business Outer Ring Road, Zhengdong New District, Zhengzhou	13	1,000	72,296
	Nanchang Branch	10 Binjiang Shoufu, Zhongshan West Road, Xihu District, Nanchang	13	440	24,297
Western China	Kunming Branch	Hua Xia Bank Tower, 98 Weiyuan Road, Kunming	28	1,098	93,648
	Chongqing Branch	Annex 1, Annex 2, Annex 3-2-1, 27 Jiangbeichengxi Street, Jiangbei District, Chongqing	31	1,051	82,038
	Chengdu Branch	2 Building, Jinjiang Zhichun, 229 Yong'an Road, Jinjiang District, Chengdu City	30	1,043	73,462
	Xi'an Branch	111 Chang'an North Road, Beilin District, Xi'an	29	795	56,978
	Urumqi Branch	15 Dongfeng Road, Tianshan District, Urumqi	14	476	29,601
	Hohhot Branch	57 Airport Expressway, Hohhot	18	707	24,166
	Nanning Branch	Tower B, Huarun Mansion, 136-2 Minzu Avenue, Qingxiu District, Nanning	11	502	41,959
	Yinchuan Branch	168 Xinchang East Road, Jinfeng District, Yinchuan	7	232	9,643
	Guiyang Branch	55 Changling North Road, Guanshanhu District, Guiyang	3	338	22,800
	Xining Branch	Hua Xia Bank Mansion, 79 Haiyan Road, Chengxi District, Xining	1	106	3,236
Northeastern China	Lanzhou Branch	Zhihui Plaza, 333 Tianshui North Road, Chengguan District, Lanzhou	3	254	8,395
	Shenyang Branch	51 Qingnian Street, Shenhe District, Shenyang	27	1,075	32,421
	Dalian Branch	50 and 52 Renmin East Road, Zhongshan District, Dalian	22	620	17,730
	Changchun Branch	4888 Renmin Street, Nanguan District, Changchun	18	521	22,639
	Harbin Branch	2586 Lijiang Road, Daoli District, Harbin	6	331	15,176
Regional summarization adjustment			-	-	-1,722,458
Total			1,008	39,175	3,557,621

Note: Headcount and asset size of the Head Office include the staff of Credit Card Center.

4.10 EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

At the end of the reporting period, the Group had 39,738 service employees, including 39,175 ones working in the Company and 563 ones working in the major subsidiaries. The Group paid for 1,207 retired employees.

4.10.1 The Company's employees by professional field

Of the in-service employees of the Company, 29,567 or 75.48% were business personnel, 7,765 or 19.82% were management personnel and 1,843 or 4.70% were supporting personnel.

4.10.2 The Company's employees by educational background

Of the in-service employees of the Company, 5,507 persons or 14.06% held a master's or higher degree, 25,077 or 64.01% held a bachelor's degree, and 8,591 or 21.93% held an associate's or lower degree.

4.10.3 Remuneration policy and training

The Company kept improving its performance assessment system in line with the bank's development strategy and business objectives. Differentiated, category-specific assessment was carried out on a value-oriented basis. Asset quality and risk compliance management were strengthened to boost coordinated development of quality, efficiency and scale bank-wide and enhance the role of remuneration as incentives and constraints.

The Company continued to build its training system. Training resources were developed in depth according to the strategic development needs of the bank and the curriculum system integrating standard courses with case study was further improved. Online training was stepped up to make training better targeted and more effective and enhance employees' overall competency and professional skills.

4.11 PROFIT DISTRIBUTION PLAN FOR ORDINARY SHARES/PLAN ON STRENGTHENING OF CAPITAL BASE WITH CAPITAL RESERVE FOR 2021

4.11.1 Formulation, implementation or adjustment of cash dividend policy

According to the Articles of Association of Hua Xia Bank Co., Limited, except for preference shares adopted with the specific dividend policy, the Company can distribute dividends in the form of cash or share or combination of both, and shall maintain the continuity and stability of profit distribution policy. The Company will give priority to the profit distribution in cash. Total profit distributed in the form of cash in the last three years was no less than 30% of the annual average distributable profit attributable to ordinary shareholders realized during the period.

The profit distribution plan for 2020 was reviewed and approved at the Annual General Meeting for 2020 and took effect on 9 July 2021. The distribution plan accorded with the Articles of Association, the distribution standard and proportion were definite and clear, and relevant decision-making procedures and mechanism were complete. Independent directors performed their duties and made their due contributions. Minority shareholders were provided with opportunities to fully express their opinions and appeals, and their legal rights and interests were sufficiently safeguarded. Total profit distributed in the form of cash in the last three years was no less than 30% of the annual average distributable profit attributable to ordinary shareholders realized during the period.

4.11.2 Profit distribution of ordinary shares in the past three years

(Unit: RMB1 million)

Distribution year	Bonus shares distributed per ten shares	Dividends distributed per ten shares (RMB, before tax)	Shares recapitalized per ten shares	Cash dividend (before tax)	Net profit attributable to ordinary shareholders of the listed company in the consolidated statement of the distribution year	Percentage of net profit attributable to ordinary shareholders of the listed company in the consolidated statement of the distribution year (%)
2021	–	3.38	–	5,201	20,755	25.06
2020	–	3.01	–	4,632	18,495	25.04
2019	–	2.49	–	3,831	19,125	20.03

According to the *Administrative Measures for Reserve Fund Provisions of Financial Enterprises* (C.J. [2012] No. 20) released by the MOF and the *Articles of Association of Hua Xia Bank Co., Limited*, the parent company made statutory surplus reserve based on the audited net profit attributable to shareholders of the parent company in 2021, set aside general reserve from net profit at the end of the year to cover unidentified possible losses, and distributed ordinary share dividends to shareholders based on the distributable profit audited. The profit distribution plan for 2021 is set forth below:

1. RMB2,162 million or 10% of the audited net profit attributable to shareholders of the parent company of 2021 (RMB21,623 million) is set aside as statutory surplus reserve.
2. Pursuant to the *Administrative Measures for Reserve Fund Provisions of Financial Enterprises* (C.J. [2012] No. 20) released by MOF, the balance of general reserve shall not be less than 1.5% of the balance of assets exposed to risks and losses at the end of the period. RMB2,633 million is to be set aside as general reserve for 2021.
3. The interest accrual period for preference shares issued in 2016 is from 28 March 2021 to 27 March 2022 (at an annual dividend rate of 4.68%), and the dividends payable for these preference shares are RMB936 million. Dividends on preference shares were paid on 28 March 2022. The above dividend distribution plan was considered and adopted at the 14th Meeting of the Eighth Board of Directors on 28 October 2021.
4. In June 2019, the Company publicly issued RMB40 billion of perpetual bonds in the national interbank bond market upon approval by CBIRC and PBOC. The interest accrual period is from 26 June 2021 to 25 June 2022 (interest rate at 4.85%) and interest payable standing at RMB1.94 billion.
5. With 15,387,223,983 ordinary shares outstanding of the Company at the end of 2021 as the base number, cash dividends will be distributed to all of the shareholders at RMB3.38 (before tax) per 10 shares, and the cash dividends are to be distributed in an amount of RMB5,201 million.

The above-mentioned profit distribution plan shall be implemented within two months after the Annual General Meeting for 2021 of the Company reviews and approves it.

The Company is in the phase of strategic transformation. The retained profit will be used for capital replenishment. By implementing the new development plan in a faster pace, it has improved the business structure, boosted profitability and kept enhancing risk resilience. In 2021, the cash dividend ratio remained stable overall. Furthermore, the ratio was stable with a tendency of upturn in recent three years, striking a balance among return to shareholders, regulatory and CAR compliance and sustainability of corporate development.

4.12 STOCK INCENTIVE PLAN, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVE MEASURES OF THE COMPANY AND INFLUENCE THEREOF

Not applicable.

4.13 MANAGEMENT AND CONTROL OF SUBSIDIARIES

The Company strengthened group-wide management, actively performed shareholder's duties and strengthened corporate governance of subsidiaries and improved the decision-making capability mainly through review of proposals. The Company earnestly implemented the three-year action plan for the reform of state-owned enterprises, caused subsidiaries to sign fixed-term employment contracts with their management members and started the professional managers pilot work at subsidiaries where conditions permitted. The management of three rural banking subsidiaries was further enhanced. They were encouraged to remain oriented to supporting agricultural and small businesses and serve the national policies of building new socialist countryside and rural vitalization. The group-wide technological resources were pooled to boost the IT development level of rural banks.

4.14 ESTABLISHMENT AND IMPLEMENTATION OF THE INTERNAL CONTROL SYSTEM

The Company has deepened its internal controls with policies at the core, upholding the philosophy of the "giving priority to internal control, putting compliance first". The top-level design of internal control and compliance governance was refined by issuing the *Compliance Policy of Hua Xia Bank Co., Limited* and creating a Group-wide framework for compliance management for the first time, with cross-border compliance regulatory requirements thoroughly implemented. Taking the opportunity of the "Year of Improving Internal Control and Compliance Management" campaign, the Company comprehensively reviewed the compliance of policies and procedures and implemented policies and regulations in a timely manner. The policies and procedures became increasingly effective and complete with a higher compliance level, playing a greater role in ensuring compliance, forestalling risks and promoting development.

4.15 REPORT ON THE INTERNAL CONTROL SELF-ASSESSMENT AND REPORT ON INTERNAL CONTROL AUDIT

The Board of Directors of the Company assessed the effectiveness of the Company's internal control as at 31 December 2021 in line with the requirements of the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, as well as other regulatory requirements for internal control. In the opinion of the Board of Directors, the Company has maintained effective internal control over financial reporting in all material aspects in compliance with the requirements of the system of enterprise internal control standards and relevant regulations. During the reporting period, the Company had not any significant or material deficiencies of internal control over financial reporting, nor did it discover any significant or material deficiencies of internal control over non-financial reporting. For details, please refer to the *2021 Report on Internal Control Evaluation of Hua Xia Bank Co., Limited* disclosed by the Company on the SSE website (www.sse.com.cn) and the Company's website (www.hxb.com.cn).

The Company engaged Ernst & Young Hua Ming LLP as auditor of the effectiveness of internal control over financial reporting of the Company in accordance with the requirements of the *Basic Standard for Enterprise Internal Control and the Guideline for Enterprise Internal Control Audit*. The auditor deems that the Company has maintained effective internal control over financial reporting in all material aspects in compliance with the *Basic Standard for Enterprise Internal Control* and relevant regulations. For details, please refer to the *Auditor's Report on Internal Control of Hua Xia Bank Co., Limited* disclosed by the Company on the SSE website (www.sse.com.cn) and the Company's website (www.hxb.com.cn).

4.16 INFORMATION DISCLOSURE AND INVESTOR RELATIONS MANAGEMENT

The Company regulates day-to-day information disclosures pursuant to the state's laws and regulations, regulatory provisions and the Company's policies to effectively protect investors' right to know, ensure timeliness, impartiality, authenticity, accuracy and completeness of the information disclosed and safeguard investors' interests. In the reporting period, the Company refined and implemented the new rules for preparation of regular reports. The structure and contents of regular reports were improved and the quantitative indicators of voluntary disclosure were added to boost the willingness and transparency of disclosure. CBIRC's new requirements on corporate governance information disclosure were implemented and the in-house training on information disclosure was strengthened to ensure timely and accurate reporting of major information. The standard for disclosure amounts of extraordinary announcements for 2021 was issued to boost the Group-wide sensitiveness to material information disclosure requirements. During the reporting period, the Company prepared and disclosed the annual report, interim report, quarterly reports and 45 interim announcements and informed the investors of such significant information as earnings guidance, private placements, equity changes, related party transactions, bond issuance and changes in directors, supervisors and senior management.

The Company strengthened interactions and communication with investors and analysts by telephone, through internet or otherwise, as part of its sustained effort to deepen the investor relations management. It held results presentations and special survey meetings and participated in the investors receipt day for listed companies in Beijing. In addition, it maintained day-to-day communication with investors through the platform sseinfo.com. The communication with investors and analysts in various forms informed investors and analysts of the connotation and values of the Company, enhanced their understanding of the Company and promoted the positive interaction between the Company and the capital market.

SECTION V ENVIRONMENTAL AND SOCIAL RESPONSIBILITY



5.1 ENVIRONMENTAL INFORMATION

5.1.1 Administrative penalties for environmental problems

During the reporting period, the Company received no administrative penalties for environmental problems.

5.1.2 Green finance

The Company earnestly implemented the State's requirements on carbon peak and carbon neutrality, deepened the green finance strategy and set the development objective of "developing new features of green finance". The green finance system and mechanism were improved continuously. The *Administrative Measures of Hua Xia Bank for Green Finance* was formulated and the Green Finance Departments were created at selected branches to ensure higher standardization of management. The Company established and improved the system of environmental and social risk management policies and procedures, strengthened the day-to-day management of environmental and social risks and quantitatively analyzed environmental and climate risks.

In terms of green credit, green credit supply was increased to boost the development of a green, low-carbon and circular economy. At the end of the reporting period, the Company recorded RMB208.477 billion in outstanding green loans reached representing an increase of RMB28.434 billion or 15.79% as compared with the end of the previous year, far outpacing total loans. The Company managed to meet PBOC's "two no less than's" target for green credit, leading the banking industry by proportion of green credit. In terms of green finance, the balance of green credit was RMB208.391 billion. Specifically, the balance of credit for energy conservation and environmental protection, cleaner production, clean energy, ecological conservation, green upgrading of infrastructure and green services stood at RMB27.593 billion, RMB4.88 billion, RMB21.671 billion, RMB33.823 billion, RMB115.665 billion and RMB1.246 billion, respectively.

Green investment was developed with vigor. The investment in green bonds and thematic funds was increased. The balance of green investment reached RMB14.263 billion. With a focus on green debt financing instruments, the Company participated in the underwriting of four green debt financing instruments for a total amount of RMB5 billion in the year. The CSI Hua Xia Bank ESG Select Bond Index was issued. Huaxia Wealth Management's ESG wealth management products totaled over RMB26 billion, with ESG fully integrated into the wealth management system. Huaxia Wealth Management recorded RMB7.335 billion in outstanding investment in green bonds. Carbon finance was developed actively. On the kick-off date of the national carbon market, it successfully launched the first carbon forward guarantee in the banking sector, and became one of the first settlement banks for the national carbon market, gaining wide attention across the market.

In terms of green consumption, the Company vigorously promote ETC in line with the national policy, which allows drivers to pay the toll automatically without stopping when passing the toll gate. The service has reduced exhaust gas emissions and supported the transition to a low-carbon society. Electronic tags and other devices were distributed free of charge to ETC customers to better serve the public. Refuel discounts, "Energy Score" rewards and other marketing events for drivers were carried out, encouraging customers to travel with ETC.

In terms of green leasing, the Company made the most of leasing to support entities in the green industry and boost its service level and social image. A green leasing system with green energy, green transportation, pollution control and circular economy as the core took shape. The Group's balance of green leasing reached RMB32.727 million, accounting for 26.66% of the balance of finance lease assets.

Strengthening international cooperation on green finance, the Company became a supporter for the Task Force on Climate-Related Financial Disclosures (TCFD) and become a promoter of and a party to the Global Joint Initiative on the Partnership of Biodiversity and Finance at the 15th meeting of the Conference of the Parties (COP 15) to the *Convention on Biological Diversity (CBD)*.

Box 3: Actively Develop Carbon Finance to Serve China's Goals of Carbon Peak and Carbon Neutrality

The Company has thoroughly studied and implemented Xi Jinping's thought on ecological progress, actively served China's goals of carbon peak and carbon neutrality and provided strong support for the transition to a green and low-carbon economy and society with innovative green financial services and products.

The Company took an active part in the national carbon market. The national carbon emissions trading market was launched as a significant institutional innovation to control and reduce greenhouse gas emissions and promote green and low-carbon development leveraging on the market mechanism. It is also an important policy tool to achieve the goals of carbon peak and carbon neutrality and Nationally Determined Contributions (NDC). Hua Xia Bank seized business opportunities in the carbon market, kept abreast of the latest developments in the carbon market and developed a carbon finance service ecosystem. To meet the emissions allowances trading demand of key producers of carbon emissions in the electric energy sector, Hua Xia Bank issued detached performance guarantees based on carbon asset management companies and completed physical delivery on the launch date of the national carbon market. Its successful, first ever performance guarantee for carbon forwards attracted wide attention in the market. Also on the launch date of the national carbon market, the Company signed a strategic cooperation agreement with the Carbon Emission Allowances Registration & Settlement (Wuhan) Co., Ltd., becoming one of the first settlement banks for the market.

International cooperation was furthered. Over the past 13 years, Hua Xia Bank's business cooperation with international financial institutions always focused on the low-carbon sector, with a cumulative inward foreign investment of more than USD1 billion and on-lending loans worth over RMB10 billion. Take the cooperation with the World Bank as an example, from the China Energy Efficiency Financing in 2008 that provided financing for industrial energy conservation projects, to the Innovative Financing Project for Air Pollution Control in the Beijing-Tianjin-Hebei Region in 2016 that served the end-use energy efficiency management, renewable energy and atmospheric pollution in 2016, and to the China Renewable Energy and Battery Energy Storage Promotion Project in 2020 that supported energy storage projects other than pumped hydro and new forms of renewable energy use, the two sides kept deepening their partnership in industrial low-carbon transformation, renewable energy development and renewable energy accommodation, manifesting their consensus in tackling climate change and Hua Xia Bank's insight into domestic market segments.

Innovation in carbon financial products was strengthened. The Company issued the renewables subsidy loans as part of its efforts to implement the *Notice on Encouraging Greater Financial Support for Healthy and Orderly Development of Wind Energy and Photovoltaic Solar Energy Industries*. It actively approached enterprises on the renewable energy subsidy list. A line of credit was granted to a biomass energy producer to relieve its financial burden caused by a long list of accounts receivable with fairly long terms and meet its liquidity needs regarding purchase of raw materials. The credit line was backed by claims on renewable energy subsidies and supported by domestic factoring, providing funding support to the customers and effectively addressing its liquidity problem. The Company enhanced the professional financial services for renewable energy, contributing to the national goals of carbon peak and carbon neutrality. To enhance its financing services for the solar photovoltaic (PV) energy industry, the Company launched the solar PV project loan, as a corporate banking product, in light of the complicated development process and land use procedures of solar PV projects.

The Company set its own target for carbon neutrality. It acted on the philosophy of sustainable development to keep improving its environmental and social performance. In the push for energy conservation and emissions reduction, all employees were encouraged to work and live in a low-carbon, energy-efficient fashion. The Company's environmental and social performance has been continuously improved in a progressive and coordinated way on the backing of technology and professional services. The Company made a solemn commitment to the society, striving to become "carbon neutrality" by 2025 through technology-driven emissions reduction, low-carbon office operations and application of the offset mechanism. It was the first bank in China to introduce an enterprise-level target for carbon neutrality.

The climate risk stress test was conducted. The Company participated in the climate risk stress test organized by PBOC to assess the potential impact of peak carbon emissions and carbon neutrality goals on the Company's credit assets. Under stress scenarios, the Company would see a certain downgrade in its customers' credit ratings in thermal power, steel and cement industries, but have insignificant impact on capital adequacy.

Box 4: Enhancing ESG Brand Building, Consolidating the Leading Edge in Green Investment

The Group persistently implements the ESG philosophy, making in-depth explorations in the ESG field through its wholly-owned subsidiary Huaxia Wealth Management.

Guided by domestic and foreign policy principles, Huaxia Wealth Management created a full ESG integration system through four measures, namely, product export, investment integration, research introduction and mechanism support, in line with the investment lifecycle management framework. First, in terms of product export, Huaxia Wealth Management developed the active/passive ESG investment strategy. Second, in terms of investment integration, ESG has been integrated into the entire investment framework under various asset dimensions (e.g. stocks, bonds and funds) and in light of ESG scoring and risk monitoring. Third, in terms of research introduction, the ESG evaluation system developed in-house is improved on an ongoing basis according to actual performance of domestic enterprises and the focus of credit evaluation. Huaxia Wealth Management started to build its ESG evaluation system since 2018. In the first stage, a preliminary ESG framework was created in accordance with internationally accepted ESG rules and principles, such as industry neutrality. In the second stage, the overall ESG evaluation system was established based on the existing ESG data factors in the market. In the third stage, according to different asset types, ESG evaluation became focused on particular assets in line with the Company's asset allocations. Also, since 2021, Huaxia Wealth Management has conducted systematic research of the macro policy on carbon neutrality, domestic and foreign carbon trading markets, major global carbon measurement methods and corporate carbon emissions measurement, and published its research findings in both Chinese and English languages in the form of carbon neutrality and ESG series research reports. Fourth, in terms of mechanism support, Huaxia Wealth Management has established an independent ESG division and a corporate ESG management system since its establishment. The ESG division organizes efforts to carry out the ESG work, in which all departments fully cooperate, to ensure the solid and effective advancement of ESG work across the Company.

5.1.3 Green operations

During the reporting period, the Company adopted various measures to reduce energy consumption and carbon emissions.

The low-carbon, green financial services were advocated. The online financial channel services were further improved, with innovative financial products introduced and online service and transaction processes streamlined to enhance user experience and encourage more customers to use low-carbon financial services. As at the end of the reporting period, the main electronic channels reached a substitution ratio of 98.34%. The paperless counter-based operations were further improved and the dematerialization of transactions was gradually expanded to broader fields. During the reporting period, a total of 204 paperless transaction items were launched over the counter, reducing the paper use significantly. As at the end of the reporting period, the paperless counter-based transactions reached a substitution ratio of 97%.

The Company adopts an economy-without-waste policy. LED lighting and other energy-efficient equipment were used in office spaces, with air conditioning temperature kept within the upper limit (winter) and lower limit (summer) required by specifications. The rule of "turning off the light and water before you leave" and other management measures were strictly implemented. Printing on both sides of the paper was encouraged and supervised, with printing control gradually centralized to reduce the quantity of printers and consumables in use.

Green travel was advocated. The company vehicle use policy was strictly implemented to ensure proper approval and registration and reasonable use of company vehicles. Employees were encouraged to commute to work by green ways such as public transportation, subway, walking and cycling, so as to contribute to reducing motor vehicle emissions.

The "Clear Your Plate" campaign was carried out to save food and prevent waste. The staff canteen strictly implemented the "preparing & taking food as needed" policy to reduce kitchen waste. Employees were also encouraged to avoid food waste when dining out or at home.

The waste sorting measures were strictly implemented. Waste sorting facilities were erected at each office or business place. Employees were directed to sort wastes to standard and increase the sorting efficiency. Employees were organized to participate in the "on duty before bins" campaign to supervise waste sorting in the local community and sign the letter of commitment on waste sorting.



5.2 SOCIAL RESPONSIBILITY INFORMATION

5.2.1 Consumer protection

During the Reporting Period, the Company acted on the people-centered development philosophy, highlighted the big picture of “great consumer protection” and made in-depth efforts to build bank-wide consumer protection systems and mechanisms across the board.

First, consumer protection was further integrated into corporate governance. The Board of Directors and the Senior Management conducted overall planning, research and guidance on major issues and policies regarding consumer protection, promoted the research and formulation of strategic plans and annual plans for consumer protection and ensured the effectiveness of their implementation. Second, the consumer protection work was further institutionalized. Following the principle of “policy first” and regulatory requirements on consumer protection regulations, the Company formulated or revised consumer protection policies concerning major emergencies, information disclosure and diverse approaches to dispute resolution in the year, in a bid to build a bank-wide policy framework for consumer protection. Third, the consumer protection review policies and procedures were refined. Consumer protection was fully embedded into business. Consumer protection examination was conducted for all documents (e.g. policies, procedures, business rules, pricing, terms and conditions of agreements and promotional texts) in product and service design and development, pricing management, and agreement formulation, so as to effectively isolate interests from risks. Fourth, the consumer education, publicity and training were further diversified. Fully aware of the importance of the work on consumer protection publicity in the new era, the Company combined the study of Party history with consumer protection publicity and created an “online + offline” and “centralized + positional” publicity network to meet the public needs for financial knowledge. Fifth, the supervision of consumer protection was upgraded to regular work. The bank-wide supervisory inspection mechanism for consumer protection was improved. Various forms of inspections, including spot checks, self-examination and on-line inspection, together with customer satisfaction surveys, became day-to-day tools to help identify deficiencies and make improvements. Regular follow-up supervision and guidance were provided. Sixth, the consumer protection-related complaints management became more professional. The Company urged the discharge of disclosure responsibility, attached importance to the channeling and communication of complaints, established a complaint handling information system, continuously diversified the complaint data analysis methodology and effectively enforced accountability for bank complaints. During the reporting period, the Company received 40,154 complaints, with a 15-day closure rate of 99.15%, a closure rate of 100% and a satisfaction rate of 92.88%. Taking full account of the impact of COVID-19 and other factors, the Company strengthened the complaint analysis and rectification, fortified the foundation for complaint management and further improved the service level for business fields (such as negotiated repayment and debt collection) and geographical areas (such as Guangdong, Shandong, Jiangsu and Beijing) that got most complaints. Seventh, the Company sought to become a model service provider that sets an example of high-quality services. The Company made innovations and explorations for new practices of civilized and standard services management, boosted its customer service capacity in very respect, responding actively to the call from regulatory agencies and industry associations. 24 branches entered the list of “1000 Model Bank Outlets of Civilized and Standard Services in 2021”.

5.2.2 Efforts on poverty alleviation and rural vitalization

The Company earnestly implemented the decisions and plans of the CPC Central Committee, the State Council and the regulatory authorities for effectively coordinating the efforts to consolidate and build on the achievements in poverty alleviation with the drive for rural vitalization, strictly implemented the “four no-removals” requirements, proceeded with the financial support for consolidating and building on the achievements in poverty alleviation and helped the poverty-stricken areas pursue rural vitalization across the board. In 2020, the Company was rated “Good” for assistance in poverty alleviation under the State-owned Assets Supervision and Administration Commission (SASAC) of Beijing, and ranked among the top-tier performers by overall performance of poverty alleviation among enterprises managed by Beijing Municipality. Three branches and nine individuals were awarded provincial commendations.

The rural vitalization system and mechanism were strengthened. The Company continued to improve the system and mechanism for rural vitalization. A leading group on rural vitalization headed by Li Minji, Party Committee Secretary and Chairman, was established. With a focus on key areas designated for collaboration between the eastern and western regions, an action plan for rural vitalization for 2021 was formulated. The Party Committee strengthened its top-level design and organizational push for rural vitalization, clarified the work objectives and responsibilities and carried out various tasks for rural vitalization in a down-to-earth manner.

Credit support was expanded for industrial development in poverty-stricken areas. Guided by the credit policy, the Company increased the fund transfer pricing (FTP) incentives for all inclusive agriculture-related loans and credit facilities for key counties designated for assistance under the national rural vitalization strategy. According to local characteristics of resources and industrial development, new products and service models were created to step up the credit support for poverty-stricken areas. During the reporting period, the Company issued RMB12.183 billion of precision poverty alleviation loans (including loans to people lifted out of poverty), and provided financial services for 295,570 people registered as poverty-stricken or already lifted out of poverty.

The Company continued with assistance through public welfare and consumption initiatives. Branches continued to provide paired assistance for designated recipients according to local governments’ work arrangements, making RMB5,594,300 of donations through public welfare initiatives. Focusing on Inner Mongolia, Xinjiang, Qinghai, Tibet and other areas designated by Beijing for collaboration between the eastern and western regions, the Company purchased RMB11,508,900 worth of agricultural and sideline products through direct purchase, innovation center and online channels, providing consumption-based assistance for under-developed regions.



5.2.3 Other performance of social responsibility

Adhering to the theme of “serving the new era, building a new Hua Xia”, and acting on the brand philosophy of “sustainable · better”, the Company has integrated social responsibility management with its own business development, continued to improve social responsibility management, deepened social responsibility practice and discharged the mission of serving the real economy. In this way, the Company helped boost the economic and social sustainability while achieving sustainable business development.

In terms of economic responsibility, with COVID-19 containment becoming routine, the Company continued to ensure stability on six key fronts and maintain security in six key areas. Through ongoing innovation in inclusive finance products and services, the Company provided financial services to help private enterprises and MSBs through difficulties, and continued to increase the coverage and satisfaction of financial services for MSBs. Getting closer to the goal of becoming “a lead bank serving the coordinated development of the Beijing-Tianjin-Hebei Region financially”, the Company fully devoted itself to serving the major national strategic plans such as coordinated development of the Beijing-Tianjin-Hebei Region, Yangtze River Delta integration and the Guangdong-Hong Kong-Macao Greater Bay Area development. It supported key projects, promoted regional integrated development, assisted in industrial transformation and upgrading, served China's opening-up and kept strengthening support for the real economy.

In terms of social responsibility, the Company actively responded to China's rural vitalization strategy by effectively coordinating the efforts to consolidate and build on the achievements in poverty elimination with the drive for rural vitalization, contributing to the high-quality development of rural economy and common prosperity. It ridden on the tide of digital economy to strengthen the FinTech empowerment, promote digital transformation and provide customers with more convenient, efficient and safer financial services. Attaching great importance to consumer protection, the Company carried out the financial knowledge publicity and training to enhance consumers' awareness of financial security, deepen the service system and improve customer satisfaction. Advocating the “people-oriented” philosophy, the Company responded swiftly to the demands of employees, helping employees grow, caring for their lives and advancing together with them. The Company carried out various public welfare and charity events to help build a harmonious society.

In terms of environmental responsibility, the Company acted on the philosophy of green development, built a full chain of green financial services and proactively expanded the scope of international cooperation to make its business increasingly green. With the ESG philosophy integrated into innovation of products and services, the Company supported biodiversity conservation, enhanced environmental disclosure and improved the ability to manage environmental risks, contributing its financial strength to a beautiful China with lucid waters and lush mountains. Attaching importance to the environmental impact of operating activities, the Company introduced its own carbon neutrality target, implemented policies on energy conservation and environmental protection, stepped up energy conservation and emission reduction, reduced the emission of harmful substances and advanced green, low-carbon operations.

For more details, please refer to the *2021 Corporate Social Responsibility Report of Hua Xia Bank Co., Limited* disclosed by the Company on the SSE website (www.sse.com.cn) and the Company's website (www.hxb.com.cn).

SECTION VI SIGNIFICANT EVENTS

6.1 PERFORMANCE OF COMMITMENTS

6.1.1 The Company's shareholder PICC Property and Casualty Company Limited committed not to transferring the Company's shares acquired from the transfer in 2016 within five years following the delivery date. During the reporting period, the commitment term expired and the commitment was fulfilled.

Committed by	PICC Property and Casualty Company Limited
Commitment type	Other commitment made in the equity change report
Commitment	Committed not to transferring the Company's shares acquired from the transfer within five years following the delivery date; and share transfer at maturity and qualification of the transferee for shareholder shall be subject to the consent of regulators.
Commitment date	17 November 2016
Commitment term	5 years
Implemented in a strict and timely way (Yes/No)	Yes

6.1.2 Upon the approval of CSRC, the Company issued 2,564,537,330 ordinary shares (A shares) in a non-public offering in 2018, and these shares got registration and sale restriction procedures done with Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on 8 January 2019. Shareholders of the Company, namely Shougang Group, State Grid Yingda International Holdings Group Ltd., and Beijing Infrastructure Investment Co., Ltd., committed not to transferring the Company's shares acquired at this offering within five years following the delivery date; and share transfer at maturity and qualification of the transferee for shareholder shall be subject to the consent of regulators.

Committed by	Shougang Group, State Grid Yingda International Holdings Group Ltd., Beijing Infrastructure Investment Co., Ltd.,
Commitment type	Restrictions on sales of shares of re-financing
Commitment	Committed not to transferring the Company's shares acquired at this offering within five years following the delivery date; and share transfer upon maturity and qualification of the transferee for shareholder shall be subject to the consent of regulators.
Commitment date	8 January 2019
Commitment term	5 years
Implemented in a strict and timely way (Yes/No)	Yes

6.2 FUND OCCUPANCY BY CONTROLLING SHAREHOLDER OR OTHER RELATED PARTIES FOR NON-OPERATING PURPOSES

During the reporting period, as audited and assured by Ernst & Young Hua Ming LLP, no funds of the Company were occupied for non-operating purposes by controlling shareholder or other related parties.

6.3 EXPLANATION ON THE NONSTANDARD AUDITOR'S REPORT

Not applicable.



6.4 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND METHODS AND CHANGES IN CONSOLIDATION SCOPE OF FINANCIAL STATEMENTS DURING THE REPORTING PERIOD

The Ministry of Finance promulgated the revised *Accounting Standard for Business Enterprises No. 21 – Leases* in 2018. The Company adopted the new leasing standard on 1 January 2021. According to transitional requirements, the identified leasing transactions and accounting adjustments under the new leasing standard were recognized in the balance sheet as at 1 January 2021, without adjusting comparable information in previous years. This change will have no significant impact on financial statements of the Company.

6.5 ENGAGEMENT AND REMOVAL OF INTERMEDIARIES

6.5.1 Engagement and disengagement of the accounting firm for auditing the financial report

According to the Ministry of Finance's rules for the maximum number of consecutive years for which a state-owned financial corporation can engage an accounting firm, the service term of the previous external auditor of the Company Deloitte Touche Tohmatsu Certified Public Accountants LLP expired. Upon approval by the 2020 Annual General Meeting, the Company engaged Ernst & Young Hua Ming LLP as the auditor of the 2021 financial statements with an audit fee of RMB4.65 million. The year 2021 was the first year of audit service provided by Ernst & Young Hua Ming LLP for the Company.

6.5.2 Engagement of the accounting firm for internal audit auditing

It engaged Ernst & Young Hua Ming LLP as the auditor of the 2021 internal control with an audit fee of RMB1.15 million.

6.5.3 Engagement of financial advisor

During the reporting period, the Company didn't engage any financial advisor.

6.5.4 Engagement of sponsor

During the reporting period, the Company didn't engage any sponsor.

6.6 MATERIAL LITIGATIONS AND ARBITRATIONS

During the reporting period, the Company was not involved in any material legal proceedings or arbitrations. Most of these litigation and arbitration cases were lodged by the Company proactively for recovering NPLs. As at the end of the reporting period, the Company had 197 outstanding litigation cases lodged against it involving a total value of RMB2.009 billion. Therefore, the Company believes that they won't have significant impact on its financial position or business results.

6.7 SUSPECTED NON-COMPLIANCES, PENALTIES AND CORRECTIVE ACTIONS OF THE COMPANY, AS WELL AS ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS

During the reporting period, the Company and its directors, supervisors and senior management members were not subject to any investigation of suspected crime or subject to enforcement action or criminal penalty imposed in accordance with the law, or subject to investigation of suspected illegalities or irregularities by CSRC or administrative penalty imposed by CSRC or subject to any other major administrative penalty imposed by other competent authorities. No directors, supervisors or senior managers of the Company were detained by discipline inspection and supervision authorities for serious violation of laws and regulations or work-related crimes, which affected their performance of duties, or subjected to enforcement actions taken by other competent authorities for suspected violation of laws and regulations, which affected their performance of duties.

No directors, supervisors or senior managers of the Company were subjected to administrative regulatory measures taken by CSRC or disciplinary actions taken by the stock exchange.

6.8 STATEMENT ON CREDIT STANDING OF THE LISTED COMPANY

During the reporting period, there was no significant valid court judgment with which the Company had not complied, nor was there any outstanding debt of significant amount.

6.9 RELATED PARTY TRANSACTIONS

6.9.1 Overview, pricing principle and basis of related party transactions

During the reporting period, the Group-wide balance of credit to related parties totaled RMB26.744 billion. With margin deposits, pledged certificates of deposit and treasury bonds excluded, the credit balance was RMB26.199 billion, accounting for 7.47% of net capital of the Company, kept within the regulatory ceiling of 50%. The largest balance of credit to a related group customer went to Shougang Group, totaling RMB16.467 billion. With margin deposits, pledged certificates of deposit and treasury bonds excluded, the credit balance was RMB16.134 billion, accounting for 4.60% of the net capital of the Company, kept within the regulatory ceiling of 15%. The largest balance of credit to a related party went to Shougang Group, totaling RMB11.88 billion. With margin deposits, pledged certificates of deposit and treasury bonds excluded, the credit balance was RMB11.874 billion, accounting for 3.39% of the net capital of the Company, kept within the regulatory ceiling of 10%. Group-wide non-credit transactions reached RMB3.664 billion, accounting for 1.04% of the net capital of the Company, of which asset transfers amounted to RMB1.469 billion, service provision transactions were RMB515 million and other transactions reached RMB1.68 billion.

During the reporting period, in accordance with the The Company strictly implemented CBIRC's *Administrative Measures for Related Party Transactions between Commercial Banks and Their Insiders or Shareholders* and the *Interim Measures for the Equity Management of Commercial Banks*, the Company further strengthened the risk management and control of related party transactions, reasonably controlled the quota for related party transactions and proactively adjust the structure of related party transactions, further enhanced the quality of related party transaction management data, conducted related party transaction crackdown pursuant to regulatory requirements and effectively controlled the related party transaction risks. The Company strictly implemented the *Administrative Measures for Related Party Transactions between Commercial Banks and Their Insiders or Shareholders*, the *Interim Measures for the Equity Management of Commercial Banks* and the *Implementing Guidelines on Affiliated Transactions of Listed Companies on Shanghai Stock Exchange*. Related party transactions were conducted in accordance with the commercial principles and under conditions that were not more favorable than those for similar non-related party transactions, with pricing conforming to the principle of market price.

6.9.2 Material related party transactions concerning daily operation

6.9.2.1 The Eighth Meeting of the Eighth Board of Directors and the Annual General Meeting for 2020 were convened on 22 March 2021 and 28 May 2021 respectively, considering and adopting the *Proposal on Application for the Quota for the Day-to-day Related Party Transactions with Related Parties*. According to the proposal, the Company agreed to approve the credit line worth RMB29.891 billion granted for the related party transactions between Shougang Group and its related enterprises in 2021. Specifically, the quota for credit related party transactions was RMB28 billion (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) and the quota for non-credit related party transactions was RMB1.891 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 24 March 2021. As at 31 December 2021, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB16.134 billion. For the use of the quota for non-credit related party transactions, please see the table below:

(Unit: RMB1 million)

Type of related party transaction	Scope of calculation	Expected ceiling of 2021	Use as of 31 December 2021
Financial advisory services	Service fee receipts/expenditures	105.00	8.20
Treasury operations and investment	Gain/loss on transactions (cumulative)	703.00	0.02
Wealth management service	Service fee receipts	50.00	0
Integrated services	Service fee receipts/expenditures	33.13	28.52
Asset transfer	Transfer price	1,000.00	0

6.9.2.2 The Eighth Meeting of the Eighth Board of Directors and the Annual General Meeting for 2020 were convened on 22 March 2021 and 28 May 2021 respectively, considering and adopting the *Proposal on Application for the Quota for the Day-to-day Related Party Transactions with Related Parties*. According to the proposal, the Company agreed to approve the credit line worth RMB31.998 billion granted for the related party transactions between State Grid Yingda International Holdings Group Ltd. and its related enterprises in 2021. Specifically, the quota for credit related party transactions was RMB28 billion (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) and the quota for non-credit related party transactions was RMB3.998 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 24 March 2021. As at 31 December 2021, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB2.344 billion. For the use of the quota for non-credit related party transactions, please see the table below:

(Unit: RMB1 million)

Type of related party transaction	Scope of calculation	Expected ceiling of 2021	Use as of 31 December 2021
Financial advisory services	Service fee receipts/expenditures	135.00	18.03
Treasury operations and investment	Gain/loss on transactions (cumulative)	2,806.00	869.21
Asset custody services	Service fee receipts	0.50	0
Wealth management service	Service fee receipts	50.00	0
Integrated services	Service fee receipts/expenditures	6.00	0
Asset transfer	Transfer price	1,000.00	0

6.9.2.3 The Eighth Meeting of the Eighth Board of Directors and the Annual General Meeting for 2020 were convened on 22 March 2021 and 28 May 2021 respectively, considering and adopting the *Proposal on Application for the Quota for the Day-to-day Related Party Transactions with Related Parties*. According to the proposal, the Company agreed to approve the credit line worth RMB31.267 billion granted for the related party transactions between PICC Property and Casualty Company Limited and its related enterprises in 2021. Specifically, the quota for credit related party transactions was RMB28 billion (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) and the quota for non-credit related party transactions was RMB3.267 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 24 March 2021. As at 31 December 2021, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB2.285 billion. For the use of the quota for non-credit related party transactions, please see the table below:

(Unit: RMB1 million)

Type of related party transaction	Scope of calculation	Expected ceiling of 2021	Use as of 31 December 2021
Financial advisory services	Service fee receipts/expenditures	143.00	12.74
Treasury operations and investment	Gain/loss on transactions (cumulative)	1,506.00	3.85
Asset custody services	Service fee receipts	50.50	11.06
Wealth management service	Service fee receipts	50.00	0
Integrated services	Service fee receipts/expenditures	17.00	4.25
Asset transfer	Transfer price	1,500.00	0

6.9.2.4 The Eighth Meeting of the Eighth Board of Directors and the Annual General Meeting for 2020 were convened on 22 March 2021 and 28 May 2021 respectively, considering and adopting the Proposal on *Application for the Quota for the Day-to-day Related Party Transactions with Related Parties*. According to the proposal, the Company agreed to approve the credit line worth RMB13.813 billion granted for the related party transactions between Beijing Infrastructure Investment Co., Ltd. and its related enterprises in 2021. Specifically, the quota for credit related party transactions was RMB12 billion (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) and the quota for non-credit related party transactions was RMB1.813 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 24 March 2021. As at 31 December 2021, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB2.298 billion. For the use of the quota for non-credit related party transactions, please see the table below:

(Unit: RMB1 million)

Type of related party transaction	Scope of calculation	Expected ceiling of 2021	Use as of 31 December 2021
Financial advisory services	Service fee receipts/expenditures	60.00	0
Treasury operations and investment	Gain/loss on transactions (cumulative)	703.00	110.69
Wealth management service	Service fee receipts	50.00	0
Asset transfer	Transfer price	1,000.00	0

6.9.2.5 The Eighth Meeting of the Eighth Board of Directors was convened on 22 March 2021, considering and adopting the Proposal on *Application for the Quota for the Day-to-day Related Party Transactions with Related Parties*. According to the proposal, the Company agreed to approve the credit line worth RMB6.727 billion granted for the related party transactions between Yunnan Hehe (Group) Co., Ltd. and its related enterprises in 2021. Specifically, the quota for credit related party transactions was RMB5 billion (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) and the quota for non-credit related party transactions was RMB1.727 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 24 March 2021. As at 31 December 2021, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at zero. For the use of the quota for non-credit related party transactions, please see the table below:

(Unit: RMB1 million)

Type of related party transaction	Scope of calculation	Expected ceiling of 2021	Use as of 31 December 2021
Financial advisory services	Service fee receipts/expenditures	70.00	0
Treasury operations and investment	Gain/loss on transactions (cumulative)	603.00	270.00
Asset custody services	Service fee receipts	0.50	0.57 ⁷
Wealth management service	Service fee receipts	50.00	0
Integrated services	Service fee receipts/expenditures	3.13	3.04
Asset transfer	Transfer price	1,000.00	671.20

⁷ The asset custody service between the Company and Yunnan Hehe (Group) Co., Ltd. exceeded the request quota and went through relevant procedures in accordance with CBIRC requirements.

6.9.2.6 The Eighth Meeting of the Eighth Board of Directors and the Annual General Meeting for 2020 were convened on 22 March 2021 and 28 May 2021 respectively, considering and adopting the Proposal on *Application for the Quota for the Day-to-day Related Party Transactions with Related Parties*. According to the proposal, the Company agreed to approve the credit line worth RMB21.55 billion granted for the related party transactions of Huaxia Financial Leasing Co., Ltd. in 2021. Specifically, the quota for credit related party transactions was RMB20.5 billion (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) and the quota for non-credit related party transactions was RMB1.05 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 24 March 2021. As at 31 December 2021, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB8.527 billion. For the use of the quota for non-credit related party transactions, please see the table below:

(Unit: RMB1 million)

Type of related party transaction	Scope of calculation	Expected ceiling of 2021	Use as of 31 December 2021
Financial advisory services	Service fee receipts/expenditures	35.00	53.52 ⁸
Treasury operations and investment	Gain/loss on transactions (cumulative)	11.00	0
Integrated services	Service fee receipts/expenditures	4.00	2.73
Asset transfer	Transfer price	1,000.00	0

6.9.2.7 The Eighth Meeting of the Eighth Board of Directors was convened on 22 March 2021, considering and adopting the Proposal on *Application for the Quota for the Day-to-day Related Party Transactions with Related Parties*. According to the proposal, the Company agreed to approve the credit line worth RMB9.058 billion granted for the related party transactions for Huaxia Wealth Management Co., Ltd. in 2021. Specifically, the quota for credit related party transactions was RMB2 billion (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) and the quota for non-credit related party transactions was RMB7.058 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 24 March 2021. As of 31 December 2021, Huaxia Wealth Management had a zero balance of credit. For the use of the quota for non-credit related party transactions, please see the table below:

(Unit: RMB1 million)

Type of related party transaction	Scope of calculation	Expected ceiling of 2021	Use as of 31 December 2021
Financial advisory services	Service fee receipts/expenditures	3,032.00	595.63
Treasury operations and investment	Gain/loss on transactions (cumulative)	526.00	8.23
Asset custody services	Service fee receipts	500.00	20.40
Asset transfer	Transfer price	3,000.00	0

6.9.3 Material related party transactions arising from the acquisition and sale of assets or equities

During the reporting period, there was no related party transaction arising from the acquisition or sale of assets or equities at the Company.

6.9.4 Material related party transactions arising from the external investments made by the Company and its related parties jointly

During the reporting period, there was no related party transactions arising from the external investments made by the Company or its related parties jointly.

6.9.5 Details of debt & claim, guarantee or other affairs between the Company and its related parties can be seen in the Notes to the Financial Statements as a part of the Report.

⁸ The financial advisory service between the Company and its controlled subsidiary Huaxia Financial Leasing Co., Ltd. exceeded the request quota and went through relevant procedures in accordance with CBIRC requirements.

6.9.6 Financial transactions between the Company and related finance company and those between finance company controlled by the Company and a related party

During the reporting period, the financial transactions between the Company and its related party Shougang Group Finance Co., Ltd. were lending under a credit line. Shougang Group Finance Co., Ltd. is an affiliated company of the Company's related party Shougang Group. On 29 January 2021, the Company granted to Shougang Group Finance Co., Ltd. an overall credit line of RMB1.2 billion, which was among lending, treasury trading, trade finance and interbank guarantee on an unsecured basis. Loans under lending and trade finance must be fully secured by such means as approved by the Company. As at the end of the reporting period, the credit transactions of Shougang Group Finance Co., Ltd. were discounting of bank acceptance bill. During the reporting period, the discounting volume was RMB1.38 billion with an outstanding balance of RMB693 million and a pricing range of 2.2%-5.2%. The basis of pricing was the guidance price published daily by the Company. Shougang Group Finance Co., Ltd. had an interest in these transactions as the acceptor of banker's acceptances. The Company discounted the bills accepted by Shougang Group Finance Co., Ltd., thereby serving MSBs and private enterprises. The above transactions have been included in the quota management for credit related transactions of Shougang Group.

The Company had no controlled finance company during the reporting period.

6.9.7 Other material related party transactions

During the reporting period, there was no other major related party transactions made by the Company.

6.9.8 For details of the Company's balance of transactions with, and risk exposures to, related natural persons, please see the Notes to the Financial Statements as a part of the Report.

6.10 MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

6.10.1 Material custody, contract and lease

During the reporting period, the Company did not engage in any material custody, contracting or leasing of assets of other companies, neither did other companies take custody, engage in contracting of or lease any assets of the Company.

6.10.2 Material guarantees and guarantee non-compliances

Except for financial guarantees within the business scope as approved by CBIRC, the Company had no material guarantees to be disclosed during the reporting period. The Company had no guarantee non-compliances during the reporting period.

6.10.3 Other material contracts

During the reporting period, there was no any material dispute over contracts.

6.11 INDEPENDENT OPINIONS OF INDEPENDENT DIRECTORS ON EXTERNAL GUARANTEES

Pursuant to applicable regulations and requirements of CSRC, Independent Directors of the Company reviewed the external guarantees of the Company in 2021 on a fair, impartial and objective basis. Specific review opinions are hereby given below:

The external guarantee service of the Company is a part of the ordinary banking services within the business scope of the Company as approved by PBOC and CBIRC. As at the end of the reporting period, outstanding guarantees of the Company amounted to RMB32,642 million, an increase of RMB4,900 million compared with the end of the previous year.

The Company enhanced guarantee risk management by including guarantee activities into centralized credit facility management, conducting stringent due diligence, approval and management, and strengthening risk identification, assessment, monitoring and control, which had effectively controlled business risks. During the reporting period, external guarantee service of the Company was run normally without any non-compliance.

6.12 OTHER SIGNIFICANT EVENTS

With the approval of CBIRC and PBOC, the Company issued the Hua Xia Bank Co., Ltd. 2021 Financial Bond (Series 1) in the national inter-bank bond market on 16 March 2021. It was three-year fixed rate bond with a issue volume of RMB27 billion and a coupon rate of 3.45%. On November 8, the Company issued the Hua Xia Bank Co., Ltd. 2021 Financial Bond (Series 2). It was a three-year fixed rate bond with an issue volume of RMB40 billion and a coupon rate of 3.03%.

6.13 SIGNIFICANT EVENTS OF SUBSIDIARIES

During the reporting period, Huaxia Wealth Management co-sponsored the National Pension Insurance Co., Ltd. with a capital contribution of RMB300 million.

6.14 INDEX OF INFORMATION DISCLOSURES

Matter	Published in journals	Date of publication	Published on website
Announcement of Hua Xia Bank on Selection of Employee Supervisors	China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily	5 January 2021	http://www.sse.com.cn
Announcement on Resolutions of the Seventh Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	6 January 2021	Ditto
Announcement on Resignation of Vice President of Hua Xia Bank	Ditto	10 February 2021	Ditto
Announcement on 2020 Earnings Guidance of Hua Xia Bank	Ditto	22 February 2021	Ditto
Indicative Announcement on Additional Shareholding of 1% by Shareholder with an Interest of Over 5% in Hua Xia Bank Co., Ltd.	Ditto	3 March 2021	Ditto
Announcement of Hua Xia Bank on Distribution of Dividends for Preference Shares	Ditto	19 March 2021	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of 2021 Financial Bond Series 1	Ditto	20 March 2021	Ditto
Announcement on Resolutions of the Eighth Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	24 March 2021	Ditto
Announcement on Related Party Transaction of Hua Xia Bank	Ditto	24 March 2021	Ditto
Announcement of Hua Xia Bank on Adjustment to the Coupon Rate of Preference Shares	Ditto	27 March 2021	Ditto
Announcement on Resignation of Director of Hua Xia Bank	Ditto	8 April 2021	Ditto
Announcement on Resignation of Director of Hua Xia Bank	Ditto	17 April 2021	Ditto
Announcement on Resolutions of the Ninth Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	24 April 2021	Ditto

Matter	Published in journals	Date of publication	Published on website
Announcement of Hua Xia Bank on Holding the 2020 Annual Results Presentation	Ditto	24 April 2021	Ditto
Announcement on Resolutions of the 10th Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	30 April 2021	Ditto
Announcement on Resolutions of the Eighth Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	30 April 2021	Ditto
Announcement of Hua Xia Bank on Changes in Accounting Policies	Ditto	30 April 2021	Ditto
Announcement on 2020 Profit Distribution Plan of Hua Xia Bank	Ditto	30 April 2021	Ditto
Announcement of Hua Xia Bank on Construction of New Head Office Building in Beijing Municipal Administrative Center	Ditto	30 April 2021	Ditto
Notice of Hua Xia Bank on Holding the Annual General Meeting for 2020	Ditto	30 April 2021	Ditto
Announcement on Annual Report of Hua Xia Bank in 2020	Ditto	30 April 2021	Ditto
Announcement on First Quarterly Report of Hua Xia Bank in 2021	Ditto	30 April 2021	Ditto
Announcement on Resolutions of the 11th Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	13 May 2021	Ditto
Announcement of Hua Xia Bank on Amendments to the Articles of Association	Ditto	13 May 2021	Ditto
Announcement on Resolutions of the Ninth Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	13 May 2021	Ditto
Announcement on Resignation of External Supervisor of Hua Xia Bank	Ditto	13 May 2021	Ditto
Announcement on Adding Ad Hoc Proposals to the Annual General Meeting for 2020 of Hua Xia Bank	Ditto	14 May 2021	Ditto
Announcement on Resignation of Director of Hua Xia Bank	Ditto	27 May 2021	Ditto
Announcement on Resolutions of the 10th Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	27 May 2021	Ditto
Announcement on Resolutions of the Annual General Meeting for 2020 of Hua Xia Bank	Ditto	29 May 2021	Ditto
Announcement on Annual Equity Distribution for 2020 of Hua Xia Bank	Ditto	5 July 2021	Ditto
Announcement on Resolutions of the 12th Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	22 July 2021	Ditto



Matter	Published in journals	Date of publication	Published on website
Announcement of Hua Xia Bank on Holding the 2021 Interim Results Presentation	Ditto	24 August 2021	Ditto
Announcement on Resolutions of the 13th Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	31 August 2021	Ditto
Announcement on Resolutions of the 11th Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	31 August 2021	Ditto
Announcement on Interim Report of Hua Xia Bank in 2021	Ditto	31 August 2021	Ditto
Announcement of Hua Xia Bank on Attending the Investors Open Day for Listed Companies based in Beijing	Ditto	18 September 2021	Ditto
Announcement of Hua Xia Bank on Regulatory Approval for Issuance of Financial Bonds	Ditto	28 October 2021	Ditto
Announcement on Resignation of Director of Hua Xia Bank	Ditto	30 October 2021	Ditto
Announcement on Resolutions of the 14th Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	30 October 2021	Ditto
Announcement on Resolutions of the 12th Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	30 October 2021	Ditto
Announcement on Third Quarterly Report of Hua Xia Bank in 2021	Ditto	30 October 2021	Ditto
Announcement on Resignation of Employee Supervisor of Hua Xia Bank	Ditto	5 November 2021	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of 2021 Financial Bond Series 2	Ditto	12 November 2021	Ditto
Announcement on Resolutions of the 15th Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	23 November 2021	Ditto
Announcement of Hua Xia Bank on Approval of CBIRC for Qualification of Directors	Ditto	3 December 2021	Ditto
Announcement on Resolutions of the 13th Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	11 December 2021	Ditto
Announcement on Resignation of Supervisor of Hua Xia Bank	Ditto	23 December 2021	Ditto
Announcement on Resolutions of the 16th Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	24 December 2021	Ditto

SECTION VII DETAILS OF CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

7.1 CHANGES IN SHARE CAPITAL

7.1.1 Changes in ordinary shares

(Unit: share)

	31 December 2020		Increase/ decrease	31 December 2021	
	Number	Percentage (%)		Number	Percentage (%)
I. Shares subject to restrictions or sales	2,564,537,330	16.67	—	2,564,537,330	16.67
1. State-owned shares	—	—	—	—	—
2. Shares held by state-owned corporations	2,564,537,330	16.67	—	2,564,537,330	16.67
3. Shares held by other domestic investors	—	—	—	—	—
Of which: shares held by domestic non-state-owned corporations	—	—	—	—	—
Shares held by domestic natural persons	—	—	—	—	—
4. Shares held by foreign investors	—	—	—	—	—
Of which: shares held by foreign corporations	—	—	—	—	—
Shares held by foreign natural persons	—	—	—	—	—
II. Shares not subject to restrictions on sales	12,822,686,653	83.33	—	12,822,686,653	83.33
1. RMB-denominated ordinary shares	12,822,686,653	83.33	—	12,822,686,653	83.33
2. Foreign shares listed domestically	—	—	—	—	—
3. Foreign shares listed overseas	—	—	—	—	—
4. Others	—	—	—	—	—
III. Total number of shares	15,387,223,983	100.00	—	15,387,223,983	100.00

7.1.2 Changes in registered shares subject to restrictions on sales

Unit: share

Name of shareholder	Number of shares subject to restrictions on sales at the beginning of the year	Number of shares released from restrictions on sales in the year	Increase of shares subject to restrictions on sales in the year	Number of shares subject to restrictions on sales at the end of the year	Reason for restrictions on sales	Date on which shares become tradable
Shougang Group	519,985,882	0	0	519,985,882		
State Grid Yingda International Holdings Group Ltd.	737,353,332	0	0	737,353,332	(Refer to notes for details)	8 January 2024
Beijing Infrastructure Investment Co., Ltd.	1,307,198,116	0	0	1,307,198,116		
Total	2,564,537,330	0	0	2,564,537,330		

Note: The 2,564,537,330 ordinary A-shares in this non-public offering got registration and sale restriction procedures done with Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on 8 January 2019, and the subscribers may not transfer these shares within five years since the date of subscription. Where the lock-up period and the transfer at maturity are subject to other regulatory requirements, these requirements shall prevail. Upon the expiration of lock-up period, the transfer of related shares shall be conducted as per the applicable laws and regulations like the *Company Law of the People's Republic of China* as well as the relevant provisions of CSRC and Shanghai Stock Exchange.

7.2 SECURITIES ISSUE AND OFFERING

7.2.1 Securities issue during the reporting period

Not applicable.

7.2.2 Changes in the total number of ordinary shares and shareholder structure and changes in structure of assets and liabilities of the Company

Not applicable.

7.2.3 Individual employee stock ownership

Not applicable.

7.3 PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLER

7.3.1 Number of ordinary shareholders and particulars of shareholding of the top 10 preference shareholders as at the end of the reporting period

(Unit: share)

Total number of ordinary shareholders as at the end of the reporting period	117,806
Total number of ordinary shareholders at the end of the month immediately before disclosing date of this Annual Report	116,678
Total number of preference shareholders with restored voting rights as at the end of the reporting period	0
Total number of preference shareholders with restored voting rights at the end of the month immediately before the disclosure date of this Annual Report	0

Particulars of shareholding of the top 10 preference shareholders							
Name of shareholder (full name)	Nature of shareholder	Changes during the reporting period	Shareholding percentage (%)	Shares held at the end of the period	Number of shares subject to restrictions on sales that were held	Shares pledged, marked or frozen	
						Shares status	Number
Shougang Group	State-owned legal person	0	20.28	3,119,915,294	519,985,882	None	
State Grid Yingda International Holdings Group Ltd.	State-owned legal person	0	19.99	3,075,906,074	737,353,332	None	
PICC Property and Casualty Company Limited	State-owned legal person	0	16.66	2,563,255,062	0	None	
Beijing Infrastructure Investment Co., Ltd.	State-owned legal person	223,114,603	9.95	1,530,312,719	1,307,198,116	None	
Yunnan Hehe (Group) Co., Ltd.	State-owned legal person	0	3.64	560,851,200	0	None	
Hong Kong Securities Clearing Company Limited	Foreign legal person	87,194,373	2.13	327,873,168	0	None	
Runhua Group Co., Ltd.	Domestic non-state-owned legal person	0	1.78	273,312,100	0	Pledge	273,312,004
China Securities Finance Corporation Limited	State-owned legal person	-183,143,737	1.31	201,454,805	0	None	
Central Huijin Asset Management Co., Ltd.	State-owned legal person	-3,558,500	1.06	163,358,260	0	None	
Shanghai Giant Lifetech Co., Ltd.	Domestic non-state-owned legal person	-44,001,900	0.61	93,970,000	0	Pledge	93,970,000



Shareholdings of the top 10 shareholders not subject to restrictions on sales		
Name of shareholder	Number of shares not subject to restrictions on sales that were held	Type of shares
Shougang Group	2,599,929,412	RMB-denominated ordinary shares
PICC Property and Casualty Company Limited	2,563,255,062	RMB-denominated ordinary shares
State Grid Yingda International Holdings Group Ltd.	2,338,552,742	RMB-denominated ordinary shares
Yunnan Hehe (Group) Co., Ltd.	560,851,200	RMB-denominated ordinary shares
Hong Kong Securities Clearing Company Limited	327,873,168	RMB-denominated ordinary shares
Runhua Group Co., Ltd.	273,312,100	RMB-denominated ordinary shares
Beijing Infrastructure Investment Co., Ltd.	223,114,603	RMB-denominated ordinary shares
China Securities Finance Corporation Limited	201,454,805	RMB-denominated ordinary shares
Central Huijin Asset Management Co., Ltd.	163,358,260	RMB-denominated ordinary shares
Shanghai Giant Lifetech Co., Ltd.	93,970,000	RMB-denominated ordinary shares
Repo accounts of top 10 shareholders	The Company had no share repurchases during the reporting period.	
Delegating or abandoning of voting rights of the above shareholders	The Company found none of the above shareholders delegated or abandoned voting rights or gained delegated voting rights from others.	
Remarks on the connected relations or concerted action of the above shareholders	The Company has no knowledge of any other connected relations among the above-mentioned shareholders or concerted action defined in the <i>Administrative Measures for Acquisition of Listed Companies</i> .	

Notes:

1. PICC Property and Casualty Company Limited committed not to transferring the Company's shares acquired from the transfer within five years following the delivery date (17 November 2016). During the reporting period, the commitment term expired and the commitment was fulfilled.
2. From 28 January to 2 March 2021, Beijing Infrastructure Investment Co., Ltd. additionally acquired 153,872,306 shares in the Company through the trading system of Shanghai Stock Exchange, representing 1% of the total ordinary shares of the Company. After this equity change, Beijing Infrastructure Investment Co., Ltd. holds 9.50% of shares in the Company. Details can be seen in the *Indicative Announcement on Additional Shareholding of 1% by Shareholder with An Interest of Over 5% in Hua Xia Bank Co., Ltd.* disclosed by the Company on 3 March 2021. As at the end of the reporting period, Beijing Infrastructure Investment Co., Ltd. held 9.95% of shares in the Company.

7.3.2 Number of shares subject to restrictions on sales held by shareholders and restrictions on sales

(Unit: share)

Name of shareholder subject to restrictions on sales	Number of shares subject to restrictions on sales that were held	Particulars of trading of shares subject to restrictions on sales		Restrictions on sales
		Tradable time	Number of new tradable shares	
Shougang Group	519,985,882		519,985,882	The Company issued 2,564,537,330 ordinary shares (A shares) in a nonpublic offering, and these shares got registration and sale restriction procedures done with Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on 8 January 2019. All subscribers may not transfer their shares within five years since the date of subscription. Where the lock-up period and the transfer at maturity are subject to other regulatory requirements, these requirements shall prevail. These shares are expected to become tradable on 8 January 2024 (which will be postponed to the subsequent trading day in case of a statutory public holiday/festival or rest day).
State Grid Yingda International Holdings Group Ltd.	737,353,332	8 January 2024	1,307,198,116	
Beijing Infrastructure Investment Co., Ltd.	1,307,198,116		1,307,198,116	

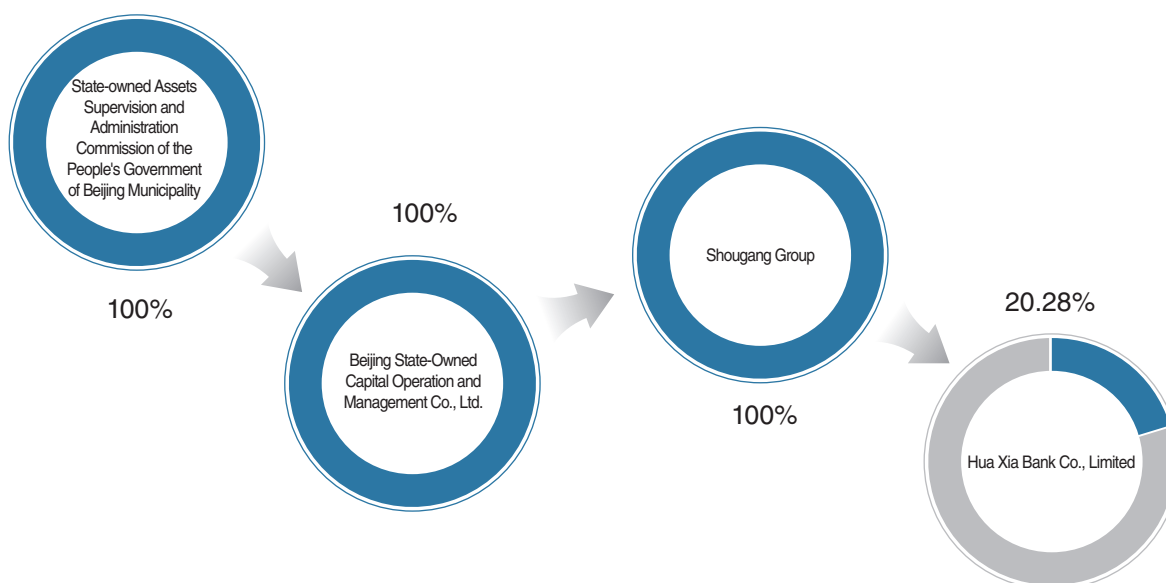
7.3.3 Particulars of shareholders holding over 5% ordinary shares of the Company

7.3.3.1 Shougang Group

The Company has no controlling shareholder or de facto controller. Shougang Group is the largest shareholder of the Company. At the end of the reporting period, shareholders holding over 5% shares of the Company were Shougang Group (20.28%), State Grid Yingda International Holdings Group Ltd. (19.99%), PICC Property and Casualty Company Limited (16.66%) and Beijing Infrastructure Investment Co., Ltd. (9.95%).

Shougang Group (formerly known as "Shougang Corporation") was changed into its current name in May 2017 and restructured from an enterprise owned by the whole people into a wholly state-owned company with the approval of the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality. With unified social credit code as 911100001011200015, its legal representative is Zhang Gongyan and its registered capital is RMB28,755 million. Shougang Group is a large enterprise group with the operation covering different industries, regions and countries. Its core businesses include industries, construction, geologic exploration, transportation, foreign trade, telecommunication, finance and insurance, scientific research and comprehensive technological service, domestic commerce, public catering, material supply and sales, warehouse, real estate, residential service, consultation, leasing, agriculture, forestry, husbandry, fishery (except for those without special license) and authorized management of state-owned assets; establishment of the newspaper *Shougang Daily*; design and production of TV ads; release of ads with its self-owned TV station; design and production of prints and ads; placement of ads on its self-owned *Shougang Daily*; sewage treatment and recycling; seawater desalination; art creation and performance; operations of sports events (except those involving high risk); operations of sports venues; Internet information service; and municipal domestic waste treatment.

The equity relationship between the Company and Shougang Group as the largest shareholder is illustrated below:



7.3.3.2 State Grid Yingda International Holdings Group Ltd.

State Grid Yingda International Holdings Group Ltd. (formerly known as "State Grid Asset Management Co., Ltd."), founded on 18 October 2007, is a wholly-owned subsidiary of State Grid Corporation of China with Li Ronghua as its legal representative. Its unified social credit code is 91110000710935089N and the legal representative is Yang Dongwei. Its registered capital is RMB19.9 billion. The scope of its business covers: investment and assets operation and management; assets custody, rendering services for enterprise restructuring, M&A, strategic placement and venture capital investment; investment consultation; and investment advisory.

7.3.3.3 PICC Property and Casualty Company Limited

PICC Property and Casualty Company Limited was solely sponsored by People's Insurance Company of China in July 2003 after obtaining approval from the State Council and the former China Insurance Regulatory Commission. It is the largest property insurer in the mainland China. The unified social credit code is 91100000710931483R and the legal representative is Miao Jianmin. The registered capital is RMB22,242.77 million. The scope of its business covers: property loss insurance, liability insurance, credit insurance, accident insurance, short-term health insurance, guarantee insurance and other kinds of RMB or foreign-currency insurance business; reinsurance business in relation to the above-mentioned business; service and consulting in relation to property insurance, accident insurance and short-term health insurance and their reinsurance; business handling on behalf of insurers; investment and fund utilization business permitted by national laws and regulations, and other business prescribed by national laws and regulations or approved by China's insurance regulatory authority.

7.3.3.4 Beijing Infrastructure Investment Co., Ltd.

Founded in 2003, Beijing Infrastructure Investment Co., Ltd. is a wholly state-owned company of the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality. Its unified social credit code is 911100001011241849 and the legal representative is Zhang Yanyou. Its registered capital is RMB164,206.58 million. The scope of its business covers: manufacturing of subway vehicles and subway equipment; management and investment of state-owned assets as authorized, and planning and construction of new subway lines; operation and management of completed subway lines; import and export business of various commodities and technologies on proprietary or agent basis, except for commodities and technologies that are restricted or banned from operation by the state; design and repair of subway vehicles; design and installation of subway equipment; project supervision; property management; real estate development; subway ad design and production.

7.3.4 Other substantial shareholders

As prescribed by the former CBRC's *Interim Measures for the Equity Management of Commercial Banks*, other substantial shareholders of the Company included Yunnan Hehe (Group) Co., Ltd. and Runhua Group Co., Ltd. as at the end of the reporting period.

Yunnan Hehe (Group) Co., Ltd. held 3.64% shares of the Company. It had a registered capital of RMB6 billion and its legal representative was Jing Feng. Hongta Tobacco (Group) Co., Ltd. holds 75% of Yunnan Hehe (Group) Co., Ltd. It is the controlling shareholder of the latter and its de facto controller is China Tobacco. Hongta Tobacco (Group) Co., Ltd. was incorporated on 15 September 1995, with a registered capital of RMB6 billion and its legal representative is Wang Yong.

Runhua Group Co., Ltd. held 1.78% shares of the Company. It had a registered capital of RMB109 million and its legal representative was Luan Tao. Luan Tao holds 52.38% shares of Runhua Group Co., Ltd. and serves as its controlling shareholder and de facto controller.

7.3.5 Special explanation on the Company without controlling shareholder

The Company has no controlling shareholder. Shougang Group is the largest shareholder of the Company.

7.3.6 Special explanation on the Company without de facto controller

The Company has no de facto controller. Shougang Group is the largest shareholder of the Company.

7.4 SHARE REPURCHASES

Not applicable.

SECTION VIII PREFERENCE SHARES

8.1 ISSUANCE AND LISTING OF PREFERENCE SHARES

(Unit: 10,000 shares)

Preference share code	Preference share name	Date of issuance	Issuance price (RMB yuan)	Coupon rate (%)	Number of shares	Date of listing	Number of shares listed for trading	Date of de-listing
360020	华夏优1	23 March 2016	100	4.68	20,000	20 April 2016	20,000	–

Notes:

1. According to the *Reply of CBRC on the Non-public Issuance of Preference Shares and the Modification of the Articles of Association by Hua Xia Bank* (Y.J.F. [2015] No. 427) and the *Reply on Approving the Non-public Issuance of Preference Shares by Hua Xia Bank Co., Limited* (ZH. J.X.K. [2016] No. 342), the Bank issued 200 million preference shares in a non-public manner on 23 March 2016 and started transferring them on the comprehensive business platform of Shanghai Stock Exchange since 20 April 2016.

2. The coupon rate of Hua Xia Preference Share 1 in the first five years was 4.20%, including the arithmetic mean (2.59%) of the five-year T-bonds 20 trading days before the cut-off date of payment for the preference shares issued this time (the date just 20 trading days before the cut-off date of payment was excluded) and the fixed premium (1.61%). The coupon rate was adjusted once every five years in light of the change in benchmark interest rates. On 28 March 2021, the coupon rate of Hua Xia Preference Share 1 was adjusted and the coupon rate for the second five-year period was 4.68%, including the arithmetic mean (3.07%) of the five-year T-bond yield 20 trading days before the date of adjustment (exclusive of the date of adjustment) and the fixed premium (1.61%).

3. Use of proceeds: As approved by CSRC, the Company privately issued 200 million preference shares at a par value of RMB100 each on 23 March 2016. All the money actually raised after deducting the issuing expenses, netted to RMB19,978 million, were used to replenish the tier-1 capital.

8.2 NUMBER OF PREFERENCE SHAREHOLDERS AND PARTICULARS OF SHAREHOLDING OF THE TOP 10 PREFERENCE SHAREHOLDERS AS AT THE END OF THE REPORTING PERIOD

(Unit: share)

Total number of preference shareholders as at the end of the reporting period	17	Total number of preference shareholders at the end of the month immediately before the disclosure date of this Annual Report					17
Particulars of shareholding of the top 10 preference shareholders							
Name of shareholder	Shares held at the end of the period	Increase/ decrease during the reporting period	Percentage (%)	Nature of shareholder	Number of pledged or locked-up shares	Class of shares	
Ping An Property & Casualty Insurance Company of China, Ltd. – Traditional – Ordinary insurance product	58,600,000	0	29.30	Others	None	Preference shares	
Ping An Life Insurance Company of China, Ltd. - Universal – Universal personal insurance product	39,100,000	0	19.55	Others	None	Preference shares	
Ping An Life Insurance Company of China, Ltd. - Participating – Participating personal insurance product	39,100,000	0	19.55	Others	None	Preference shares	
BOCOM Schroder AMC – BOCOM – BOCOM Schroder AMC Zhuoyuan No. 2 Collective Asset Management Plan	11,180,000	0	5.59	Others	None	Preference shares	
Everbright Securities AMC – Everbright Bank – Everbright Securities AMC Xinyou No. 3 Collective Asset Management Plan	8,600,000	8,600,000	4.30	Others	None	Preference shares	
Bank of Beijing Scotiabank Asset Management – Bank of Beijing Co., Ltd. - Hua Xia Bank Co., Limited – Bank of Beijing Scotiabank Fengze No. 22 Asset Management Plan	8,400,000	8,400,000	4.20	Others	None	Preference shares	
Jiangsu International Trust Co., Ltd. - Jiangsu Trust – Hexiang Tianli No.1 Collective Fund Trust Plan	6,760,000	6,760,000	3.38	Others	None	Preference shares	
Bosera Fund – ICBC – Bosera – ICBC – Flexible Allocation No. 5 Specific Multi-customer Assets Management Plan	5,600,000	0	2.80	Others	None	Preference shares	
CITIC Securities – SPD Bank – CITIC Securities Stars No. 43 Collective Asset Management Plan	5,600,000	5,600,000	2.80	Others	None	Preference shares	
TruValue Asset Management – Bank of Ningbo – TruValue Youth Innovation No. 3 Collective Asset Management Plan	4,000,000	4,000,000	2.00	Others	None	Preference shares	
Remarks on connected relations or concerted action among top 10 preference shareholders and among the aforementioned shareholders and top 10 ordinary shareholders	Ping An Property & Casualty Insurance Company of China, Ltd. and Ping An Life Insurance Company of China, Ltd. are controlled subsidiaries of Ping An Insurance (Group) Company of China, Ltd. Ping An Property & Casualty Insurance Company of China, Ltd. - Traditional – Ordinary insurance product, Ping An Life Insurance Company of China, Ltd. - Universal – Universal personal insurance product and Ping An Life Insurance Company of China, Ltd. - Participating – Ordinary insurance product y are related parties.						



8.3 DISTRIBUTION OF PROFIT FROM PREFERENCE SHARES

Dividends on the preference shares issued by the Bank are paid annually in cash in a non-cumulative way. After receiving dividends at the agreed-upon coupon rate, preference shareholders of the Company will not join ordinary shareholders in the distribution of remaining profit.

On 28 March 2022, the Company paid dividends to all the holders of Hua Xia Preference Share 1 (Stock Code: 360020) that were registered by the closure of market on 25 March 2022. A cash dividend of RMB4.68 (before tax) was paid per preference share at the coupon rate of 4.68% and the dividends distributed this time totaled to RMB936 million (before tax).

Please refer to the announcements disclosed by the Company on the website of Shanghai Stock Exchange and the website of the Company for details on the dividend payment.

8.4 REDEMPTION OR CONVERSION OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the reporting period, the Company did not redeem or convert any preference shares.

8.5 RESTORATION OF VOTING RIGHTS OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the reporting period, the Bank did not restore any voting right of preference shares.

8.6 ACCOUNTING POLICY ADOPTED FOR PREFERENCE SHARES AND RATIONALE

According to the *Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments*, the *Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments and the Rules for Distinguishing Financial Liabilities and Equity Instruments and Relevant Accounting Treatment* promulgated by MOF as well as the preference share issuing plan, preference shares issued by the Bank this time meet the requirements for accounting treatment as equity instruments and, therefore, are calculated as equity instruments.

SECTION IX FINANCIAL STATEMENTS

9.1 AUDITOR'S REPORT

9.2 AUDITED FINANCIAL STATEMENTS

9.3 NOTES TO THE FINANCIAL STATEMENTS

9.4 UNAUDITED SUPPLEMENTARY INFORMATION

Chairman: Li Minji

Board of Directors of Hua Xia Bank Co., Limited

28 April 2022

WRITTEN CONFIRMATION OF 2021 ANNUAL REPORT BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS OF HUA XIA BANK CO., LIMITED

In accordance with relevant provisions and requirements of the *Securities Law* and the *Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 2 – Contents and Formats of Annual Reports (Revision in 2021)*, we, as directors, supervisors and senior management members of Hua Xia Bank Co., Limited, have fully read and examined the 2021 Annual Report of the Company and its Summary and hereby give the following opinion:

The Company operated in strict accordance with the *Accounting Standards for Business Enterprises* and the guidelines for its application, and the 2021 Annual Report of the Company and its Summary fairly present the financial position and operating conditions of the Company for the reporting year.

The 2021 financial statements of the Company have been audited.

We hereby guarantee that the 2021 Annual Report of the Company and its Summary were prepared and reviewed according to procedures that conform to laws, regulations, supervisory rules and the articles of association and internal management policies of the Company, disclose authentic, accurate and complete information and contain no false records, misleading statements or major omissions, and agree to be individually and jointly responsible for the authenticity, accuracy and completeness of their contents.

28 April 2022

Name	Position	Signatures
Li Minji	Chairman of the Board of Directors, Executive Director	
Wang Hongjun	Vice Chairman of the Board of Directors, Non-executive Director	
Guan Wenjie	Executive Director, Vice President, Principal of Financial Affairs	
Wang Yiping	Executive Directors, Vice President	
Song Jiqing	Executive Director, Secretary to the Board	
Ma Xiaoyan	Non-executive Director	
Zou Libin	Non-executive Director	
Zeng Beichuan	Non-executive Director	
Chen Yonghong	Independent Director	

Name	Position	Signatures
Wang Huacheng	Independent Director	
Ding Yi	Independent Director	
Zhao Hong	Independent Director	
Guo Qingwang	Independent Director	
Gong Zhiqiang	Independent Director	
Lv Wendong	Independent Director	
Wang Minglan	Chairman of the Board of Supervisors, Employee Supervisor	
Deng Kang	Supervisor Representing Shareholder	
Ding Zhaohua	Supervisor Representing Shareholder	
Zhu Xiaofang	External Supervisor	
Zhao Xijun	External Supervisor	
Guo Tianyong	External Supervisor	
Zhang Hong	External Supervisor	
Zhu Jiang	Employee Supervisor	
Xu Xinming	Employee Supervisor	
Yang Wei	Vice President	

AUDITOR'S REPORT



AUDITOR'S REPORT

A.Y.H.M. (2022) SH.Z. No. 60466757_A01

Hua Xia Bank Co., Limited

To the shareholders of Hua Xia Bank Co., Limited,

I. AUDIT OPINION

We have audited the financial statements of Hua Xia Bank Co., Limited (the "Bank") and its subsidiaries (collectively the "Group"), which comprise balance sheet as at 31 December 2021 and income statement, statement of changes in equity and statement of cash flows of the Group and the Bank for the year then ended and notes to these Financial Statements.

In our opinion, the attached financial statements of the Bank comply with the requirements of the Accounting Standards for Business Enterprises in all material respects and present fairly the financial position of the Group and the Bank as at 31 December 2021 and the operating results and cash flows of the Group and the Bank for the year then ended.

II. BASIS FOR AUDIT OPINION

We conducted our audit in accordance with the Auditing Standards for Chinese Certified Public Accountants. Our responsibilities under those standards are further described in the "Certified Public Accountant's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Bank in accordance with the Code of Ethics for Certified Public Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. KEY AUDIT ISSUES

Key audit issues are those matters that, in our professional judgment, are of most significance in our audit of the financial statements of the current year. These issues are addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these issues. We also describe how to address each issue in our audit in that context.

We have fulfilled our responsibilities described in the "Certified Public Accountant's Responsibilities for the Audit of the Financial Statements" section of this report, including responsibilities related to these key audit issues. Accordingly, our audit work includes implementing the audit procedures designed to address the risk of material misstatements in assessed financial statements. The results of our implementation of audit procedures include the procedures implemented to address the following key audit issues, laying the foundation for giving an audit opinion on the financial statements as a whole.

AUDITOR'S REPORT (CONTINUED)

A.Y.H.M. (2022) SH.Z. No. 60466757_A01

Hua Xia Bank Co., Limited

III. KEY AUDIT ISSUES (CONTINUED)

Key audit issue	How to address the issue in audit
<p>Allowance for impairment losses on loans and advances to customers</p> <p>The Group used a number of models and assumptions in the measurement of expected credit loss (ECL). For example:</p> <ul style="list-style-type: none"> Significant increase in credit risk – the determination of significant increase in credit risk depends highly on judgment, which may have a major effect on the ECL of loans with a long residual life; Models and parameters – the models used to measure the ECL are highly complicated, with many model parameter inputs and also many judgments and assumptions involved in the estimation of parameters; Forward-looking information – the impact of macro-economic forecasts based on expert judgments on the ECL, taking into account the weights of different economic scenarios; Individual assessment for impairment – a number of factors are considered in determination of credit impairment, and the ECL measurement depends on the estimation of expected future cash flows. <p>As loan impairment assessment involves many major judgments and assumptions with significant amounts (at 31 December 2021, the loans and advances to customers totaled RMB2,221.449 billion, accounting for 60.43% for total assets; allowance for loan impairment losses totaled RMB58.997 billion), we regard them as a key audit issue.</p> <p>For relevant disclosures, please see Notes IX-8, V-3, IX-6 and XV-3 to the consolidated financial statements.</p>	<p>We have assessed and tested the effectiveness of the design and implementation of key controls related to loan approval, post-lending management, credit rating, collateral management, deferred repayments on principal and interest and loan impairment testing, including related data quality and information systems.</p> <p>We have selected samples to carry out the credit review procedure using a risk-oriented sampling method. We analyzed the debtors' ability to pay and the Group's judgments on loan classification based on the post-lending survey report, the debtors' financial information, the collateral valuation report and other available information.</p> <p>With the assistance from internal credit risk model experts, we have assessed and tested the important parameters of the expected credit loss (ECL) models, significant judgments of the management and the application of related assumptions, with a focus on the following aspects:</p> <ol style="list-style-type: none"> ECL models: <ul style="list-style-type: none"> Assessing the methodologies of ECL models and related parameters, including probability of default, loss given default, risk exposure and significant increase in credit risk, taking into account macroeconomic changes, impact of the COVID-19 pandemic and various supportive policies adopted by the government; Assessing the forward-looking information used by the management in determining the ECL, including the forecast of macroeconomic variables and assumptions regarding multiple macro scenarios; Assessing the management's determination on whether credit impairment has occurred and, for impaired loans and advances to customers, analyzing the amount, time and probability of future cash flows expected by the management, especially the recoverable amount of collateral. Effectiveness of design and implementation of key controls: <ul style="list-style-type: none"> Assessing and testing the data and key controls used to confirm the allowance for ECL, including loan data, internal credit rating data and macroeconomic data, as well as the calculation logic, data inputs and system interface of the impairment system; Assessing and testing the key controls of ECL models, including model change approval, ongoing monitoring of model performance, model validation and parameter calibration. <p>We have assessed and tested the effectiveness of the design and implementation of controls for disclosures related to the Group's credit exposure and ECL.</p>

AUDITOR'S REPORT (CONTINUED)

A.Y.H.M. (2022) SH.Z. No. 60466757_A01

Hua Xia Bank Co., Limited

III. KEY AUDIT ISSUES (CONTINUED)

Key audit issue	How to address the issue in audit
Consolidation of structured entities	<p>In the process of financial investment, asset management, credit asset transfer and other business activities, the Group holds interests in many different structured entities, such as bank wealth management products, funds and trust plans. The Group should comprehensively consider the power it owns, the variable returns it is entitled to and the relationship in between and judge whether the Group has control over each structured entity so that it should be included in the consolidated financial statements.</p> <p>In analyzing whether it has control over a structured entities, the Group should consider a number of factors, including the purpose of setting up the structured entity, the ability of the Group to direct its relevant activities, the interests held directly or indirectly and returns thereon, the management performance rewards received and the rewards or losses incurred by providing credit enhancement or liquidity support. The comprehensive analysis of such factors and the conclusion on control involve significant estimates and judgments of the management. Given the significance of the matter and the complexity of the management's judgments, we regard it as a key audit issue.</p> <p>For relevant disclosures, please see Notes V-4 and XIV to the consolidated financial statements.</p>

IV. OTHER INFORMATION

The senior management of the Bank shall be liable for other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

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

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

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

V. THE SENIOR MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The senior management shall prepare the financial statements in accordance with the Accounting Standards for Enterprises and present them fairly; design, implement and maintain necessary internal controls so that the financial statements are free from material misstatement, whether due to fraud or error.

While drafting the financial statements, the senior management shall assess the business continuity of the Bank, disclose the affairs relating to business continuity (if applicable), and employ the assumption on business continuity, unless it plans to liquidate the Bank or terminate its operation or has no other feasible choice.

The governance body shall oversee the financial reporting process of the Bank.

AUDITOR'S REPORT (CONTINUED)

A.Y.H.M. (2022) SH.Z. No. 60466757_A01

Hua Xia Bank Co., Limited

VI. CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards 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 the financial statements.

As part of an audit in accordance with auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. At the same time we also do the following work:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our auditing opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the senior management.
- (4) Reach a conclusion on the appropriateness of the senior management's using the assumption on business continuity. Conclude based on the audit evidence obtained whether there are material uncertainties on the affairs or conditions which may cast significant doubt on the Bank's business continuity. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, we should issue the non-unqualified auditing opinion. Our conclusions are based on the information obtained up to the issue date of the auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- (5) Evaluate the overall presentation (including disclosures), structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for guiding, overseeing and executing the group-wide audit, and assume full liability for the audit opinion.



AUDITOR'S REPORT (CONTINUED)

A.Y.H.M. (2022) SH.Z. No. 60466757_A01

Hua Xia Bank Co., Limited

VI. CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

From the matters communicated with the governance body, we determine those matters that are of the most significance in the audit of the financial statements of the current period and are therefore the key audit issues. We describe these issues in our auditor's report unless law or regulation precludes public disclosure about the issues or when, in extremely rare circumstances, we determine that an issue 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.

Ernst & Young Hua Ming LLP

Certified Public
Accountants
Registered in China

Zhang Fan
(Engagement Partner)

Certified Public
Accountants
Registered in China

Jiang Changzheng

Beijing, China

28 April 2022

BALANCE SHEET OF THE GROUP AND THE BANK

31 December 2021

(In RMB millions, unless otherwise stated)

	Note IX	The Group		The Bank	
		31 December 2021	31 December 2020	31 December 2021	31 December 2020
Assets					
Cash on hand and balances with central banks	1	186,174	204,082	185,839	203,182
Due from banks	2	17,703	18,505	17,680	18,356
Placements with banks and other financial institutions	3	83,263	36,470	91,772	38,380
Derivative financial assets	4	8,199	12,361	8,199	12,361
Financial assets purchased under agreements to resell	5	18,390	24,776	12,611	23,582
Loans and advances to customers	6	2,162,966	2,059,825	2,043,989	1,948,555
Financial investments					
Held-for-trading financial assets	7	234,757	123,848	233,267	123,547
Debt investments	8	718,266	702,909	715,904	700,879
Other debt investments	9	196,272	172,926	194,698	172,926
Other equity instrument investments	10	6,924	5,484	6,605	5,472
Long-term equity investments	11	–	–	8,090	8,090
Fixed assets	12	13,825	13,584	13,501	13,553
Right-of-use assets	13	6,352	N/A	6,129	N/A
Intangible assets		94	86	71	73
Deferred income tax assets	14	10,169	10,155	9,217	9,432
Other assets	15	12,933	14,805	10,049	13,049
Total assets		3,676,287	3,399,816	3,557,621	3,291,437

BALANCE SHEET OF THE GROUP AND THE BANK (CONTINUED)

31 December 2021

(In RMB millions, unless otherwise stated)

	Note IX	The Group		The Bank	
		31 December 2021	31 December 2020	31 December 2021	31 December 2020
Liabilities					
Due to central banks	17	149,714	131,036	149,677	130,939
Due to banks and other financial institutions	18	542,028	434,992	542,185	440,136
Placements from banks and other financial institutions	19	113,916	109,017	21,150	19,905
Financial liabilities for trading		206	–	206	–
Derivative financial liabilities	4	7,882	12,365	7,882	12,365
Financial assets sold under agreements to repurchase	20	46,511	49,155	46,511	47,975
Deposits taken	21	1,927,349	1,837,020	1,925,187	1,834,258
Accrued payroll	22	6,994	6,961	6,813	6,802
Taxes and dues payable	23	7,613	7,740	7,108	7,257
Lease liabilities	24	6,053	N/A	5,835	N/A
Debt obligations payable	25	547,248	511,814	538,544	504,702
Projected liabilities	26	2,355	2,309	2,338	2,302
Other liabilities	27	17,716	14,752	11,913	8,283
Total liabilities		3,375,585	3,117,161	3,265,349	3,014,924
Equity					
Share capital	28	15,387	15,387	15,387	15,387
Other equity instruments	29	59,971	59,971	59,971	59,971
Of which: Preference shares		19,978	19,978	19,978	19,978
Perpetual bonds		39,993	39,993	39,993	39,993
Capital reserve	30	53,292	53,292	53,291	53,291
Other comprehensive income	43	833	(714)	833	(706)
Surplus reserve	31	19,747	17,756	19,747	17,756
General risk reserve	32	43,631	38,683	42,104	37,424
Retained profit	33	105,431	96,238	100,939	93,390
Total equity attributable to shareholders of the parent company		298,292	280,613	292,272	276,513
Minority entity		2,410	2,042	–	–
Total shareholders' equity		300,702	282,655	292,272	276,513
Total liabilities and equity		3,676,287	3,399,816	3,557,621	3,291,437

The accompanying notes are an integral part of these financial statements

The financial statements on pages 127-259 are signed by:

Legal representative	President	Principal of Financial Affairs	Seal
Li Minji	Li Minji (proxy)	Guan Wenjie	

INCOME STATEMENT OF THE GROUP AND THE BANK

2021

(In RMB millions, unless otherwise stated)

	Note IX	The Group		The Bank	
		2021	2020	2021	2020
I. Operating income		95,870	95,309	90,504	90,622
Net interest income	34	79,605	81,967	74,780	77,363
Interest income		152,841	147,239	144,822	139,767
Interest expense		(73,236)	(65,272)	(70,042)	(62,404)
Net fee and commission income	35	9,252	10,558	8,791	10,512
Fee and commission income		13,388	14,207	13,294	14,215
Fee and commission expenses		(4,136)	(3,649)	(4,503)	(3,703)
Investment loss/(gain)	36	4,068	1,870	4,040	1,870
Of which: Gains on derecognition of financial assets measured at amortized cost		4	—	4	—
Gains on changes in fair value	37	2,410	503	2,403	503
Exchange gains	38	325	192	325	192
Other operating income		169	192	150	155
Profit/loss from the disposal of assets		(8)	3	(8)	3
Other income		49	24	23	24
II. Operating expenses		(64,332)	(68,158)	(61,675)	(65,707)
Tax and surcharges	39	(1,028)	(1,076)	(987)	(1,039)
General and administrative expenses	40	(27,863)	(26,622)	(27,188)	(26,240)
Impairment losses on credit	41	(35,198)	(40,010)	(33,281)	(37,992)
Other impairment losses on assets		(178)	(421)	(177)	(421)
Other business costs		(65)	(29)	(42)	(15)
III. Operating profit		31,538	27,151	28,829	24,915
Plus: Non-operating income		175	160	152	134
Less: Non-operating expenses		(220)	(158)	(220)	(156)
IV. Total profit		31,493	27,153	28,761	24,893
Less: Income tax expense	42	(7,590)	(5,585)	(7,138)	(4,979)
V. Net profit		23,903	21,568	21,623	19,914
i. Classified by operational continuity					
1. Net profit from continuous operation		23,903	21,568	21,623	19,914
2. Net profit from ceased operation		—	—	—	—
ii. Classified by ownership affiliation					
1. Net profit attributable to shareholders of the parent company		23,535	21,275	21,623	19,914
2. Minority shareholders' gains/losses		368	293	—	—
VI. After-tax other comprehensive income	43	1,556	(1,639)	1,548	(1,634)
i. Other comprehensive income not to be classified as profit/loss		(126)	(215)	(133)	(210)
1. Changes in fair value of other equity instrument investments		(126)	(215)	(133)	(210)
ii. Other comprehensive income to be classified as profit/loss		1,682	(1,424)	1,681	(1,424)
1. Change in fair value of financial assets measured at fair value through other comprehensive income		1,593	(1,341)	1,592	(1,341)
2. Change in fair value of allowances for credit losses on investment in financial assets measured at fair value through other comprehensive income		83	(83)	83	(83)
3. Difference from foreign currency translation		6	—	6	—
After-tax other comprehensive income attributable to shareholders of the parent company		1,556	(1,639)	1,548	(1,634)
After-tax other comprehensive income attributable to minority shareholders		—	—	—	—
VII. Total Comprehensive Income		25,459	19,929	23,171	18,280
Total comprehensive income attributable to shareholders of the parent company		25,091	19,636	23,171	18,280
Total comprehensive income attributable to minority shareholders		368	293	—	—
VIII. Earnings per share					
Basic earnings per share (RMB yuan)	44	1.35	1.20		

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS OF THE GROUP AND THE BANK

2021

(In RMB millions, unless otherwise stated)

	Note IX	The Group		The Bank	
		2021	2020	2021	2020
Cash flows from operating activities					
Net increase in customer deposits and due to banks and other financial institutions		192,307	294,341	187,945	297,718
Net decrease in balances with central banks and due from banks and other financial institutions		5,157	2,134	4,839	2,087
Net increase in placements from banks and other financial institutions and financial assets purchased under agreements to resell		2,437	–	–	–
Net increase in business debt obligations payable		10,121	65,077	10,121	65,077
Net increase in due to central banks		18,440	–	18,500	–
Proceeds from interest and fee & commission		133,838	129,721	125,871	122,333
Other proceeds received related to operating activities		5,714	1,796	5,665	1,503
Sub-total of cash inflows from operating activities		368,014	493,069	352,941	488,718
Net increase in loans and advances to customers		(127,409)	(266,629)	(117,832)	(249,974)
Net decrease in placements from banks and other financial institutions and financial assets purchased under agreements to resell		–	(39,485)	(195)	(51,784)
Net increase in placements with banks and other financial institutions and financial assets purchased under agreements to resell		(49,873)	(26,069)	(58,373)	(25,568)
Net decrease in due to central banks		–	(11,654)	–	(11,700)
Net increase in held-for-trading financial assets		(12,293)	(9,324)	(12,014)	(9,023)
Cash paid as interest and fee & commission expenses		(67,137)	(61,653)	(64,535)	(59,047)
Cash paid to and for employees		(15,700)	(14,670)	(15,209)	(14,411)
Taxes and dues paid		(16,163)	(12,296)	(15,464)	(11,607)
Other cash paid related to operating activities		(8,424)	(16,530)	(6,509)	(16,182)
Sub-total of cash outflows from operating activities		(296,999)	(458,310)	(290,131)	(449,296)
Net cash flows from operating activities	46	71,015	34,759	62,810	39,422
Cash flows from investing activities					
Proceeds from disposal of investments		642,617	498,658	640,971	498,079
Investment gains received		38,847	36,797	38,732	36,716
Net gains on disposal of fixed assets, intangible assets and other long-term assets		348	206	59	204
Sub-total of cash inflows from investing activities		681,812	535,661	679,762	534,999
Acquisition of investments		(783,881)	(596,099)	(779,153)	(595,166)
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(1,652)	(1,266)	(1,065)	(1,260)
Cash paid for acquisition of subsidiaries		–	–	–	(3,000)
Sub-total of cash outflows from investing activities		(785,533)	(597,365)	(780,218)	(599,426)
Net cash flows from investing activities		(103,721)	(61,704)	(100,456)	(64,427)

STATEMENT OF CASH FLOWS OF THE GROUP AND THE BANK (CONTINUED)

2021

(In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note IX	2021	2020	2021	2020
Cash flows from financing activities					
Proceeds from issuance of bonds		71,000	65,000	67,000	63,000
Sub-total of cash inflows from financing activities		71,000	65,000	67,000	63,000
Cash paid for debt repayment		(45,500)	(22,000)	(43,000)	(22,000)
Cash paid for dividends and profit distribution or interest repayment		(12,719)	(10,776)	(12,453)	(10,583)
Cash payments for principal and interest on lease liabilities		(2,331)	N/A	(2,263)	N/A
Sub-total of cash outflows from financing activities		(60,550)	(32,776)	(57,716)	(32,583)
Net cash flows from financing activities		10,450	32,224	9,284	30,417
Effect of exchange rate changes on cash and cash equivalents		(479)	(582)	(479)	(582)
Net change of cash and cash equivalents	46	(22,735)	4,697	(28,841)	4,830
Plus: Opening balance of cash and cash equivalents		97,364	92,667	96,997	92,167
Closing balance of cash and cash equivalents	45	74,629	97,364	68,156	96,997

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 January to 31 December 2021

(In RMB millions, unless otherwise stated)

	Note IX	Equity attributable to shareholders of the parent company							Minority entity	Total
		Share capital	Other equity instruments	capital reserve	comprehensive income	Surplus reserve	General risk reserve	Retained profit		
I. Balance as at 1 January 2021		15,387	59,971	53,292	(714)	17,756	38,683	96,238	280,613	282,655
II. Changes during the year										
i. Net profit		-	-	-	-	-	-	23,535	23,535	23,903
ii. Other comprehensive income	43	-	-	-	1,556	-	-	-	1,556	1,556
Subtotal of the above i and ii		-	-	-	1,556	-	-	23,535	25,091	25,459
iii. Profit distribution										
1. Surplus reserve withdrawn	33	-	-	-	-	1,991	-	(1,991)	-	-
2. General risk reserve allocated	33	-	-	-	-	-	4,948	(4,948)	-	-
3. Distribution of dividends on ordinary shares	33	-	-	-	-	-	-	(4,632)	(4,632)	(4,632)
4. Profit distribution to holders of other equity instruments	33	-	-	-	-	-	-	(2,780)	(2,780)	(2,780)
iv. Internal transfer of owner's equity										
1. Other comprehensive income transferred to retained earnings	43	-	-	-	(9)	-	-	9	-	-
III. Balance as at 31 December 2021		15,387	59,971	53,292	833	19,747	43,631	105,431	298,292	300,702

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

1 January to 31 December 2021

(In RMB millions, unless otherwise stated)

	Note IX	Share capital	Other equity instruments	Equity attributable to shareholders of the parent company					Sub-total	Minority entity	Total
				capital reserve	comprehensive income	Other income	Surplus reserve	General risk reserve	Retained profit		
I. Balance as at 1 January 2020		15,387	59,971	53,292	1,084		15,682	34,706	87,486	267,588	269,337
II. Changes during the year											
i. Net profit		-	-	-	-	-	-	-	21,275	21,275	21,568
ii. Other comprehensive income	43	-	-	-	(1,639)	-	-	-	-	(1,639)	(1,639)
Subtotal of the above i and ii		-	-	-	(1,639)	-	-	-	21,275	19,636	19,929
iii. Profit distribution											
1. Surplus reserve withdrawn	33	-	-	-	-	-	2,094	-	(2,094)	-	-
2. General risk reserve allocated	33	-	-	-	-	-	-	3,977	(3,977)	-	-
3. Distribution of dividends on ordinary shares	33	-	-	-	-	-	-	-	(3,831)	(3,831)	(3,831)
4. Profit distribution to holders of other equity instruments	33	-	-	-	-	-	-	-	(2,780)	(2,780)	(2,780)
iv. Internal transfer of owner's equity											
1. Other comprehensive income transferred to retained earnings	43	-	-	-	(159)	-	-	-	159	-	-
III. Balance as at 31 December 2020		15,387	59,971	53,292	(714)		17,756	38,683	96,238	280,613	282,655

The accompanying notes are an integral part of these financial statements

BANK STATEMENT OF CHANGES IN EQUITY

1 January to 31 December 2021

(In RMB millions, unless otherwise stated)

	Note IX	Share capital	Other equity instruments	capital reserve	comprehensive income	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Total
I. Balance as at 1 January 2021		15,387	59,971	53,291	(706)		17,756	37,424	93,390	276,513
II. Changes during the year										
i. Net profit		-	-	-	-	-	-	-	21,623	21,623
ii. Other comprehensive income	43	-	-	-	1,548		-	-	-	1,548
Subtotal of the above i and ii		-	-	-	1,548		-	-	21,623	23,171
iii. Profit distribution										
1. Surplus reserve withdrawn	33	-	-	-	-		1,991	-	(1,991)	-
2. General risk reserve allocated	33	-	-	-	-		-	4,680	(4,680)	-
3. Distribution of dividends on ordinary shares	33	-	-	-	-		-	-	(4,632)	(4,632)
4. Profit distribution to holders of other equity instruments	33	-	-	-	-		-	-	(2,780)	(2,780)
iv. Internal transfer of owner's equity										
1. Other comprehensive income transferred to retained earnings	43	-	-	-	(9)		-	-	9	-
III. Balance as at 31 December 2021		15,387	59,971	53,291	833		19,747	42,104	100,939	292,272

BANK STATEMENT OF CHANGES IN EQUITY (CONTINUED)

1 January to 31 December 2021

(In RMB millions, unless otherwise stated)

	Note IX	Share capital	Other equity instruments	capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Total
I. Balance as at 1 January 2020		15,387	59,971	53,291	1,087	15,662	33,753	85,693	264,844
II. Changes during the year									
i. Net profit		-	-	-	-	-	-	19,914	19,914
ii. Other comprehensive income	43	-	-	-	(1,634)	-	-	-	(1,634)
Subtotal of the above i and ii		-	-	-	(1,634)	-	-	19,914	18,280
iii. Profit distribution									
1. Surplus reserve withdrawn	33	-	-	-	-	2,094	-	(2,094)	-
2. General risk reserve allocated	33	-	-	-	-	-	3,671	(3,671)	-
3. Distribution of dividends on ordinary shares	33	-	-	-	-	-	-	(3,831)	(3,831)
4. Profit distribution to holders of other equity instruments	33	-	-	-	-	-	-	(2,780)	(2,780)
iv. Internal transfer of owner's equity									
1. Other comprehensive income transferred to retained earnings	43	-	-	-	(159)	-	-	159	-
III. Balance as at 31 December 2020		15,387	59,971	53,291	(706)	17,756	37,424	93,390	276,513

The accompanying notes are an integral part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS

1 January to 31 December 2021 (In RMB millions, unless otherwise stated)

I. PROFILE OF THE BANK

Hua Xia Bank Co., Limited (hereinafter “the Bank”), formerly known as Hua Xia Bank, was established as a nationwide commercial bank on 14 October 1992 with the approval of People's Bank of China (“PBOC”). On 10 April 1996, Hua Xia Bank was approved by PBOC to be restructured as a joint-stock limited company by means of promoter incorporation, and then renamed as Hua Xia Bank Co., Limited. On 21 July 2003, the Bank obtained approval from China Securities Regulatory Commission (“CSRC”) for offering of A shares. On 12 September 2003, the Bank was listed.

The Bank held the License for Financial Business (No. B0008H111000001) upon approval by China Banking Regulatory Commission (“CBRC”) (now renamed into “China Banking and Insurance Regulatory Commission”, “the former CBRC” or “CBIRC”), and it acquired the Business License for Enterprises with a unified social credit code of 9111000010112001XW upon approval by the Beijing Administration for Industry and Commerce (now remained into “Beijing Municipal Administration for Market Regulation”).

As at 31 December 2021, in addition to the Head Office, the Bank had established 44 tier-1 branches in Chinese mainland, with outlets totaling 1,008.

The business scope of the Bank and its subsidiaries (collectively referred to as the “Group”) covers: public deposit-taking, granting of short, medium and long-term loans; domestic and international settlement, bill acceptance and discount, issuance of financial bonds, issuance, encashment and underwriting of government bonds as an agent, trading of government bonds and financial bonds, inter-bank lending and borrowing, trading of foreign exchange on its own behalf and as an agent, bank card service, provision of letter of credit and letter of guarantee, collection and payment service as an agent, safety box service, foreign exchange settlement and sale, sideline insurance agency, leasing service and other services approved by CBIRC.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Basis of preparation

The Group follows the Accounting Standards for Business Enterprises and relevant rules (hereinafter referred to as “Accounting Standards for Business Enterprises”) promulgated by the Ministry of Finance of PRC (the “MOF”). Besides, the Group also discloses relevant financial information in accordance with the *Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 15 – General Provisions on Financial Report* issued by CSRC.

Ongoing concern

The Group has assessed its ability to sustain ongoing operation over the 12 months since 31 December 2021, finding no issue or condition that incurs a material ongoing concern. Therefore, the financial statements are drafted on the assumption of ongoing operation.

III. DECLARATION ON COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements prepared by the Group truly and fairly represent the financial position of the Group and the Bank as at 31 December 2021, and the operating results, cash flows and equity changes of the Group and the Bank for the year then ended, in compliance with the Accounting Standards for Business Enterprises.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting period

The accounting period of the Group begins on 1 January and ends on 31 December of the Gregorian calendar.

2. Bookkeeping base currency

Renminbi is the functional currency in the major economic environments of the operating activities of the Bank and its subsidiaries. The Bank and its subsidiaries take Renminbi as the bookkeeping base currency. The Bank and its subsidiaries adopt Renminbi in the preparation of these financial statements.

3. Basis of accounting and measurement

The Group's accounting is on an accrual basis. Except some financial instruments that are measured at fair value, these financial statements are measured on the basis of historical costs. In case of impairment losses on assets, corresponding allowance for impairment losses shall be set aside according to relevant rules.

Measured on the basis of historical costs, assets shall be measured at the amount of cash or cash equivalents paid for purchasing them or the fair value of the consideration received. Liabilities shall be measured at the proceeds or assets received upon the assumption of obligations, or the contractual amount received upon the assumption of obligations, or the amount of cash or cash equivalents expected to be paid for debt repayment in daily activities.

Fair value refers to the amount received from selling an asset or the amount to be paid for transferring a liability by market players in orderly transactions on the measurement date. Whether the fair value is observed or estimated with valuation techniques, it is the basis of the fair value measured and disclosed in these financial statements.

If the fair value of a financial asset is set at its transaction price upon initial recognition and subsequently measured using a valuation technique involving non-observable inputs, the valuation technique will be calibrated in the valuation process so that the initial recognition result determined by the valuation technique is equal to the transaction price.

Fair value is measured based on the observability of the input value of fair value and the overall importance of such input value to measurement of fair value, and divided into the following three levels:

The input value at Level 1 is the unadjusted quotation of the same assets or liabilities obtainable in the active market on the measurement date.

The input value at Level 2 is the directly or indirectly observable input value of related assets or liabilities other than the input value in Level 1.

The input value at Level 3 is the unobservable input value of related assets or liabilities.

4. Business combination

Business combination not under common control and goodwill

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

Combination cost is the fair value of the assets paid, liabilities occurred or assumed and equity instruments issued by the buyer for acquiring the control right of the acquiree. The audit, legal service, valuation, advisory and other intermediary fees and other relevant administrative expenses incurred by the buyer for combination of businesses are recorded in profit or loss upon occurrence.

At the acquisition date, identifiable assets, liabilities or contingent liabilities of the acquiree acquired by the buyer in the business combination are measured at fair value.

For the balance between the combination cost and the fair value share of identifiable net assets of acquiree acquired during the business combination, it will be recognized into goodwill as an asset and initially measured at cost. If the combination cost is less than the fair value share of identifiable net assets of the acquiree acquired in the combination, the Group first reviews the fair value of acquired identifiable assets, liabilities and contingent liabilities of the acquiree and the measurement of combination cost. If the combination cost after review is still less than the fair value share of identifiable net assets of the acquiree acquired in the combination, it will be recorded in profit or loss.

Goodwill arising from business combination will be separately presented in the consolidated financial statements, and will be measured at the amount generated from the cost deducting accumulative allowance for impairment losses.

5. Preparation of consolidated financial statements

The consolidated scope of the consolidated financial statements shall be determined based on control. Control means that the Group has power over the investee, obtains variable return by participating in related activities of the investee and is able to influence its return amount by its power over the investee. Once the actors involved in the above definition of control change due to any changes in relevant facts and circumstances, the Group will conduct a re-assessment.

The combination of a subsidiary starts when the Group gains control over the subsidiary and ends when the Group loses control over the subsidiary.

For subsidiaries disposed of by the Group, operating results and cash flows prior to the disposal date (date of losing control right) have been properly included in the consolidated income statement and the consolidated statement of cash flows.

For subsidiaries acquired by business combination under different control rights, operating results and cash flows as of the acquisition date (date of obtaining control right) have been properly included in the consolidated income statement and the consolidated statement of cash flows, and the opening balance and comparison amount of the consolidated financial statements will not be adjusted.

The major accounting policies and accounting period adopted by subsidiaries shall be determined based on those uniformly prescribed by the Bank.

All material accounts and transactions between the Bank and a subsidiary and among subsidiaries shall be offset at the time of business combination.

The part of the owners' equity of the subsidiaries not attributable to the parent company will be recognized as minority interest and be presented as "minority interests" under the item "shareholders' equity" of the financial statements. The part of the current profit or loss of the subsidiaries recognized as minority interests shall be presented as "minority interests" under the "net profit" item in the consolidated income statement.

If the loss of a subsidiary borne by a minority shareholder exceeds its share of equity at the beginning of the period in this subsidiary, the balance will be written off against the minority interests.

6. Recognition of the cash and cash equivalents

Cash refers to the cash on hand and deposits available for payment at any time. Cash equivalents refer to short-term investments with high liquidity held by the Group which are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

7. Foreign currency transactions

In the initial recognition of foreign currency transactions, the spot exchange rate on the transaction date shall be adopted. On the balance sheet date, foreign currency items shall be translated to RMB amounts by the spot exchange rate. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and that in the initial recognition or prior to the balance sheet date is recorded into current profit or loss, except the following circumstances: (1) the balance of exchange arising from foreign currency borrowings eligible for capitalization is recognized into cost of relevant assets after capitalization during the capitalization period; (2) balance of exchange arising from hedging instruments that are used to avoid foreign exchange risks will be treated by the accounting treatment to hedging; (3) balance of exchange arising from changes in book balance other than the amortized cost of monetary items measured at fair value through other comprehensive income is recognized as other comprehensive income.

The foreign currency-denominated non-monetary items measured at historical cost shall be recorded by the amount presented in the bookkeeping base currency converted by the spot exchange rate on the transaction date. Foreign currency-denominated non-monetary items measured at fair value shall be converted by the spot exchange rate on the determination date of fair value. The difference between the amount in the post-conversion bookkeeping base currency and that in the original bookkeeping base currency is recorded in current profit or loss or recognized as other comprehensive income as change in fair value (including change in exchange rate).

8. Financial instruments

A financial asset or financial liability is recognized when the Group becomes a party to a financial instrument contract.

For a financial asset purchased or sold in a regular manner, the asset to be received or liability to be assumed will be recognized at the transaction date or the sold asset will be derecognized at the transaction date.

A financial asset or liability is measured at fair value upon initial recognition. For financial assets and financial liabilities measured at fair value through profit or loss, the transaction costs thereof are directly recorded through profit or loss; for other categories of financial assets and financial liabilities, the transaction expenses thereof are included in the initially recognized amount.

Effective interest rate method is the method of calculating the amortized cost of a financial asset or financial liability and amortizing interest income/expenses over accounting periods.

Effective interest rate refers to the interest rate used when discounting the future cash flows of a financial asset or financial liability over its estimated lifetime into the book value of the financial asset or the amortized cost of the financial liability. Upon confirming the effective interest rate, the expected cash flow should be estimated based on the consideration of all contract terms of financial assets or financial liabilities (such as prepayment, extension, call option or other similar options), but the expected credit loss should not be considered.

The amortized cost of a financial asset or financial liability is calculated by deducting the repaid principal from the initially recognized amount of the financial asset or financial liability, then adding or subtracting the accumulated amortization amount generated by amortizing the difference between the initial recognition amount and the maturity-date amount using the effective interest rate method, and finally deducting the accumulated allowance for impairment losses (for the financial asset only).

8.1 Classification, recognition and measurement of financial assets

After initial recognition, the Group subsequently measures financial assets at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss as appropriate.

If the contractual terms of a financial asset give rise on specified dates to cash flows that were solely payments of principal and interest on the principal amounts outstanding and the financial asset is managed by the Group in a business model whose objective is achieved by collecting contractual cash flows, the financial asset will be classified as financial asset measured at amortized cost. These financial assets mainly include cash on hand and balances with central banks, due from banks, placements with banks and other financial institutions, financial assets purchased under agreements to resell, loans and advances to customers measured at amortized cost and debt investments.

If the contractual terms of a financial asset give rise on specified dates to cash flows that were solely payments of principal and interest on the principal amounts outstanding and the financial asset is managed by the Group in a business model whose objective is achieved by both collecting contractual cash flows and selling financial asset, the financial asset will be classified as debt instrument investment measured at fair value through other comprehensive income.

Upon initial recognition, the Group may, based on a single financial asset, irrevocably designate equity instrument investments not held for trading as financial assets measured at fair value through other comprehensive income. Such financial assets are stated as other equity instrument investments.

If a financial asset meets any of the following conditions, the Group holds the financial asset for trading purposes:

- (1) The purpose of acquiring relevant financial assets is mainly for selling in a short term;
- (2) The financial asset is part of a recognizable financial instrument portfolio under centralized management upon initial recognition and there is objective evidence proving that there is a short-term profit-making method;
- (3) The financial asset is a derivative instrument, except for the derivative instrument that meets the definition of financial guarantee contract and is designated as effective hedging instrument.

Financial assets measured at fair value through profit or loss include financial assets classified as at fair value through profit or loss and financial assets designated at fair value through profit or loss:

- (1) Financial assets not eligible for classification as financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss;
- (2) Upon initial recognition, to eliminate or significantly reduce accounting mismatches, the Group may irrevocably designate financial assets as measured at fair value through profit or loss.

Except for derivative financial assets, financial assets measured at fair value through profit or loss are stated as held-for-trading financial assets.

Financial assets measured at amortized cost

Financial assets measured at amortized cost are subsequently measured at amortized cost using the effective interest rate method, and the gains or losses arising from impairment or derecognition are recorded through current profit or loss.

The Group recognizes interest income on financial assets measured at amortized cost using the effective interest rate method. The Group calculates and determines the interest income on a financial asset by multiplying its book balance by effective interest rate, unless in the following circumstances:

- (1) For a purchased or originated credit-impaired financial asset, the Group calculates and determines its interest income since initial recognition at the amortized cost of the financial asset and credit-adjusted effective interest rate.
- (2) For a purchased or originated non-credit-impaired financial asset that has become credit-impaired in subsequent periods, the Group calculates and determines its interest income during subsequent periods at the amortized cost of the financial asset and effective interest rate. If the financial instrument ceases to be credit-impaired in subsequent periods due to credit risk improvements that are linked to an event that occurs after application of the above provisions, the Group will shift to calculating and determining the interest income by multiplying the book value of the financial asset by effective interest rate.

Financial assets measured at fair value through other comprehensive income

Impairment losses or gains on debt instrument investments measured at fair value through other comprehensive income, their interest income calculated using the effective interest rate method and their exchange gains are recorded through current profit or loss. Other changes in fair value of these financial assets are recorded through other comprehensive income. The amount of the financial asset stated in the profit or loss for each period is equal to that stated in profit or loss for each period as if it were always measured at amortized cost. Upon derecognition of the financial asset, the accumulated gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income to current profit or loss.

Changes in the fair value of not-held-for-trading equity instrument investment designated at fair value through other comprehensive income are recognized in other comprehensive income. Upon derecognition of the financial asset, accumulated gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income to retained earnings. During the period when the Group holds such not-held-for-trading equity instrument investments, dividend income is recognized and recorded in current profit or loss when the Group's right to dividend is established and the economic benefits related to the dividend in a reliably measurable amount is likely to flow into the Group.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are subsequently measured at fair value, and any gain or loss arising from changes in fair value, as well as dividends and interest income relating to such financial assets will be recorded through current profit or loss.

8.2 Impairment of financial instruments

The Group accounts for impairment and recognizes allowance for impairment losses based on ECL for financial assets measured at amortized cost, debt instrument investments measured at fair value through other comprehensive income, financial lease receivables and loan commitments other than financial liabilities measured at fair value through profit or loss.

For other financial instruments, except for purchased or originated credit-impaired financial assets, the Group assesses the changes in credit risk of relevant financial instruments after initial recognition on each balance sheet date. If the financial instrument has had a significant increase in credit risk since initial recognition, the Group will measure the allowance for impairment losses on the financial instrument at an amount equal to its lifetime ECL. If the financial instrument has not had a significant increase in credit risk since initial recognition, the Group will measure the allowance for impairment losses on the financial instrument at an amount equal to its 12-month ECL. The increase or reversal of allowance for credit losses, except for debt instrument investments measured at fair value through other comprehensive income, is recorded into current profit or loss as impairment losses or gains. For a debt instrument investment measured at fair value through other comprehensive income, the Group recognizes its allowance for credit losses in other comprehensive income, and recorded the impairment losses or gains in current profit or loss without reducing book value of the financial asset listed in the balance sheet.

Where the Group measured the allowance for impairment losses on a financial instrument at an amount equal to its lifetime ECL during the previous accounting period but the financial instrument no longer has had a significant increase in credit risk since initial recognition on the current balance sheet date, the Group will measure the allowance for impairment losses on the financial instrument at an amount equal to its 12-month ECL on the current balance sheet date, and the resulting reversal of allowance for impairment losses will be recorded in current profit or loss as impairment gains.

8.2.1 Significant increase in credit risk

The Group uses reasonable and supportable forward-looking information that is available to determine whether a financial instrument has had a significant increase in credit risk since initial recognition by comparing the default risk of the financial instrument on the balance sheet date with the default risk at the initial recognition date. For loan commitments, the Group takes the date when the Group becomes the party making irrevocable commitments as the initial recognition date for applying the rules for impairment of financial instruments.

In assessing whether credit risk has increased significantly since initial recognition, the Group will compare the default risk of the financial instrument on the report date and its default risk upon initial recognition. In such assessment, the Group will consider reasonable and supportable quantitative and qualitative information, including historical experience and forward-looking information that is available without undue cost or effort. For the criteria for significant increase in credit risk, please see Note XV-3.1 Credit Risk Management.

8.2.2 Credit-impaired financial assets

When the Group expects one or more events to occur that will have a detrimental impact on the future cash flows of a financial asset, the financial asset becomes a credit-impaired financial asset. Evidence that a financial asset is credit-impaired include observable information. Please see Note XV-3.1 Credit Risk Management.

8.2.3 Determination of expected credit loss

ECL is measured based on probability of default, loss given default and exposure at default. For measurement and recognition of ECL, please see Note XV-3.1 Credit Risk Management.

8.2.4 Write-down of financial assets

When the Group no longer reasonably expects the contractual cash flow of a financial asset to be fully or partially recovered, the book balance of the financial asset is directly written down. Such write-down of financial assets constitutes derecognition of financial assets.

8.3 Transfer of financial assets

Where a financial asset meets any of the following conditions, it will be derecognized:

- (1) Where the contractual rights for collecting cash flows of the said financial asset are terminated;
- (2) Where the financial asset has been transferred and nearly all of the risks and returns in connection with the ownership of the financial asset have been shifted to the transferee;
- (3) Where the financial asset has been transferred and the Group has not retained control over the financial asset, though it does not transfer or retain almost all of the risks and returns in connection with the ownership of the financial asset.

In case that the Group neither transfers nor retains almost all the risks and returns relevant to ownership of the financial asset and it does not waive control over the financial asset, it shall continue to recognize the transferred financial asset based on the degree of subsequent involvement and concurrently recognize relevant liabilities. The Group measures relevant liabilities as follows:

- (1) If the transferred financial asset is measured at amortized cost, the book value of the relevant liability is equal to the book value of the transferred financial asset with continuing involvement less the amortized cost of the rights retained by the Group (if the Group retains relevant rights due to the transfer of financial asset) and plus the amortized cost of the obligation assumed by the Group (if the Group assumes relevant obligation due to the transfer of financial asset). The relevant liability is not designated as the financial liability at fair value through profit or loss.
- (2) If the transferred financial asset is measured at fair value, the book value of the relevant liability is equal to the book value of the transferred financial asset with continuing involvement less the fair value of the rights retained by the Group (if the Group retains relevant rights due to the transfer of financial asset) and plus the fair value of the obligation assumed by the Group (if the Group assumes relevant obligation due to the transfer of financial asset). The fair value of such rights and obligations is the fair value when measured on an independent basis.


When a fully transferred financial asset meets derecognition conditions, the difference between (a) the book value of the transferred financial asset at derecognition date and (b) the sum of the consideration for the transferred financial asset and the corresponding derecognized part of the accumulated changes in fair value originally recorded into other comprehensive income will be recorded through profit or loss. If the financial asset transferred by the Group is not-held-for-trading equity instrument investment measured at fair value through other comprehensive income, the accumulated gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income to retained earnings.

When the partially transferred financial asset meets the conditions for derecognition, the pre-transfer book value of the entire financial asset is apportioned between the derecognized part and still-recognized part at their respective fair value on the transfer date, and the difference between (a) the sum of the received consideration for the derecognized part and the corresponding derecognized part of the accumulated changes in fair value originally recorded into other comprehensive income and (b) the book value of the derecognized part on derecognition date will be recorded through profit or loss. If the financial asset transferred by the Group is not-held-for-trading equity instrument investment measured at fair value through other comprehensive income, the accumulated gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income to retained earnings.

If the transfer of an entire financial asset does not meet derecognition conditions, the Group will continue to recognize the transferred financial asset in its entirety and recognize the received consideration as financial liability.

Asset securitization

As part of the operating activity, the Group securitizes credit assets in part generally by selling such assets to a structured entity, which then issues securities to investors. Interests in securitized financial assets are classified into senior asset-backed securities and junior asset-backed securities. After payment of relevant taxes and expenses, credit assets are first used to pay the principal and interest on senior asset-backed securities. The remaining credit assets after full payment of principal and interest are recognized as income from junior asset-backed securities.



In applying the accounting policy for a securitized financial asset, the Group has considered the degree of risk and return on the asset transferred to any other entity and the degree of control exercised by the Group over the entity:

- (1) When the Group has transferred substantially all the risk and return on the ownership of the financial asset, the Group derecognizes the financial asset;
- (2) When the Group retains substantially all the risk and return on the ownership of the financial asset, the Group continues to recognize the financial asset;
- (3) If the Group neither transfers nor retains substantially all the risk and return on the ownership of the financial asset, the Group considers whether it has controls over the financial asset or not. If the Group retains no control, the Group derecognizes the financial asset and recognizes the right and obligation generated or retained in the transfer as asset or liability respectively. If the Group retains control, the financial asset is recognized according to the degree of continuing involvement in the financial asset.

8.4 Classification of financial liabilities and equity instruments

The Group classifies the financial instruments or their components into financial liabilities or equity instruments in the initial recognition, based on contractual clauses regarding the financial instruments issued and their underlying economic substance instead of the legal form only, with reference to the definition of financial liability and equity instrument.

8.4.1 Classification, recognition and measurement of financial liabilities

In the initial recognition, financial liabilities are classified into financial liabilities measured at fair value through profit or loss and other financial liabilities.

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include held-for-trading financial liabilities (including derivative instruments classified as financial liabilities) and those designated as financial liabilities measured at fair value through profit or loss. Except for derivative financial liabilities stated separately, financial liabilities measured at fair value through profit or loss are stated as held-for-trading financial liabilities.

If a financial liability meets any of the following conditions, the Group assumes the financial liability for trading purposes:

- (1) The purpose of assuming relevant financial assets is mainly for repurchase in a short term;
- (2) The financial liability is part of a recognizable financial instrument portfolio under centralized management upon initial recognition and there is objective evidence proving that there is a short-term profit-making method.
- (3) The financial asset is a derivative instrument, except for the derivative instrument that meets the definition of financial guarantee contract and is designated as effective hedging instrument.

The Group may designate a financial liability that meets any of the following conditions as a financial liability at fair value through profit or loss upon initial recognition:

- (1) Such designation can eliminate or significantly reduce accounting mismatch;
- (2) The official written documents of the risk management or investment strategy of the Group state that the said combination of financial assets, the said combination of financial liabilities, or the combination of financial assets and financial liabilities will be managed and evaluated on the basis of their fair values and will be reported to the key management personnel within the Group;
- (3) Hybrid contract that contains embedded derivative instruments is included if conditions are satisfied.

Held-for-trading financial liabilities are subsequently measured at fair value. The gain or loss on fair value changes and the dividend or interest expenses relating to such financial liability will be recorded in profit or loss.

Changes in fair value of a financial liability designated at fair value through profit or loss due to changes in the Group's own credit risk are recorded in other comprehensive income, and other changes in fair value are stated in profit or loss. Upon derecognition of a financial liability, the cumulative changes in its fair value resulting from changes in own credit risk and previously recognized as other comprehensive income are transferred to retained earnings. The dividend or interest expenses relating to such financial liability are recorded in profit or loss. If the treatment of the impact of changes in such financial liability's own credit risk using the above method will result in or expand the accounting mismatch in gain or loss, the Group will record all the gain or profit (including the amount of impact of own credit risk changes) of the financial liability in profit or loss.

Other financial liabilities

Financial liabilities other than the financial liabilities arising from the ineligibility of financial assets for derecognition or continuing involvement in the transferred financial assets and loan commitments are classified as financial liabilities measured at amortized cost and subsequently measured at amortized cost, with the gains or losses on derecognition or amortization stated in profit or loss.

If the Group and the counterparty modifies or renegotiates the contract, which does not result in derecognition of the financial liability subsequently measured at amortized cost but results in changes in contractual cash flows, the Group recalculates the book value of the financial liability and records relevant gain or loss in profit or loss. The Group recalculates the carrying value of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate of the financial liability. Any costs or expenses arising from the modification or renegotiation of the contract adjust the book value of the modified financial liability and are amortized over the remaining term of modified financial liability.

Financial Guarantee Contracts and Loan commitments

Financial guarantee contract means a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs if a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. The financial guarantee contract that is not a financial liability designated at fair value through profit or loss or does not meet the derecognition conditions due to financial asset transfer or a financial liability resulting from continuing involvement in the transferred financial asset, and the commitment to provide loans at a below-market interest rate are measured after initial recognition at the higher of the amount of loss reserve and the initial recognition amount less the cumulative amortization determined pursuant to the income standards.

8.4.2 Derecognition of financial liabilities

A financial liability is derecognized in part or in whole when the current obligation of the financial liability is discharged in part or in whole. If the Group (borrower) signs an agreement with the lender to take a new financial liability instead of the original financial liability and the contract terms on the new and existing financial liabilities are materially different, the Group terminates the original financial liability and recognizes the new financial liability at the same time.

If a financial liability is derecognized in part or in whole, the difference between the book value and paid consideration (including non-cash asset transferred out or the new financial liability assumed) of the derecognized part is recorded in profit or loss.

8.4.3 Equity instrument

Equity instruments are contracts which can prove the Group's remaining equity of the assets after deducting all the liabilities. The Group treats the offering (including refinancing), repurchase, sale or deregistering of equity instruments as equity movements. It does not recognize the movements of equity instruments' fair value. The expenses in relation to equity trading are deducted from the equity.

The Group treats its distribution to equity instrument holders as distribution of profits, and the stock dividend issued does not affect the total equity.

8.5 Derivatives and embedded derivatives

Derivatives include forward foreign exchange, foreign currency swap, interest rate swap and option contracts. Derivatives are initially measured at fair value on the signing date of relevant contract, and subsequently measured at fair value.

In the case of a hybrid contract comprised of embedded derivatives and a host contract that is a financial asset, the Group will account for the hybrid contract in its entirety using the accounting standards for classification of financial assets other than separate the embedded derivatives from the hybrid contract.

If the hybrid contract includes a host contract that is not a financial asset and also meets the following conditions, the Group will separate the embedded derivatives from the hybrid contract and account for them as if they were stand-alone derivatives:

- (1) The economic characteristic and risk of the embedded derivatives are not closely related to the economic characteristic and risk of the host contract.
- (2) A stand-alone instrument with the same terms and conditions as the embedded derivatives meets the definition of derivatives.
- (3) The hybrid contract is not measured at fair value through profit or loss.

If the embedded derivatives are separated from the hybrid contract, the Group will account for the host contract of the hybrid contract in accordance with applicable accounting standards. If the Group cannot reliably measure the fair value of the embedded derivatives in accordance with the terms and conditions on embedded derivatives, the fair value of the embedded derivative instrument will be determined according to the difference between the fair value of hybrid contract and that of host contract. If the fair value of the embedded derivatives still cannot be separately measured on the acquisition date or subsequent balance sheet date after the above method is used, the Group will designate the hybrid contract in its entirety as a financial instrument measured at fair value through profit or loss.

8.6 Offset between financial assets and financial liabilities

Where the Group has a legally enforceable right to offset a recognized financial asset and a recognized financial liability and intends either to settle the asset and the liability on a net basis or to realize the asset and settle the liability simultaneously, the net value after offsetting the financial asset against the financial liability will be stated in the balance sheet. Otherwise, financial assets and financial liabilities shall be presented on the balance sheet separately, instead of offsetting with each other.

8.7 Hedge accounting

The Group designates some financial instruments as hedging tools to manage the risk exposure arising from specific risks. The Group uses the hedge accounting method to deal with the hedges that meet specified conditions. Hedge at the Group is fair value hedge.

At the beginning of hedge, the Group formally designates hedging instruments and hedged items and prepares written documents indicating hedging instruments, hedged items, nature of hedged risks and hedge effectiveness assessment methods (including cause analysis for invalid part of hedge and the method to determine hedge ratio).

The Group will cease to use hedge accounting under any of the following circumstances:

- (1) The hedge relationship no longer meets the changed risk management objectives.
- (2) The hedging instruments have expired or been sold or the contract has been terminated or exercised.
- (3) There is no longer any economic relationship between the hedged item and the hedging instrument, or the impact of credit risk starts to dominate the value changes arising from the economic relationship between the hedged item and hedging instrument.
- (4) The hedge relationship no longer meets other conditions for using the hedge accounting method.

Fair value hedge

The Group records gains or losses on hedging instruments in profit or loss. If the hedging instrument is used to hedge not-held-for-trading equity instrument investment measured at fair value through other comprehensive income, the gain or loss on hedging instrument investment is recorded in other comprehensive income.

The Group records the gain or loss on the hedged exposure of the hedged item in profit or loss and meanwhile adjusts the book value of the recognized hedged item not measured at fair value. If the hedged item is classified as a debt instrument investment measured at fair value through other comprehensive income, the gain or loss on its hedged exposure is recorded in profit or loss.

In fair value hedge, the hedged item is classified as a financial asset measured at fair value through other comprehensive income. The Group amortizes the recognized cumulative hedge gains or losses using the same method as stated above.

Hedge effectiveness assessment method

The Group assesses whether the hedge relationship meets the hedge effectiveness requirements on an ongoing basis on and after the start date of hedge. If a hedge meets all of the following conditions, the Group will conclude that the hedging relationship meets the hedge effectiveness requirements:

- (1) There is an economic relationship between hedged item and the hedging instrument.
- (2) The impact of credit risk does not dominate the value changes arising from the economic relationship between the hedged item and the hedging instrument.
- (3) The hedge ratio of the hedge relationship will be equal to the ratio of the number of hedged items of the Group to the number of the hedging tools used to hedge them.

If the hedge relationship no longer meets the hedge effectiveness requirements due to hedge ratio but the risk management objective that designates the hedging relationship has not changed, the Group will rebalance the hedging relationship, adjust the number of hedged items or hedging instruments in the existing hedging relationship, so that the hedge ratio will meet the hedge effectiveness requirements again.

9. Financial assets purchased under agreements to resell and financial assets sold under agreements to repurchase

Financial assets purchased under agreements to resell means the money lent by the Group by buying financial assets and then selling them back at a fixed price under the agreements to resell. Financial assets sold under agreements to repurchase mean the money borrowed by the Group by selling financial assets and then repurchasing them at a fixed price under the agreements to repurchase.

Financial assets purchased under agreements to resell and financial assets sold under agreements to repurchase are recorded and presented in the balance sheet in the amounts actually paid or received upon occurrence of transaction. In the case of financial assets purchased under agreements to resell, the purchased assets will not be recognized. In the case of financial assets sold under agreements to repurchase, the sold assets will continue to be recognized in balance sheet.

The bid-ask spread of financial assets purchased under agreements to resell and financial assets sold under agreements to repurchase is amortized using effective interest rate method during the transaction period and recognized as "interest income" and "interest expenses" respectively.

10. Long-term equity investments

Control means that the investor has power over the investee, obtains variable return by participating in related activities of the investee and is able to influence its return amount by its power over the investee.

A long-term equity investment is measured initially at cost.

The Group adopts the cost method to calculate its long-term equity investment in subsidiaries. Subsidiaries refer to investees controlled by the Group.

When the cost method is adopted, the long-term equity investment is priced at the initial investment cost. The cost of long-term equity investment will be adjusted upon addition or withdrawal of investment. The investment return for the current period is recognized based on cash dividend or profit announced to be distributed by the investee.

Disposal of long-term equity investment

When the Group disposes of long-term equity investment, it records the difference between its book value and the actual acquisition cost through current profit or loss.

11. Fixed assets

The fixed assets of the Group refer to tangible assets held for rendering of labor service, lease or operating management whose useful life exceeds one accounting year. A fixed asset is recognized only when the economic benefits associated with it will probably flow into the Group and its asset can be reliably measured.

Fixed assets are measured initially at cost. Depreciation of fixed assets will be set aside based on the straight-line method over the useful life starting from the following month after the fixed assets reach their scheduled usable condition. The usable life, estimated residual rate and annual depreciation rate of all categories of fixed assets are shown as follows:

Category	Usable life	Estimated residual rate	Annual depreciation rate
Houses and buildings	20 – 35 years	5%	2.71% – 4.75%
Office supplies and electronic devices	3 – 5 years	5%	19.00% – 31.67%
Transportation facilities	5 – 10 years	5%	9.50% – 19.00%

Estimated residual value refers to the amount obtained by the Group from disposal of the asset deducting the estimated disposal expense, assuming that the fixed asset comes to the end of its estimated useful life at the expected status.

A fixed asset is derecognized when it is disposal of or its expected use or when it is no longer expected to generate economic benefit through use of disposal. The balance of disposal income from sale, transfer, retirement or destruction of fixed assets deducting their book value and related taxes and dues shall be recorded through profit or loss.

At least at the end of every accounting year, the Group reviews the useful life, estimated residual value and depreciation methods for the fixed assets. Any changes will be treated as changes in accounting estimation.

The cost of construction-in-process is measured at actual cost. The actual cost includes all project expenses, capitalized borrowing costs before the project becomes ready for intended use and other relevant expenses incurred during the construction period. Construction-in-process is not depreciated. Construction-in-process is converted into fixed asset when it reaches scheduled usable condition.

12. Intangible assets

Intangible assets refer to recognizable non-monetary assets with no physical form that are owned or controlled by the Group.

Intangible assets are measured initially at cost. For an intangible asset with a limited useful life, its original value will be amortized over its estimated useful life starting from the time when it is available for use. Intangible assets with uncertain useful life will not be amortized.

At the end of the period, the Group reviews the useful life and amortization method of the intangible asset with a limited useful life. Any changes will be treated as changes in accounting estimation.

13. Repossessed assets

When the loans and advances to customers and interest receivable are repaid by repossession of assets, the repossessed assets are recorded at the fair value of the waived debts, and the expenses payable for repossession of the assets are included in the book value of repossessed assets. When there is any sign showing that the realizable net value of a repossessed asset is lower than its book value, the Group reduces its book value to its realizable value.

Gains or losses from disposal of the repossessed asset are recorded through current profit or loss.

If the repossessed asset is converted for private use, it shall be carried forward by its book balance on the date of transfer. If impairment reserve for the repossessed asset is set aside, the reserve shall also be carried forward.

14. Impairment of non-financial assets

On each balance sheet date, the Group checks the long-term equity investments, fixed assets, construction-in-process, right-of-use assets and intangible assets with a fixed service life for any sign of impairment. If there is any sign of impairment on the asset, the recoverable amount shall be estimated.

The Group estimates the recoverable amount based on a single asset; if it is hard to estimate the recoverable amount of a single asset, that of the asset portfolio where the single asset belongs will be measured. Recoverable amount is determined based on the fair value deducting disposal expense of the asset or asset portfolio and present value of estimated future cash flows of the asset, whichever is higher.

If the recoverable amount of the asset is lower than the book value, impairment reserve will be set aside based on the difference and be recorded through current profit or loss.

The above impairment loss of assets will not be reversed in the subsequent accounting periods once it is recognized.

15. Staff remuneration and welfare

Employee Compensation

The Group recognizes employees' short-term compensation actually incurred as liabilities during the reporting periods when the employees render services and records it through current profit or loss or relevant asset cost. The Group's employee welfare is recorded through current profit or loss or relevant asset cost based on the actual amount upon occurrence. Non-monetary employee welfare will be measured at fair value.

Social welfare

The Group joins in the social security system for employees established by the government as required, including basic endowment insurance, medical insurance, housing provident fund and other social security systems. During the reporting periods when the employees render services, the social welfare will be recognized as liabilities based on the amount payable and recorded through current profit or loss.

Annuity Plan

In addition to basic endowment insurance, employees of the Bank also participate in the employee retirement benefits plan created by the Bank (hereinafter referred to as "Annuity Plan"). The Bank contributes fund to the Annuity Plan as per a certain percentage of wages, and the contributions are recorded through current profit or loss. The Bank contributes a fixed amount of fund to the Annuity Plan. However, if the Annuity Plan is not sufficient to pay employees' future retirement benefits, the Bank is not obliged to make fund injection.

16. Projected liabilities

If an obligation in connection with contingencies meets the following conditions, the Group will recognize it as a projected liability: (1) The obligation is a current obligation; (2) Performance of the obligation will likely cause outflow of the related economic benefit; and (3) The amount of the obligation can be reliably measured.

On the balance sheet date, factors pertaining to a contingency such as risks, uncertainties and time value of money are taken into account, while the contingent liabilities are initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of time value of money is material, the best estimate is determined by discounting the expected future cash flows.

Where all or partial expenses paid for the liquidation of projected liabilities are expected to be compensated by a third party, the compensation can only be separately recognized as an asset when it is basically confirmed to be recoverable. The recognized compensation amount should not exceed the book value of the projected liabilities.

Allowances for impairment losses on loan commitments and financial guarantee contracts recognized by the Group based on expected credit loss are stated as projected liabilities.

17. Preference shares, perpetual bonds and others financial instruments

The preference shares, perpetual bonds and others financial instruments issued by the Group are taken as equity instruments, provided that the following conditions are met:

- (1) The financial instrument does not include delivery of cash or other financial assets to other parties, or any contractual obligation of exchanging financial assets or liabilities with other parties under potentially unfavorable conditions;
- (2) Where the financial instrument shall or can be settled with the Group's own equity instruments in the future, (a) in case of a non-derivative instrument, it shall not include any contractual obligation of settlement with the delivery of variable number of the Group's own equity instruments; or (b) in case of a derivative instrument, it can only be settled with fixed number of the Group's own equity instruments exchanging for cash or other financial assets with fixed amount.

Except for other financial instruments that can be classified as equity instruments under the above conditions, financial instruments issued by the Group are classified as financial liabilities.

For preference shares, perpetual bonds and other financial instruments classified as financial liabilities, the interest expenses or dividend distributions are accounted for as borrowing expenses and the gains or losses on their repurchase or redemption are recorded in current profit or loss. Where financial liabilities are measured at amortized cost, relevant transaction expenses are included in the initial measured amount.

For preference shares, perpetual bonds and other financial instruments classified as equity instruments, the interest expenses or dividend distributions are accounted for as the Group's profit distribution, their repurchase or deregistration is accounted for as equity changes and relevant transaction expenses are deducted from equity.

18. Recognition of income

Income refers to total inflow of economic benefits generated in the day-to-day activities of the Group, which will lead to an increase in shareholder's equity and is irrelevant to the capital contributed by shareholders.

The specific accounting policy relating to main activities for which the Group recognizes income is described below:

Net interest income

Except financial instruments measured at fair value through profit or loss, the interest income and expenses on all financial instruments are measured at effective interest rate and stated under "interest income" and "interest expenses" of the consolidated income statement. Interest income on financial instruments measured at fair value through profit or loss is recognized in "investment income".

Net fee and commission income

The Group recognizes the fee and commission income when performing each separate performance obligation, that is, when the "control" of a good or service under a performance obligation is transferred to the customer.

Performance obligation means a promise in a contract that the Group will transfer to the customer a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer. If the contract contains two or more performance obligations, the Group will allocate the transaction price to separate performance obligations (except for discounts and variable consideration) according to the relative proportion of the stand-alone selling price of the goods or services promised by separate performance obligations on the contract commencement date and measure the income according to the transaction price allocated to separate performance obligations.


The stand-alone selling price of the distinct goods or services based on performance obligations is determined at the contract commencement date. The price at which the Group separately sells a commodity or service to similar customers in a similar environment is the best proof to determine the separate price of the commodity or service. If the stand-alone selling price is not directly observable, the Group uses appropriate techniques to estimate the transaction price finally allocated to any performance obligation to reflect the consideration that the Group is expected to be entitled to for transferring goods or services to customers.

A performance obligation that meets any of the following conditions is deemed to be satisfied over time and the relevant revenue is recognized over time:

- (1) The customer simultaneously receives and consumes the economic benefits provided by the entity's performance as the entity performs;
- (2) The customer controls the work-in-process during the entity's performance;
- (3) The Group's performance does not create a good or service with an alternative use, and the Group has an enforceable right to payment for performance completed to date over the entire contract term.

Otherwise, the performance obligation is deemed to be satisfied at a point in time.

For the performance obligation to be satisfied over time, the Group recognizes revenue over time according to the progress of performance. The progress of satisfying the performance obligation is measured using the output approach. This approach determines the progress of performance based on directly measuring the value of service transferred to customer relative to the value of the residual service under contract, which best reflects the Group's performance in transferring the control of service.



For the performance obligation satisfied at a point in time, the Group recognizes revenue at the point in time when the Group acquires control of the relevant good or service. In judging whether the customer has acquired the control of a good or service or not, the Group will consider the following signs:

- (1) The Group has a present right to payment for the good or service;
- (2) The Group has transferred physical possession of the good to the customer;
- (3) The Group has transferred the legal title to the good or the significant risks and rewards related to the ownership of the asset;
- (4) The customer has accepted the good or service.

When another party is involved in providing service to a customer, the Group will determine whether the nature of its promise is a performance obligation to provide the specified service itself (i.e., the Group is a principal) or to arrange for service to be provided by another party (i.e., the Group is an agent).

The Group is a principal if it has control of a service before that service is transferred to a customer. The Group is an agent if the performance obligation is to arrange for service to be provided by another party. In such a circumstance, the Group will control the specified service provided by another party before the service is transferred to the customer. If the Group acts as an agent, the Group recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified service to be provided by another party.

19. Government subsidies

Government subsidies refer to the monetary and non-monetary assets that the Group obtains free-of-charge from the Government. Government subsidies can be confirmed when they meet the attached conditions and can be received.

If such subsidies are monetary assets, they shall be measured at the received or receivable amount.

The government subsidies related to assets are determined as deferred income, and recorded through current profit or loss over the whole lease period by phase.

The government subsidies related to benefit, if used for covering the already incurred costs and expenses or losses, shall be directly recorded in profit or loss.

For relating to the Group's daily activities, the government subsidies shall be accounted into other incomes in the light of the economic nature of business. Otherwise, they shall be accounted into non-operating income and expenditure.

Where an already recognized government subsidy needs to be returned, the book balance of related deferred income shall be written down if there is an outstanding deferred income, and the exceeding part shall be accounted through profit or loss; if not, it shall be accounted through profit or loss directly.

20. Income tax

Income tax expense includes the current income tax and the deferred income tax.

Current tax

On the balance sheet date, the income tax liabilities (or assets) that are formed during the current and previous periods shall be measured based on the amount of income tax that should be paid (or rebated) based on the tax law. The taxable income, namely the basis of current tax calculation, is obtained after the pre-tax accounting profit of the period is adjusted pursuant to the tax laws.

Deferred income tax

For the difference between the book value and the tax base of some assets and liabilities and the temporary difference between the book value and tax base of items that are not recognized as assets and liabilities but whose tax base can be determined according to the tax law, the deferred income tax assets and liabilities will be recognized based on the balance sheet liability method.

Generally, the relevant deferred income tax is recognized for all temporary differences. With regard to deductible temporary differences, however, the Group recognizes the relevant deferred income tax assets up to the amount of taxable income that may be obtained in the future to offset the deductible temporary difference. In addition, for temporary differences relating with the initial recognition of goodwill, or the initial recognition of assets or liabilities generated from transactions that are not a business combination and that will not affect the accounting profit and taxable income (or deductible losses), relevant deferred income tax asset or liabilities will not be recognized.

For deductible losses that could be carried forward to the following years and tax credits, the Group recognizes relevant income tax assets within the limit of future taxable income that is very likely to be obtained by the Group to offset deductible losses and tax credits.

The Group recognizes the deferred income tax liabilities arising from the taxable temporary differences in connection with subsidiaries, unless the Group can control the time for the reversal of such temporary differences and the temporary differences are unlikely to be reversed in the foreseeable future. For deductible temporary differences in connection with subsidiaries, the Group recognizes the deferred income tax assets only when the temporary differences are likely to be reversed in the foreseeable future and taxable income is likely to be obtained in the future to offset deductible temporary difference.

On the balance sheet date, the deferred income tax assets and liabilities are measured based on the tax rate in the expected period to collect the assets or repay the liabilities, according to the tax law.

Current income tax and deferred income tax, except adjusted goodwill due to business combination or equity transactions or matters recognized directly in shareholder's equity, are stated in profit or loss as income tax expense or gain.

On the balance sheet date, the book value of the deferred income tax assets will be reviewed. In case that the Group is not likely to obtain adequate amount of taxable income in the future to offset the deferred income tax assets, the book value of the deferred income tax assets will be written down. When the Group is able to obtain an adequate amount of taxable income, the written-down amount will be reversed.

Offset of income tax

When the Group has the statutory right to settle on a net basis, or intends either to settle on a net basis or realize assets and repay liabilities at the same time, its current income tax assets and liabilities will be presented by the net amount after offset.

The deferred income tax assets and liabilities of the Group will be presented by the net amount after offset in the case that the Group has the statutory right to settle the current income tax assets and liabilities on a net basis, and the deferred income tax assets and liabilities are related to the income tax levied from a single subject of taxation by a single taxation authority or related to the income tax levied from different subjects of taxation, but the subjects of taxation involved intend to settle the current income tax assets and liabilities on a net basis or realize assets and repay liabilities at the same time during a future period in which a significant deferred income tax asset and liability is reversed.

21. Fiduciary business

Generally, the Group manages assets on behalf of customers as the agent, trustee or other fiduciary capacities in accordance with the agent agreement concluded with securities investment fund, social security fund, insurance company, trust company and other institutions. The Group only provides services and charges fees according to the agent agreement and does not take risks and interests relating with the agency assets. The agency assets will not be recognized in the balance sheet of the Group.

The Group also engages in entrusted loans. The Group grants loans to borrowers as an intermediary based on the borrower, purpose, amount, interest rate and repayment plan determined by the principal, in accordance with the entrusted loan contract. The Group is responsible for granting and collecting entrusted loans and charges fees for services provided, but it does not take risks and interests relating with the entrusted loans. The entrusted loans and entrusted loan assets will not be recognized in the balance sheet of the Group.

22. Leases

Identifying a lease

The Group assesses whether a contract is or contains a lease at the contract commencement date. A contract is or contains a lease if it conveys the right to control the use of an identified asset or identified assets for a certain period of time in exchange for consideration. To determine whether the contract conveys the right to control the use of identified asset, the Group assesses whether the customer under the contract has both the right to direct the use of the identified asset and to obtain substantially all the economic benefits from that use.

Assessment of lease term

Lease term is the non-cancellable period for which the Group a lessee has the right to use an underlying asset. The Group has a renewal option, i.e., the right to choose to renew the lease for the underlying asset. The least term also includes periods covered by the extension option if exercise of that option is reasonably certain. The Group has a termination option, i.e., the right to choose to terminate the lease for the underlying asset. The least term also includes periods covered by the termination option if the Group is reasonably certain not to exercise that option.

In the case of any major event or change within the Group's control that affects whether the Group is reasonably certain to exercise relevant option, the Group will reassess whether it reasonably certain to exercise the renewal option or purchase option or not to exercise the termination option.



As the lessee

Right-of-use assets

The Group's right-of-use assets are mainly categorized into houses and buildings, transportation facilities and other right-of-use assets.

At the lease commencement date, the Group recognizes its right to use the underlying asset during the lease term as the right-to-use asset, including: 1) the amount of the initial measurement of the lease liability; (2) any payments made at, or before, the commencement date of the lease, less any lease incentives received; (3) any initial direct costs incurred by the Group as the lessee; and (4) an estimate of any costs to be incurred in dismantling and removing the underlying asset, or restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Subsequently the Group depreciates the right-of-use assets on a straight-line basis. If it is reasonably certain that the ownership of the underlying asset will be transferred to the lessee upon expiration of the lease term, the Group will depreciate the right-of-use asset over the remaining useful life of the underlying asset. If it is not reasonably certain that the ownership of the underlying asset will be transferred to the lessee upon expiration of the lease term, the Group will depreciate the right-of-use asset over the lease term or the remaining useful life of the underlying asset, whichever is shorter.

Where the Group re-measures the lease liability at the present value of the changed lease payments and adjusts the book value of the right-of-use asset accordingly, the Group will include the remaining amount in the profit or loss as long as the book value of the right-of-use asset has been reduced to zero but the lease liability still needs to be further reduced.

Lease liabilities

At the lease commencement date, the Group recognizes the present value of unpaid lease payments as lease liability, except for short-term leases and low-value asset leases.

In calculating the present value of lease payments, the Group adopts the lessee's incremental borrowing rate as the discount rate. The Group calculates the interest expense of the lease liability in each period over the lease term according to the fixed periodic interest rate, and records it in profit or loss. The variable lease payments not included in the measurement of lease liability are included in the profit or loss when incurred.

After lease commencement, where the amount of in-substance fixed payments changes, the estimated payable amount of the residual value guarantees changes, the index or ratio used to determine the lease payment amount changes or the assessment result or actual exercise of the purchase option, renewal option or termination option changes, the Group will re-measure the lease liability at the present value of the changed amount of lease payments.

Lease modification

A lease modification is a change in the scope of a lease, or the consideration for a lease, that is not part of its original terms and conditions. Lease modifications include adding the right to use one or more underlying assets and extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both of the following conditions exist:

- (1) The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (2) The consideration for the lease increases by an amount equivalent to the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the modification the Group re-determines the lease term and re-measures the lease liability by applying a revised discount rate to the lease payments. In calculating the present value of modified lease payments, the Group adopts the interest rate implicit in the lease for the remainder of the lease term as the discount rate. If the implicit rate cannot be determined, the revised discount rate shall be the Group's incremental borrowing rate at the effective date of the lease modification.

The Group accounts for the effects of the foregoing adjustments to the lease liability as follows:

- (1) For modifications that decrease the scope of the lease, the Group decreases the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognizes a gain or loss that reflects the proportionate decrease in scope in the profit or loss; and
- (2) For all other modifications, the Group makes a corresponding adjustment to the carrying amount of the right-of-use asset.

Incremental borrowing rate

The Group calculates the present value of lease payments using the incremental borrowing rate as the discount rate. In determining the incremental borrowing rate, each institution of the Group takes the readily observable interest rate as the base rate for determining the incremental borrowing rate according to its economic environment. On this basis, an applicable incremental borrowing rate is determined by adjusting the reference rate according to its own conditions, the underlying asset, lease term, lease liability and other lease particulars.

Short-term leases and low-value asset leases

At the commencement date of the lease term, the Group identifies a lease with a lease term of 12 months or less and containing no purchase options as short-term lease, and identifies a lease where the underlying asset has a low value when new as a low-value asset lease. The Group chooses not to recognize right-of-use assets and lease liabilities for short-term leases or low-value asset leases, and amortizes their rental in each period over the lease term on a straight-line basis and recognizes it in profit or loss.

As the leaser

Finance lease is a type of lease that transfers substantially all risks and rewards incident to the ownership of a leased asset at the lease commencement date. Any lease other than a financial lease is operating lease.

As the lessor in a financial lease, the Group recognizes the financial lease receivable for the financial lease and derecognize financial lease assets at the commencement date of the lease term. Upon initial measurement of the financial lease receivable, the Group records the net investment in the lease as the carrying value of the financial lease receivable. The net investment in the lease comprises the unguaranteed residual value and the present value of the outstanding lease payments discounted at the interest rate implicit in the lease. The Group calculates and recognizes the interest income in each period over the lease term according to the fixed periodic interest rate. The variable lease payments not included in the measurement of the net investment in the lease are stated the profit or loss when incurred.

As the lessor in an operating lease, the Group still presents the leased asset as the Group's asset. The rental income from operating lease is amortized over each period on a straight-line basis and recognized in profit or loss. Contingent rentals are recognized in profit or loss when incurred.

Sale and lease-back

The Group assesses and determines whether the asset transfer in a sale and lease-back transaction is a sale according to Note IV-18.

As the lessor

Where the asset transfer in a sale and lease-back transaction belongs to sales, the Group accounts for the asset purchase as the lessor and accounts for the asset leasing pursuant to the aforesaid rules. Where the asset transfer in a sale and lease-back transaction is not a sale, the Group as the lessor does not recognize the transferred asset, but recognizes a financial asset equal to the transfer income, and accounts for the financial asset according to Note IV-8.

23. Debt restructuring

As the creditor

Where the debt restructuring takes the form of debt service with non-cash asset, the Group initially recognizes the asset other than transferred financial asset at cost. Costs include the fair value of waived debts and the tax, transport, handling, insurance and other costs incurred in bringing the asset to its present location and condition and directly attributable to the asset. The difference between fair value and book value of waived debts is recognized into current profit or loss.

Where the debt restructuring takes the form of modifying other terms and conditions, the Group recognizes and measures the restructured debts in accordance with the *Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments*.

Where debt restructuring takes the form of debt service with multiple assets or a combination of methods, the received financial assets and restructured debt will be recognized and measured first in accordance with the *Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments*. Then the fair value of waived debt net of the recognized amount of financial assets and restructured debt will be distributed in proportion to assets other than received financial assets, and on this basis the costs of assets are recognized respectively using the foregoing method. The difference between fair value and book value of waived debts is recognized into current profit or loss.

V. MAJOR JUDGMENTS MADE IN ACCOUNTING POLICY APPLICATION AND KEY ASSUMPTIONS AND UNCERTAINTIES ADOPTED IN ACCOUNTING ESTIMATION

During the process of applying the accounting policies described in Note IV, the Group needs to make judgments, estimates and assumptions on the book value of statement items that cannot be measured accurately due to the inherent uncertainties of the operating activities. These judgments, estimates and assumptions are made based on the historical experience of the Management of the Group and other relevant factors, and therefore the actual results may be different from the estimates of the Group.

The Group regularly checks the foresaid judgments, estimates and assumptions on an ongoing basis. If the change in accounting estimates only has impact on the current period, it will be recognized in the current period; if it has impact on both the current period and future periods, it will be recognized in the current period and future periods.

On the balance sheet date, the Group needs to make judgments, estimates and assumptions on the amount of items in the financial statements in the following fields:

1. Classification of financial assets

Major judgments the Group makes in classification of financial assets include the analysis of business models and contractual cash flow characteristics.

The Group determines the business model for financial asset management at the level of financial asset portfolio. Considerations include the way of evaluating and reporting to key management personnel the performance of financial assets, risks affecting the performance of financial assets and their management methods and the way of remunerating relevant business management personnel.

The Group makes the following major judgments in assessing whether the contractual cash flows of financial assets are consistent with basic lending arrangements: whether the principal undergoes changes in time distribution or amount during the life due to prepayment; whether the interest only includes the consideration for time value of money, credit risks, other basic lending risks, costs and profits. For example, whether the prepayment amount reflects the outstanding principal and interest on outstanding principal and the reasonable compensation for early termination of contract.

2. Fair value of financial instruments

As for the financial instruments without active market, the Group adopts various valuation methods to determine their fair value. These methods include the discounted cash flow model, option pricing model and market comparison method. The valuation models developed by the Group use as much market information as possible and use as less information specific to the Group as possible. However, the Management needs to estimate observable market information that is unavailable. These changes in related assumptions will influence the fair value of the financial instruments. Although the Group considers such valuations as the best valuations, the ongoing COVID-19 pandemic has led to greater market volatility and may cause further interference to the business of investing institutions/issuers, thus adding to the uncertainty of valuation this year. The Group regularly reviews the foregoing estimates and assumptions and makes adjustments where necessary.

3. Measurement of credit impairment loss

- i. Significant increase in credit risk: The impairment allowances are recognized in the ECL model based on the 12-month ECL in Stage 1 and based on the lifetime ECL in Stage 2 and Stage 3. If the credit risk has increased significantly since initial recognition, the asset will move to Stage 2; if the asset is credit-impaired, it will move to Stage 3 (not purchased or originated credit-impaired asset). In assessing whether the credit risk of the asset increases significantly, the Group will consider qualitative and quantitative forward-looking information that is both reasonable and supportable;
- ii. Grouping of assets with similar credit risks characteristics: When ECL is measured on a portfolio basis, financial instruments are grouped on the basis of similar risk characteristics. The Group keeps assessing whether these financial instruments maintain similar credit risk characteristics to ensure financial instruments will be properly reclassified once credit risk characteristic change. This may lead to the creation of a new asset portfolio or reclassification of assets to an existing asset portfolio to better reflect the similar credit risk characteristic of such assets;
- iii. Use of models and assumptions: The Group uses different models and assumptions to assess the fair value and ECL of a financial asset. By making judgment, the Group determines the model most suitable for each financial asset and the assumptions used by the model, including assumptions related to key drivers of credit risk;
- iv. Forward-looking information: In assessing ECL, the Group uses reasonable and supportable forward-looking information that is based on assumptions regarding future trends in different economic drivers and how these economic drivers influence each other;
- v. Probability of default: PD is an important input for ECL. PD is an estimate of the likelihood of default in a given future period. Its calculation involves historical data, assumptions and future expectations;
- vi. Loss given default: LGD is an estimate of the loss caused by default. It is based on the difference between contractual cash flows and expected cash flows to be received by the borrower, taking into account the cash flows and overall credit enhancement generated by collateral.
- vii. The COVID-19 outbreak leads to greater financial uncertainty, so there might be a higher risk of credit default rate. The Group has taken into full account the impact of COVID-19 outbreak in the expected credit loss (CEL) model.

4. Judgment on control over structured entity

Where the Group serves as the manager or investor of the structured entity, it is necessary to assess whether the Group is the principal or agent so as to decide whether it has control over the structured entity. The Group decides whether it is the principal or agent based on such factors as its decision-making scope as the manager or investor, power of other parties, compensation of management services and the risk exposure of variable income.

5. Derecognition of financial assets

The Group transfers financial assets in its normal operating activities through various methods such as conventional transactions, asset securitization, and repurchase agreements. While determining whether the transferred financial assets can be derecognized entirely, the Group needs to make significant judgments and estimations.

Where financial assets are transferred to special-purpose entities through structured transactions, the Group shall analyze and assess whether its relations with these entities virtually indicate that it exercises the control power over these entities, thus entailing the combination. The decision on combination will determine whether the analysis for derecognition shall occur on the level of combined entities or single entities from which financial assets are transferred.

The Group needs to analyze the rights and obligations relating to the contracted cash flow arising from the transfer of financial assets, and then confirms whether the conditions for derecognition can be met with reference to the following basis:

- (1) Where the contractual rights for collecting cash flows of the said financial asset are terminated;
- (2) Where the financial asset has been transferred and nearly all of the risks and returns in connection with the ownership of the financial asset have been shifted to the transferee;
- (3) Where the financial asset has been transferred and the Group has not retained control over the financial asset, though it does not transfer or retain almost all of the risks and returns in connection with the ownership of the financial asset.

6. Income tax

In the normal operating activities of the Group, there is uncertainty in the ultimate tax treatment and calculation of some transactions. Whether some items can be disbursed before tax is subject to the approval of the competent taxation authorities. If there is any difference between the ultimate determination result and the initially estimated amount of these tax items, the difference will pose impact on the current income tax and deferred income tax for the ultimate recognition period. At the same time, the Management of the Group needs to estimate the amount of deferred income tax assets that can be reversed in the future.

VI. MAJOR CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1 Changes in accounting policies

On January 1, 2021, the Group adopted the revised *Accounting Standard for Business Enterprises No. 21 – Leases* (the “New Lease Standard”) issued by MOF in 2018. The revision requires the lessee to cancel the classification of leases into financial lease and operating lease and requires the right-of-use assets and lease liabilities to be recognized for all leases (except for short-term leases and low-value asset leases, for which a simplified approach is adopted), with depreciations and interest expenses recognized separately. The Group did not restate the comparative data of the 2020 financial statements in accordance with the transition requirements of this standard. The reclassifications and adjustments made due to adoption of the New Lease Standard were recognized in the balance sheets of the Group and the Bank on 1 January 2021. For leases of low-value assets or leases ending within 12 months of the date of first applying the New Lease Standard, the Group as the lessee chooses a simplified approach and not to recognize right-to-use assets and lease liabilities, and recognizes the profit or loss using the straight-line method during the lease term. Therefore, the financial information related to leases in 2021 stated in financial statements for the year is not comparable with the 2020 comparative information stated under the former lease standard. For the Group’s accounting policies on leases in 2020, please see the annual report for 2020.

For the unpaid minimum lease payments under operating leases disclosed in the 2020 financial statements, the Group discounted the lease payments at the incremental borrowing rate on 1 January 2021. Adjustments are made as follows for the differences with lease liabilities recorded in the balance sheet on 1 January 2021:

	Amount
Minimum lease payments under operating leases at 13 December 2020	7,239
Less: Minimum lease payments with simplified processing – short-term leases	(382)
Less: Minimum lease payments with simplified processing – low-value asset leases	(37)
Less: Effect of discounting at incremental borrowing rate at 1 January 2021	(651)
Lease liabilities at 1 January 2021	6,169
Right-of-use assets at 1 January 2021	6,517

VII. MAJOR ITEMS

1. Enterprise income tax

The Chinese corporate income tax rate of 25% is applicable to all taxable entities within the Group. According to Paragraph 13 of Article 30 of the *Catalogue for Guiding Industry Restructuring (Edition 2019)* issued by NDRC Document No. 29 of 2019 with regard to the encouraged category, as from 1 January 2020, the Group's subsidiary Huaxia Financial Leasing Co., Ltd. is subject to a preferential corporate income tax rate of 15% applicable to enterprises in regions covered by China's Western Development Program.

2. VAT

Since 1 May 2016, the Group has paid VAT instead of business tax, with the basis of taxation being assessable value added. The tax payable under the general tax computation method shall be calculated by subtracting deductible input taxes from the result of multiplying the assessable income by the applicable tax rate. The tax payable under the simple tax computation method shall be calculated by multiplying the assessable sales amount by the applicable tax rate. The value added tax rates applicable to the Group are 3%, 6% and 13%.

3. Urban maintenance and construction tax

The Group calculates and pays the urban maintenance and construction tax at 5% or 7% of VAT.

4. Education fee and surcharges

The Group calculates and pays the education fee and surcharges at 3% of VAT.

VIII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries acquired through establishment or investment as at 31 December 2021 are as follows:

Name	Date of establishment	Place of registration	Registered capital/ paid-in capital	Shareholding percentage	Voting rights percentage	Minority entity	Business nature
			RMB millions	(%)	(%)	RMB millions	
Beijing Daxing Hua Xia Rural Bank Co., Ltd	2010	Beijing	125	80.00	80.00	26	Banking
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	2011	Kunming	50	70.00	70.00	23	Banking
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	2011	Jiangyou	75	70.00	70.00	40	Banking
Huaxia Financial Leasing Co., Ltd. ⁽¹⁾	2013	Kunming	8,000	82.00	82.00	2,321	Financial leasing
Huaxia Wealth Management Co., Ltd.	2020	Beijing	3,000	100.00	100.00	–	Asset management

(1) In April 2021, Huaxia Financial Leasing Co., Ltd. converted RMB2 billion of retained profit into registered capital. The conversion increased registered capital to RMB8 billion.

For details on structured entities included in consolidated scope of the Group, please see Note XIV Structured Entities.

IX. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Cash on hand and balances with central banks

		The Group		The Bank	
		31 December 2021	31 December 2020	31 December 2021	31 December 2020
Cash on hand		1,842	2,062	1,829	2,051
Statutory reserves with central banks	(1)	150,482	154,978	150,374	154,858
Excess reserves with central banks	(2)	33,426	45,777	33,212	45,008
Other balances with central banks	(3)	424	1,265	424	1,265
Total		186,174	204,082	185,839	203,182

(1) The Group deposits statutory reserves for general deposits with PBOC as required. The percentage of reserves is specified below:

	31 December 2021	31 December 2020
RMB:		
The Bank	8.00%	9.00%
Beijing Daxing Hua Xia Rural Bank Co., Ltd	5.00%	6.00%
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	5.00%	6.00%
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	5.00%	5.00%
Foreign currency:	9.00%	5.00%

(2) Excessive reserves with the central bank refer to the funds placed by the Group with the central bank in addition to the statutory reserves to ensure the normal withdrawal of deposits and business operations.

(3) Other funds placed with the central bank are deemed as fiscal deposits and exchange risk reserve at the central bank, and PBOC pays no interest for the fiscal deposits and exchange risk reserve.

2. Due from banks

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Due from domestic banks and other financial institutions	9,882	7,833	9,857	7,680
Due from overseas banks and other financial institutions	7,862	10,724	7,862	10,724
Accrued interest	32	12	34	16
Less: Allowance for impairment losses	(73)	(64)	(73)	(64)
Book value of due from banks and other financial institutions	17,703	18,505	17,680	18,356

In 2021 and 2020, no stage transfer occurred to the allowance for impairment losses on due from banks of the Group and the Bank.

3. Placements with banks and other financial institutions

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Placements with domestic banks and other financial institutions	–	1,960	–	1,960
Placements with overseas banks and other financial institutions	300	327	300	327
Placements with other domestic financial institutions	82,969	34,232	91,470	36,132
Accrued interest	88	42	96	52
Less: Allowance for impairment losses	(94)	(91)	(94)	(91)
Book value of placements with banks and other financial institutions	83,263	36,470	91,772	38,380

In 2021 and 2020, no stage transfer occurred to the allowance for impairment losses on the placements with banks and other financial institutions of the Group and the Bank.

4. Derivative financial instruments

Non-hedging instruments:

The Group and the Bank			
31 December 2021			
	Contractual/ nominal principal	Fair value	
		Assets	Liabilities
Foreign exchange forwards	18,917	165	134
Foreign exchange swaps	637,276	7,804	7,654
Interest rate swaps	15,700	10	10
Option contracts	99,574	76	83
Precious metal swap	206	–	1
Total		8,055	7,882

The Group and the Bank			
31 December 2020			
	Contractual/ nominal principal	Fair value	
		Assets	Liabilities
Foreign exchange forwards	7,896	118	87
Foreign exchange swaps	561,409	12,084	12,122
Interest rate swaps	27,550	35	33
Option contracts	98,489	123	123
Total		12,360	12,365

Hedging instruments:

Fair value hedge

The Group uses fair value hedge to avoid the impact of changes in the fair value of financial assets caused by changes in market interest rates. Interest rate swap is used as a hedging instrument for interest rate risk of financial assets. The hedging instruments designated by the Group and the Bank included in the above derivative financial instruments are as follows:

The Group and the Bank			
31 December 2021			
Fair value			
	Contractual/ nominal principal	Assets	Liabilities

Derivatives designated as fair value hedge:

Interest rate swaps	7,323	144	–
---------------------	-------	-----	---

The Group and the Bank			
31 December 2020			
Fair value			
	Contractual/ nominal principal	Assets	Liabilities

Derivatives designated as fair value hedge:

Interest rate swaps	2,371	1	–
---------------------	-------	---	---

Hedged items are fixed-rate bonds invested in by the Group, which are included in the bonds of financial institutions and corporate bonds in Note IX-9 Other Debt Investments.

The invalid hedge recognized in the loss/gain on changes in fair value in 2021 and 2020 was insignificant.

5. Financial assets purchased under agreements to resell

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
By collateral type:				
Bonds	5,775	14,765	–	13,571
Bills	12,787	10,271	12,787	10,271
Accrued interest	134	46	130	46
Less: Allowance for impairment losses	(306)	(306)	(306)	(306)
Book value of financial assets purchased under agreements to resell	18,390	24,776	12,611	23,582

6. Loans and advances to customers

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Loans and advances to customers measured at amortized cost ⁽¹⁾	2,071,776	1,991,270	1,946,715	1,874,894
Less: Allowance for impairment losses	(58,483)	(55,460)	(52,384)	(50,344)
Sub-total	2,013,293	1,935,810	1,894,331	1,824,550
Loans and advances to customers measured at fair value through other comprehensive income ⁽²⁾	141,753	117,723	141,753	117,723
Accrued interest	7,920	6,292	7,905	6,282
Total	2,162,966	2,059,825	2,043,989	1,948,555

(1) The loans and advances to customers measured at amortized cost are distributed as follows:

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Corporate loans and advances to customers	1,421,476	1,396,759	1,301,320	1,281,360
Of which: Loan	1,393,884	1,352,532	1,273,728	1,237,133
Discounting	27,592	44,227	27,592	44,227
Personal loans and advances to customers	650,300	594,511	645,395	593,534
Of which: Residential mortgages	303,922	271,716	303,869	271,675
Credit Cards	174,348	169,283	174,348	169,283
Others	172,030	153,512	167,178	152,576
Total loans and advances to customers	2,071,776	1,991,270	1,946,715	1,874,894
Less: Allowance for impairment losses on loans and advances to customers	(58,483)	(55,460)	(52,384)	(50,344)
Of which: 12-month ECL	(20,508)	(19,233)	(16,702)	(16,095)
Lifetime ECL	(37,975)	(36,227)	(35,682)	(34,249)
Total	2,013,293	1,935,810	1,894,331	1,824,550

(2) The loans and advances to customers measured at fair value through other comprehensive income are distributed as follows:

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Corporate loans and advances to customers				
Of which: Loan	32,781	39,548	32,781	39,548
Discounting	108,972	78,175	108,972	78,175
Total	141,753	117,723	141,753	117,723

(3) The loans and advances to customers are presented as follows by assessment method:

31 December 2021	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total loans and advances to customers measured at amortized cost	1,953,796	78,223	39,757	2,071,776
Less: Allowance for impairment losses on loans and advances to customers measured at amortized cost	(20,508)	(10,590)	(27,385)	(58,483)
Net loans and advances measured at amortized cost	1,933,288	67,633	12,372	2,013,293
Loans and advances to customers measured at fair value through other comprehensive income	141,753	–	–	141,753
Allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(514)	–	–	(514)

31 December 2020	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total loans and advances to customers measured at amortized cost	1,879,159	73,829	38,282	1,991,270
Less: Allowance for impairment losses on loans and advances to customers measured at amortized cost	(19,233)	(10,264)	(25,963)	(55,460)
Net loans and advances measured at amortized cost	1,859,926	63,565	12,319	1,935,810
Loans and advances to customers measured at fair value through other comprehensive income	117,723	–	–	117,723
Allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(448)	–	–	(448)

31 December 2021	The Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total loans and advances to customers measured at amortized cost	1,833,762	73,915	39,038	1,946,715
Less: Allowance for impairment losses on loans and advances to customers measured at amortized cost	(16,702)	(8,937)	(26,745)	(52,384)
Net loans and advances measured at amortized cost	1,817,060	64,978	12,293	1,894,331
Loans and advances to customers measured at fair value through other comprehensive income	141,753	–	–	141,753
Allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(514)	–	–	(514)

31 December 2020	The Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total loans and advances to customers measured at amortized cost	1,768,436	68,806	37,652	1,874,894
Less: Allowance for impairment losses on loans and advances to customers measured at amortized cost	(16,095)	(8,784)	(25,465)	(50,344)
Net loans and advances measured at amortized cost	1,752,341	60,022	12,187	1,824,550
Loans and advances to customers measured at fair value through other comprehensive income	117,723	–	–	117,723
Allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(448)	–	–	(448)

(4) Changes in allowance for impairment losses on loans and advances to customer measured at amortized cost

	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2021	19,233	10,264	25,963	55,460
Transfer to Stage 1	317	(255)	(62)	–
Transfer to Stage 2	(1,548)	1,606	(58)	–
Transfer to Stage 3	(143)	(2,492)	2,635	–
Charge for the year	2,654	1,468	21,504	25,626
Recovery for the year	–	–	2,460	2,460
Transfer-out due to increase of present value	–	–	(642)	(642)
Write-offs and transfer-out for the year	–	–	(24,414)	(24,414)
Change in exchange rate	(5)	(1)	(1)	(7)
31 December 2021	20,508	10,590	27,385	58,483



	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2020	16,458	8,253	23,211	47,922
Transfer to Stage 1	49	(36)	(13)	–
Transfer to Stage 2	(486)	532	(46)	–
Transfer to Stage 3	(184)	(3,020)	3,204	–
Charge for the year	3,400	4,537	28,590	36,527
Recovery for the year	–	–	1,628	1,628
Transfer-out due to increase of present value	–	–	(664)	(664)
Write-offs and transfer-out for the year	–	–	(29,939)	(29,939)
Change in exchange rate	(4)	(2)	(8)	(14)
31 December 2020	19,233	10,264	25,963	55,460

	The Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2021	16,095	8,784	25,465	50,344
Transfer to Stage 1	163	(101)	(62)	–
Transfer to Stage 2	(1,480)	1,538	(58)	–
Transfer to Stage 3	(143)	(2,300)	2,443	–
Charge for the year	2,072	1,017	20,657	23,746
Recovery for the year	–	–	2,447	2,447
Transfer-out due to increase of present value	–	–	(637)	(637)
Write-offs and transfer-out for the year	–	–	(23,509)	(23,509)
Change in exchange rate	(5)	(1)	(1)	(7)
31 December 2021	16,702	8,937	26,745	52,384

	The Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2020	13,980	7,636	22,993	44,609
Transfer to Stage 1	49	(36)	(13)	–
Transfer to Stage 2	(278)	324	(46)	–
Transfer to Stage 3	(113)	(3,019)	3,132	–
Charge for the year	2,461	3,881	28,180	34,522
Recovery for the year	–	–	1,626	1,626
Transfer-out due to increase of present value	–	–	(659)	(659)
Write-offs and transfer-out for the year	–	–	(29,740)	(29,740)
Change in exchange rate	(4)	(2)	(8)	(14)
31 December 2020	16,095	8,784	25,465	50,344

7. Held-for-trading financial assets

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Held-for-trading financial assets:				
Government bonds	1,535	181	1,535	181
Bonds of public entities and quasi-governments	3,134	975	3,134	975
Bonds of financial institutions	5,994	6,589	5,994	6,589
Corporate bonds	27,261	15,610	27,261	15,610
Certificates of deposit with banks and other financial institutions	2,022	1,020	2,022	1,020
Fund investments	4,463	6,595	4,184	6,595
Other investments measured at fair value through profit or loss:				
Asset management plan of financial institutions	62,787	20,096	62,787	20,096
Fund investments	124,348	70,517	123,730	70,216
Beneficiary rights of assets and others	2,819	1,998	2,226	1,998
Sub-total	234,363	123,581	232,873	123,280
Accrued interest	394	267	394	267
Total	234,757	123,848	233,267	123,547

8. Debt investments

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Government bonds	283,869	281,828	282,577	280,560
Bonds of public entities and quasi-governments	90,002	81,389	89,670	81,359
Bonds of financial institutions	28,131	39,248	28,131	39,248
Corporate bonds	72,147	65,319	71,247	64,419
Asset management plan of financial institutions	151,636	133,289	151,636	133,289
Debt financing plans	78,015	95,596	78,015	95,596
Beneficiary rights of assets	17,592	1,564	17,592	1,564
Standard bill assets	–	5	–	5
Sub-total	721,392	698,238	718,868	696,040
Accrued interest	10,318	9,868	10,300	9,856
Less: Allowance for impairment losses	(13,444)	(5,197)	(13,264)	(5,017)
Of which: 12-month ECL	(2,382)	(2,197)	(2,202)	(2,017)
Lifetime credit loss	(11,062)	(3,000)	(11,062)	(3,000)
Total	718,266	702,909	715,904	700,879

Credit risk and expected credit loss of bond investments:

	The Group			
	31 December 2021			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total debt investment	681,338	15,689	24,365	721,392
Accrued interest	10,175	143	–	10,318
Less: Allowance for impairment losses	(2,382)	(2,315)	(8,747)	(13,444)
Book value of debt investments	689,131	13,517	15,618	718,266

The Group				
31 December 2020				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total debt investment	684,570	11,324	2,344	698,238
Accrued interest	9,528	340	–	9,868
Less: Allowance for impairment losses	(2,197)	(1,379)	(1,621)	(5,197)
Book value of debt investments	691,901	10,285	723	702,909

The Bank				
31 December 2021				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total debt investment	678,814	15,689	24,365	718,868
Accrued interest	10,157	143	–	10,300
Less: Allowance for impairment losses	(2,202)	(2,315)	(8,747)	(13,264)
Book value of debt investments	686,769	13,517	15,618	715,904

The Bank				
31 December 2020				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total debt investment	682,372	11,324	2,344	696,040
Accrued interest	9,516	340	–	9,856
Less: Allowance for impairment losses	(2,017)	(1,379)	(1,621)	(5,017)
Book value of debt investments	689,871	10,285	723	700,879

Changes in allowance for impairment losses on debt investments are as follows:

	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2021	2,197	1,379	1,621	5,197
Transfer to Stage 1	5	(5)	–	–
Transfer to Stage 2	(17)	17	–	–
Transfer to Stage 3	–	(31)	31	–
Charge for the year	199	955	8,116	9,270
Write-offs and transfer-out for the year	–	–	(1,021)	(1,021)
Effect of exchange rate	(2)	–	–	(2)
31 December 2021	2,382	2,315	8,747	13,444

	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2020	1,344	283	930	2,557
Transfer to Stage 1	12	(12)	–	–
Transfer to Stage 2	(29)	29	–	–
Transfer to Stage 3	(1)	(18)	19	–
Charge for the year	873	1,097	791	2,761
Write-offs for the year	–	–	(119)	(119)
Effect of exchange rate	(2)	–	–	(2)
31 December 2020	2,197	1,379	1,621	5,197

	The Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2021	2,017	1,379	1,621	5,017
Transfer to Stage 1	5	(5)	–	–
Transfer to Stage 2	(17)	17	–	–
Transfer to Stage 3	–	(31)	31	–
Charge for the year	199	955	8,116	9,270
Write-offs and transfer-out for the year	–	–	(1,021)	(1,021)
Effect of exchange rate	(2)	–	–	(2)
31 December 2021	2,202	2,315	8,747	13,264

	The Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2020	1,164	283	930	2,377
Transfer to Stage 1	12	(12)	–	–
Transfer to Stage 2	(29)	29	–	–
Transfer to Stage 3	(1)	(18)	19	–
Charge for the year	873	1,097	791	2,761
Write-offs for the year	–	–	(119)	(119)
Effect of exchange rate	(2)	–	–	(2)
31 December 2020	2,017	1,379	1,621	5,017

9. Other debt investments

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Government bonds	42,806	27,182	41,251	27,182
Bonds of public entities and quasi-governments	58,686	37,617	58,686	37,617
Bonds of financial institutions	54,281	59,046	54,281	59,046
Corporate bonds	35,669	33,169	35,669	33,169
Certificates of deposit with banks and other financial institutions	2,322	13,678	2,322	13,678
Sub-total	193,764	170,692	192,209	170,692
Accrued interest	2,508	2,234	2,489	2,234
Total	196,272	172,926	194,698	172,926

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Initial investment cost of other debt investments	192,006	171,007	190,453	171,007
Cumulative changes in fair value	1,758	(315)	1,756	(315)
Sub-total	193,764	170,692	192,209	170,692
Accrued interest	2,508	2,234	2,489	2,234
Total	196,272	172,926	194,698	172,926
Allowance for impairment losses on credit set aside accumulatively	(193)	(149)	(193)	(149)

Credit risk and expected credit loss of other bond investments:

	The Group			
	31 December 2021			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Other debt investments	193,764	–	–	193,764
Accrued interest	2,508	–	–	2,508
Book value of other debt investments	196,272	–	–	196,272
Allowance for impairment losses on other debt investments recorded into other comprehensive income	(193)	–	–	(193)

The Group				
31 December 2020				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Other debt investments	170,692	–	–	170,692
Accrued interest	2,234	–	–	2,234
Book value of other debt investments	172,926	–	–	172,926
Allowance for impairment losses on other debt investments recorded into other comprehensive income	(149)	–	–	(149)

The Bank				
31 December 2021				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Other debt investments	192,209	–	–	192,209
Accrued interest	2,489	–	–	2,489
Book value of other debt investments	194,698	–	–	194,698
Allowance for impairment losses on other debt investments recorded into other comprehensive income	(193)	–	–	(193)

The Bank				
31 December 2020				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Other debt investments	170,692	–	–	170,692
Accrued interest	2,234	–	–	2,234
Book value of other debt investments	172,926	–	–	172,926
Allowance for impairment losses on other debt investments recorded into other comprehensive income	(149)	–	–	(149)

Changes in allowance for impairment losses on other debt investments are as follows:

	The Group and the Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2021	149	–	–	149
Charge for the year	46	–	–	46
Effect of exchange rate	(2)	–	–	(2)
31 December 2021	193	–	–	193

	The Group and the Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2020	40	–	–	40
Charge for the year	111	–	–	111
Effect of exchange rate	(2)	–	–	(2)
31 December 2020	149	–	–	149

10. Other equity instrument investments

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Equity investment	6,924	5,484	6,605	5,472

Analysis of information on other equity instrument investments is as follows:

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Initial investment cost of other equity instrument investments	8,210	6,588	7,889	6,567
Changes in fair value recorded in other comprehensive income accumulatively	(1,286)	(1,104)	(1,284)	(1,095)
Total	6,924	5,484	6,605	5,472

The equity instruments in the disposal of repossessed shares of the Group had a fair value of RMB224 million (2020: RMB488 million) in 2021, and the cumulative gains on disposal and the amount of transfer from other comprehensive income to retained earnings was RMB11 million (2020: RMB159 million).

11. Long-term equity investments

	The Bank	
	31 December 2021	31 December 2020
Subsidiaries		
– Huaxia Financial Leasing Co., Ltd.	4,920	4,920
– Huaxia Wealth Management Co., Ltd.	3,000	3,000
– Beijing Daxing Hua Xia Rural Bank Co., Ltd.	100	100
– Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	35	35
– Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	35	35
Total	8,090	8,090

As at 31 December 2021 and 31 December 2010, there was no impairment in the Group's long-term equity investments.

12. Fixed assets

	The Group				Total
	Houses and buildings	Office supplies and electronic devices	Transportation facilities and others	Construction in-process	
Original value					
1 January 2021	14,343	8,174	142	126	22,785
Acquisition in the year	23	971	585	73	1,652
Sale/disposal	(2)	(571)	(301)	–	(874)
31 December 2021	14,364	8,574	426	199	23,563
Accumulative depreciation					
1 January 2021	(3,191)	(5,914)	(96)	–	(9,201)
Charge for the year	(387)	(682)	(10)	–	(1,079)
Sale/disposal	–	530	12	–	542
31 December 2021	(3,578)	(6,066)	(94)	–	(9,738)
Allowance for impairment losses					
1 January 2021	–	–	–	–	–
Charge for the year	–	–	–	–	–
Sale/disposal	–	–	–	–	–
31 December 2021	–	–	–	–	–
Net amount					
1 January 2021	11,152	2,260	46	126	13,584
31 December 2021	10,786	2,508	332	199	13,825



	The Group				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities and others	Construction in-process	Total
Original value					
1 January 2020	14,052	7,973	142	–	22,167
Acquisition in the year	292	842	6	126	1,266
Sale/disposal	(1)	(641)	(6)	–	(648)
31 December 2020	14,343	8,174	142	126	22,785
Accumulative depreciation					
1 January 2020	(2,804)	(5,806)	(91)	–	(8,701)
Charge for the year	(387)	(683)	(10)	–	(1,080)
Sale/disposal	–	575	5	–	580
31 December 2020	(3,191)	(5,914)	(96)	–	(9,201)
Allowance for impairment losses					
1 January 2020	–	–	–	–	–
31 December 2020	–	–	–	–	–
Net amount					
1 January 2020	11,248	2,167	51	–	13,466
31 December 2020	11,152	2,260	46	126	13,584

	The Bank				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction in-process	Total
Original value					
1 January 2021	14,313	8,145	140	126	22,724
Acquisition in the year	23	960	9	73	1,065
Sale/disposal	(2)	(570)	(13)	–	(585)
31 December 2021	14,334	8,535	136	199	23,204
Accumulative depreciation					
1 January 2021	(3,185)	(5,891)	(95)	–	(9,171)
Charge for the year	(386)	(677)	(10)	–	(1,073)
Sale/disposal	–	529	12	–	541
31 December 2021	(3,571)	(6,039)	(93)	–	(9,703)
Allowance for impairment losses					
1 January 2021	–	–	–	–	–
Charge for the year	–	–	–	–	–
Sale/disposal	–	–	–	–	–
31 December 2021	–	–	–	–	–
Net amount					
1 January 2021	11,128	2,254	45	126	13,553
31 December 2021	10,763	2,496	43	199	13,501



	The Bank				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction in-process	Total
Original value					
1 January 2020	14,022	7,948	140	–	22,110
Acquisition in the year	292	836	6	126	1,260
Sale/disposal	(1)	(639)	(6)	–	(646)
31 December 2020	14,313	8,145	140	126	22,724
Accumulative depreciation					
1 January 2020	(2,799)	(5,786)	(90)	–	(8,675)
Charge for the year	(386)	(680)	(10)	–	(1,076)
Sale/disposal	–	575	5	–	580
31 December 2020	(3,185)	(5,891)	(95)	–	(9,171)
Allowance for impairment losses					
1 January 2020	–	–	–	–	–
31 December 2020	–	–	–	–	–
Net amount					
1 January 2020	11,223	2,162	50	–	13,435
31 December 2020	11,128	2,254	45	126	13,553

As at 31 December 2021, the Group has several houses and buildings with a book value of RMB473 million (31 December 2020: RMB485 million) that are in use but whose registration of title is in process. The Management of the Group expects that relevant formalities will neither affect the Group's succession of the asset rights nor cause adverse impact on its operation.

13. Right-of-use assets

	The Group			
	Houses and buildings	Office supplies and electronic devices	Transportation facilities and others	Total
Original value				
1 January 2021	6,494	22	1	6,517
Increase over the year	1,750	1	–	1,751
Decrease over the year	(115)	–	–	(115)
Difference from foreign currency translation	1	–	–	1
31 December 2021	8,130	23	1	8,154
Accumulative depreciation				
1 January 2021	–	–	–	–
Increase over the year	(1,803)	(7)	(1)	(1,811)
Decrease over the year	9	–	–	9
Difference from foreign currency translation	–	–	–	–
31 December 2021	(1,794)	(7)	(1)	(1,802)
Net amount				
1 January 2021	6,494	22	1	6,517
31 December 2021	6,336	16	–	6,352

	The Bank			Total
	Houses and buildings	Office supplies and electronic devices	Transportation facilities and others	
Original value				
1 January 2021	6,409	22	1	6,432
Increase over the year	1,546	1	–	1,547
Decrease over the year	(104)	–	–	(104)
Difference from foreign currency translation	1	–	–	1
31 December 2021	7,852	23	1	7,876
Accumulative depreciation				
1 January 2021	–	–	–	–
Increase over the year	(1,747)	(7)	(1)	(1,755)
Decrease over the year	8	–	–	8
Difference from foreign currency translation	–	–	–	–
31 December 2021	(1,739)	(7)	(1)	(1,747)
Net amount				
1 January 2021	6,409	22	1	6,432
31 December 2021	6,113	16	–	6,129

14. Deferred taxation

Deferred income tax assets and deferred income tax liabilities are stated as follows in net amounts after offsetting:

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Deferred income tax assets	10,169	10,155	9,217	9,432

(1) Changes in balance of deferred income tax assets

	The Group		The Bank	
	2021	2020	2021	2020
Balance at the beginning of the year	10,155	8,574	9,432	7,886
Recorded in profit or loss	527	982	297	947
Recorded in other comprehensive income	(513)	599	(512)	599
Balance at the end of the year	10,169	10,155	9,217	9,432

(2) Deferred income tax assets and deferred income tax liabilities that are not offset are stated as follows:

	The Group			
	31 December 2021		31 December 2020	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
Allowance for impairment losses on loans	28,686	6,607	25,161	5,885
Wages set aside but not paid	6,680	1,658	6,837	1,700
Allowance for impairment losses on other assets	13,522	3,352	8,168	2,016
Changes in fair value of derivative financial instruments	7,882	1,971	12,365	3,091
Changes in fair value of held-for-trading financial assets	11	2	223	56
Changes in fair value of other debt investments	–	–	315	79
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	78	20	129	32
Changes in fair value of other equity instrument investments	1,286	321	1,104	275
Projected liabilities	2,355	586	2,309	577
Others	824	186	223	34
Sub-total	61,324	14,703	56,834	13,745
Deferred income tax liabilities				
Changes in fair value of derivative financial instruments	(8,199)	(2,050)	(12,361)	(3,090)
Changes in fair value of held-for-trading financial assets	(8,136)	(2,035)	(1,994)	(499)
Changes in fair value of other debt investments	(1,758)	(439)	–	–
Others	(57)	(10)	(11)	(1)
Sub-total	(18,150)	(4,534)	(14,366)	(3,590)
Net amount	43,174	10,169	42,468	10,155



	The Bank			
	31 December 2021		31 December 2020	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
Allowance for impairment losses on loans	22,944	5,739	21,024	5,256
Wages set aside but not paid	6,528	1,632	6,716	1,679
Allowance for impairment losses on other assets	13,231	3,308	7,912	1,978
Changes in fair value of derivative financial instruments	7,882	1,971	12,365	3,091
Changes in fair value of held-for-trading financial assets	11	2	223	56
Changes in fair value of other debt investments	–	–	315	79
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	78	20	129	32
Changes in fair value of other equity instrument investments	1,284	321	1,095	274
Projected liabilities	2,338	584	2,302	576
Others	650	162	–	–
Sub-total	54,946	13,739	52,081	13,021
Deferred income tax liabilities				
Changes in fair value of derivative financial instruments	(8,199)	(2,050)	(12,361)	(3,090)
Changes in fair value of held-for-trading financial assets	(8,129)	(2,033)	(1,994)	(499)
Changes in fair value of other debt investments	(1,756)	(439)	–	–
Others	–	–	(2)	–
Sub-total	(18,084)	(4,522)	(14,357)	(3,589)
Net amount	36,862	9,217	37,724	9,432

15. Other assets

		The Group		The Bank	
		31 December 2021	31 December 2020	31 December 2021	31 December 2020
Receivables and payment on account	(1)	4,881	8,523	2,046	6,838
Funds to be cleared		3,974	2,074	3,969	2,073
Long-term prepaid expenses		1,373	1,576	1,352	1,554
Repossessed assets to be disposed of	(2)	1,293	1,358	1,293	1,357
Interest receivable		661	966	638	919
Others		751	308	751	308
Total		12,933	14,805	10,049	13,049

(1) Receivables and payment on account presented by aging

Aging	The Group							
	31 December 2021				31 December 2020			
	Amount	Percentage (%)	Allowance for bad debts	Net amount	Amount	Percentage (%)	Allowance for bad debts	Net amount
No more than 1 year	4,217	73.67	(127)	4,090	7,115	75.95	(91)	7,024
1 – 2 years (inclusive)	341	5.96	(67)	274	1,037	11.07	(35)	1,002
2 – 3 years (inclusive)	129	2.25	(20)	109	222	2.37	(51)	171
More than 3 years	1,037	18.12	(629)	408	994	10.61	(668)	326
Total	5,724	100.00	(843)	4,881	9,368	100.00	(845)	8,523

Aging	The Bank							
	31 December 2021				31 December 2020			
	Amount	Percentage (%)	Allowance for bad debts	Net amount	Amount	Percentage (%)	Allowance for bad debts	Net amount
No more than 1 year	1,449	51.26	(114)	1,335	5,649	74.15	(79)	5,570
1 – 2 years (inclusive)	300	10.61	(54)	246	953	12.51	(32)	921
2 – 3 years (inclusive)	129	4.56	(20)	109	102	1.34	(24)	78
More than 3 years	949	33.57	(593)	356	914	12.00	(645)	269
Total	2,827	100.00	(781)	2,046	7,618	100.00	(780)	6,838

(2) Repossessed assets to be disposed of

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Reposessed assets to be disposed of	2,414	2,328	2,414	2,327
Less: Allowance for impairment losses	(1,121)	(970)	(1,121)	(970)
Book value of reposessed assets to be disposed of	1,293	1,358	1,293	1,357

16. Allowance for impairment losses on credit/assets

	The Group					
	2021					
	Opening balance	Charge for the year	Write-offs and transfer-out for the year	Recovery for the year	Change in exchange rate	Ending balance
Due from banks	64	11	–	–	(2)	73
Placements with banks and other financial institutions	91	5	–	–	(2)	94
Financial assets purchased under agreements to resell	306	–	–	–	–	306
Loans and advances to customers measured at amortized cost	55,460	25,626	(25,056)	2,460	(7)	58,483
Loans and advances to customers measured at fair value through other comprehensive income	448	66	–	–	–	514
Debt investments	5,197	9,270	(1,021)	–	(2)	13,444
Other debt investments	149	46	–	–	(2)	193
Others	3,808	301	(126)	1	(1)	3,983
Total	65,523	35,325	(26,203)	2,461	(16)	77,090

The Group						
2020						
	Opening balance	Charge/ (reversal) for the year	Write-offs and transfer-out for the year	Recovery for the year	Change in exchange rate	Ending balance
Due from banks	25	40	–	–	(1)	64
Placements with banks and other financial institutions	85	9	–	1	(4)	91
Financial assets purchased under agreements to resell	306	–	–	–	–	306
Loans and advances to customers measured at amortized cost	47,922	36,527	(30,603)	1,628	(14)	55,460
Loans and advances to customers measured at fair value through other comprehensive income	668	(220)	–	–	–	448
Debt investments	2,557	2,761	(119)	–	(2)	5,197
Other debt investments	40	111	–	–	(2)	149
Other	2,962	1,039	(189)	–	(4)	3,808
Total	54,565	40,267	(30,911)	1,629	(27)	65,523

The Bank						
2021						
	Opening balance	Charge for the year	Write-offs and transfer-out for the year	Recovery for the year	Change in exchange rate	Ending balance
Due from banks	64	11	–	–	(2)	73
Placements with banks and other financial institutions	91	5	–	–	(2)	94
Financial assets purchased under agreements to resell	306	–	–	–	–	306
Loans and advances to customers measured at amortized cost	50,344	23,746	(24,146)	2,447	(7)	52,384
Loans and advances to customers measured at fair value through other comprehensive income	448	66	–	–	–	514
Debt investments	5,017	9,270	(1,021)	–	(2)	13,264
Other debt investments	149	46	–	–	(2)	193
Others	3,744	275	(114)	1	(1)	3,905
Total	60,163	33,419	(25,281)	2,448	(16)	70,733



	The Bank					
	2020					
	Opening balance	Charge/ (reversal) for the year	Write-offs and transfer-out for the year	Recovery for the year	Change in exchange rate	Ending balance
Due from banks	25	40	–	–	(1)	64
Placements with banks and other financial institutions	85	9	–	1	(4)	91
Financial assets purchased under agreements to resell	306	–	–	–	–	306
Loans and advances to customers measured at amortized cost	44,609	34,522	(30,399)	1,626	(14)	50,344
Loans and advances to customers measured at fair value through other comprehensive income	668	(220)	–	–	–	448
Debt investments	2,377	2,761	(119)	–	(2)	5,017
Other debt investments	40	111	–	–	(2)	149
Other	2,913	1,022	(188)	–	(3)	3,744
Total	51,023	38,245	(30,706)	1,627	(26)	60,163

17. Due to central banks

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Mid-term credit facility	148,300	129,800	148,300	129,800
Others	37	97	–	–
Accrued interest	1,377	1,139	1,377	1,139
Total	149,714	131,036	149,677	130,939

Mid-term credit facility refers to the monetary policies tools issued by PBOC to commercial banks and policy banks by means of pledge. On 31 December 2021, the Bank held the facilities for an original term of one to twelve months at the interest rate of 2.95% which was pledged with its bonds worth of RMB155,016 million. On 31 December 2020, the Bank held the facilities for an original term of one to twelve months at the interest rate of 2.95% – 3.25% which was pledged with its bonds worth of RMB138,678 million.

18. Due to banks and other financial institutions

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Due to domestic banks	87,047	128,126	87,108	128,224
Due to other domestic financial institutions	452,859	305,506	452,955	310,544
Accrued interest	2,122	1,360	2,122	1,368
Total	542,028	434,992	542,185	440,136

19. Placements from banks and other financial institutions

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Placements from domestic banks	96,410	102,242	21,137	19,869
Placements from other domestic financial institutions	17,000	6,090	–	–
Accrued interest	506	685	13	36
Total	113,916	109,017	21,150	19,905

20. Financial assets sold under agreements to repurchase

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Bonds	43,498	43,608	43,498	42,430
Bills	2,984	5,515	2,984	5,515
Accrued interest	29	32	29	30
Total	46,511	49,155	46,511	47,975

For details on the Group's assets taken as collateral for repurchase, please see Note XII-5 Collateral.

21. Deposits taken

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Demand deposits				
Corporate deposits	657,818	691,013	657,179	689,790
Personal deposits	130,790	133,660	130,640	133,500
Time deposits				
Corporate deposits	652,450	589,609	652,287	589,318
Personal deposits	256,893	218,276	255,863	217,367
Security deposit received (1)	204,704	180,173	204,590	180,042
Outward remittances and remittances outstanding	1,699	5,531	1,693	5,526
Others	9	68	9	68
Sub-total	1,904,363	1,818,330	1,902,261	1,815,611
Accrued interest	22,986	18,690	22,926	18,647
Total	1,927,349	1,837,020	1,925,187	1,834,258

(1) Security deposit received is presented by item as follows:

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Security deposit for bank acceptance	155,105	125,916	155,088	125,884
Security deposit for L/C issuance	28,913	30,391	28,913	30,391
Security deposit for L/G issuance and guarantee	6,382	5,049	6,364	5,028
Other security deposits	14,304	18,817	14,225	18,739
Total	204,704	180,173	204,590	180,042

22. Accrued payroll

	The Group			
	2021			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Wages and bonuses	6,628	11,937	(11,885)	6,680
Employee welfare	–	451	(451)	–
Social insurance	73	2,143	(2,165)	51
Housing provident fund	8	886	(883)	11
Labor union funds and employee education expense	252	316	(316)	252
Total	6,961	15,733	(15,700)	6,994

	The Group			
	2020			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Wages and bonuses	6,540	11,773	(11,685)	6,628
Employee welfare	–	421	(421)	–
Social insurance	54	1,442	(1,423)	73
Housing provident fund	10	830	(832)	8
Labor union funds and employee education expense	43	518	(309)	252
Total	6,647	14,984	(14,670)	6,961



	The Bank			
	2021			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Wages and bonuses	6,507	11,509	(11,488)	6,528
Employee welfare	–	441	(441)	–
Social insurance	51	2,095	(2,107)	39
Housing provident fund	8	871	(868)	11
Labor union funds and employee education expense	236	304	(305)	235
Total	6,802	15,220	(15,209)	6,813

	The Bank			
	2020			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Wages and bonuses	6,445	11,525	(11,463)	6,507
Employee welfare	–	417	(417)	–
Social insurance	40	1,413	(1,402)	51
Housing provident fund	10	822	(824)	8
Labor union funds and employee education expense	31	510	(305)	236
Total	6,526	14,687	(14,411)	6,802

23. Taxes and dues payable

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Enterprise income tax	5,264	5,543	4,844	5,095
VAT	1,832	1,702	1,801	1,697
Others	517	495	463	465
Total	7,613	7,740	7,108	7,257

24. Lease liabilities

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
No more than 1 year	1,627	N/A	1,563	N/A
1 – 5 years	3,866	N/A	3,730	N/A
Over 5 years	1,205	N/A	1,162	N/A
Total undiscounted lease liabilities	6,698	N/A	6,455	N/A
Lease liabilities	6,053	N/A	5,835	N/A

25. Debt obligations payable

		The Group		The Bank	
		31 December 2021	31 December 2020	31 December 2021	31 December 2020
Bonds payable					
Financial bonds	(1)	138,500	113,000	130,000	106,000
Tier-2 capital bonds	(2)	30,000	30,000	30,000	30,000
Sub-total		168,500	143,000	160,000	136,000
Certificates of deposit with banks and other financial institutions	(3)	376,307	366,186	376,307	366,186
Accrued interest		2,441	2,628	2,237	2,516
Total		547,248	511,814	538,544	504,702



(1) Financial bonds

- (i) As approved by CBIRC and PBOC, the Bank issued the green financial bond (series 1) of Hua Xia Bank Co., Ltd. for 2020 from 15 to 17 April 2020 and the issuance volume was RMB10 billion. The bonds have a term of three years, the coupon rate is fixed at 2.08% and the interest will be paid annually. The value date is 17 April 2020 and the maturity date is 17 April 2023.
- (ii) As approved by CBIRC and PBOC, the Bank issued the MSE loans special financial bond (series 1) of Hua Xia Bank Co., Ltd. for 2020 from 6 to 10 August 2020 and the issuance volume was RMB20 billion. The bonds have a term of three years, the coupon rate is fixed at 3.19% and the interest will be paid annually. The value date is 10 August 2020 and the maturity date is 10 August 2023.
- (iii) As approved by CBIRC and PBOC, the Bank issued the financial bond of Hua Xia Bank Co., Ltd. for 2020 from 16 to 18 April 2020 and the issuance volume was RMB33 billion. The bonds have a term of three years, the coupon rate is fixed at 3.54% and the interest will be paid annually. The value date is 18 December 2020 and the maturity date is 18 December 2023.
- (iv) As approved by CBIRC and PBOC, the Bank issued the phase 1 financial bonds of Hua Xia Bank Co., Ltd. for 2021 from 16 to 18 March 2021 and the issuance volume was RMB27 billion. The bonds have a term of three years, the coupon rate is fixed at 3.45% and the interest will be paid annually. The value date is 18 March 2021 and the maturity date is 18 March 2024.
- (v) As approved by CBIRC and PBOC, the Bank issued the financial bond (series 2) of Hua Xia Bank Co., Ltd. for 2021 from 8 to 10 November 2021 and the issuance volume was RMB40 billion. The bonds have a term of three years, the coupon rate is fixed at 3.03% and the interest will be paid annually. The value date is 10 November 2021 and the maturity date is 10 November 2024.
- (vi) As approved by CBIRC Yunnan Office and PBOC, Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group, issued the financial bond (series 1) for 2019 from 6 to 11 March 2019 and the issuance volume was RMB2.5 billion. The bonds have a term of three years, the coupon rate is fixed at 3.52% and the interest will be paid annually. The value date is 11 March 2019 and the maturity date is 11 March 2022.
- (vii) As approved by CBIRC Yunnan Office and PBOC, Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group, issued the financial bond (series 1) for 2020 from 10 to 14 January 2020 and the issuance volume was RMB2 billion. The bonds have a term of three years, the coupon rate is fixed at 3.75% and the interest will be paid annually. The value date is 14 September 2020 and the maturity date is 14 September 2023.
- (viii) As approved by CBIRC Yunnan Office and PBOC, Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group, issued the financial bond (series 1) for 2021 from 24 to 28 January 2021 and the issuance volume was RMB2 billion. The bonds have a term of three years, the coupon rate is fixed at 3.62% and the interest will be paid annually. The value date is 28 January 2021 and the maturity date is 28 January 2024.
- (ix) As approved by CBIRC Yunnan Office and PBOC, Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group, issued the financial bond (series 2) for 2021 from 13 to 17 May 2021 and the issuance volume was RMB2 billion. The bonds have a term of three years, the coupon rate is fixed at 3.45% and the interest will be paid annually. The value date is 17 May 2021 and the maturity date is 17 May 2024.

(2) Tier-2 capital bonds

- (i) As approved by the former CBRC and PBOC, the Bank issued the first tier-2 capital bonds of Hua Xia Bank Co., Ltd. for 2017 on 26 May 2017, and the issuance volume was RMB30 billion. The bonds are 10-year bonds at a fixed interest rate, and at the end of the fifth year the issuer may exercise the redemption option to redeem all or part of bonds at face value. The coupon rate is fixed at 4.80% and the interest will be paid annually. The value date is 26 May 2017. If the issuer does not exercise its redemption right, the interest period of the bonds ranges between 26 May 2017 and 25 May 2027. If the issuer does exercise the redemption right, the interest period of the bonds for the part redeemed ranges between 26 May 2017 and 25 May 2022.

(3) Certificates of deposit with banks and other financial institutions

As at 31 December 2021, there were 189 outstanding certificates of deposit with banks and financial institutions with the total face value of RMB381,141 million and terms of 1 month to 1 year. Except eight certificates of deposit with banks and other financial institutions issued at fixed rates and paid with interest upon maturity in a sum, others are issued in discount.

26. Projected liabilities

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Credit commitments	2,355	2,309	2,338	2,302
Pending legal proceedings	–	–	–	–
Total	2,355	2,309	2,338	2,302

ECL of loan commitments are classified into three stages:

	31 December 2021			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
The Group	2,345	9	1	2,355
The Bank	2,328	9	1	2,338

	31 December 2020			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
The Group	2,136	128	45	2,309
The Bank	2,129	128	45	2,302

27. Other liabilities

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Security deposit for financial lease	5,826	5,157	–	–
On-lending	3,500	3,205	3,500	3,205
Funds to be settled and cleared payable	1,384	1,151	1,383	1,151
Agency collection for asset securitization business	186	417	186	417
Others	6,820	4,822	6,844	3,510
Total	17,716	14,752	11,913	8,283

28. Share capital

	31 December 2021		31 December 2020	
	Total number of shares (million)	Nominal amount	Total number of shares (million)	Nominal amount
A shares with par value of RMB1 per share registered, issued and paid in full amount	15,387	15,387	15,387	15,387

Note: A shares refer to ordinary shares domestically offered, and subscribed and traded in Renminbi.

As at 31 December 2021, the Bank's paid-in capital had amounted to RMB15,387 million (31 December 2020: RMB15,387 million), with the par value of each share being RMB1.

29. Other equity instruments

(1) Preference shares

On 23 February 2016, the Bank was approved by CSRC to privately issue up to 200 million domestic preference shares and the par value of each share is RMB100. The offering of preference shares valuing RMB20 billion was completed in March 2016, and the payment of the proceeds has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP.

Information on outstanding preference shares at the year end:

Outstanding financial instrument	Issuing time	Accounting category	Dividend rate	Issuance price	Number	Amount	Maturity date	Share conversion condition	Conversion
				RMB/share	Million shares	RMB millions			
Preference shares	March 2016	Equity instrument	Note 1	100	200	20,000	No maturity day	Note 2	No conversion

Note 1: These preference shares were issued at a dividend rate which can be adjusted for several periods. Every five years is an interest period from the payment deadline, and the dividend rate remains the same in each interest period. The dividend rate for the first interest period was determined as 4.20% by the Board of Directors of the Bank authorized by the Shareholders' General Meeting after taking into account the national policies, market conditions, specific conditions of the Bank, the demands of investors, etc. by way of inquiry. The coupon dividend rate consists of benchmark interest rate and fixed premium. The benchmark interest rate will be adjusted every five years from the deadline for payment of the preference shares. The fixed premium was determined as 1.61% which was the dividend rate of the first interest period 4.20% deducted by the benchmark interest rate 2.59%, and will not be adjusted. In the second dividend rate adjustment period, the value date is 28 March 2021 with a benchmark rate of 3.07% and coupon rate of 4.68%.

Note 2: (1) When the trigger event of other tier-1 capital instruments takes place, i.e., the core tier-1 capital adequacy ratio becomes as low as 5.125% (or below), the Bank is entitled to convert the existing preference shares issued this time to ordinary shares based on the total par value at that time without the approval of preference shareholders so as to recover the Bank's core tier-1 capital adequacy ratio to above 5.125%. If some preference shares are converted, the preference shares issued this time will be converted based on the same ratio and under the same conditions. If the preference shares are converted to ordinary shares, they will not be converted back under any conditions.

Note 2: (2) When the trigger event of tier-2 capital instruments takes place, the Bank is entitled to convert all the existing preference shares issued this time to ordinary shares based on the total par value at that time without the approval of preference shareholders. If the preference shares are converted to ordinary shares, they will not be converted back under any conditions. The trigger event of tier-2 capital instruments is the earlier one in: (1) CBIRC determines that the issuer will not survive if it does not conduct write-down; and (2) the relevant authorities determine that the issuer will not survive if it does not obtain capital injection from the public sector or the support with the same effect.

Preference shareholders of the Bank take precedence over ordinary shareholders to be distributed the residual properties of the Bank. That is, when the Bank liquidates, the total carrying amount of preference shares that have been issued and are still in existence as well as dividends that have been announced to distributed but not been paid for the period shall be paid firstly to preference shareholders; if not sufficient to pay, such dividends and carrying amount will be paid on the basis of the shareholding ratio of preference shareholders. As at 31 December 2021, the net funds of RMB19,978 million raised by the Bank were all used for replenishing tier-1 capital.

Information on outstanding preference shares:

	1 January 2021		Increase over the year		Decrease over the year		31 December 2021	
	Number	Book value	Number	Book value	Number	Book value	Number	Book value
	Million shares	RMB millions	Million shares	RMB millions	Million shares	RMB millions	Million shares	RMB millions
Preference shares	200	20,000	–	–	–	–	200	20,000
Issuing cost		(22)						(22)
Total preference shares	200	19,978					200	19,978

(2) Perpetual bonds

In June 2019, the Bank publicly issued RMB40 billion of perpetual bond (the “Bond”) in the national interbank bond market and completed the Bond registration and custody formalities with China Central Depository & Clearing Co., Ltd. (CCDC).

Information on issued and outstanding perpetual bonds at the end of 2019:

Outstanding financial instrument	Issuing time	Accounting category	Coupon rate	Issuance price	Number	Amount	Maturity date	Write-down clauses
				RMB yuan/ RMB100 par value		RMB millions		
Perpetual bonds	June 2019	Equity instrument	Note 1	100	400	40,000	Duration of ongoing concern	Note 2

Note 1: The Bond will carry a coupon rate adjustable at regular intervals. Starting from the cut-off date for issue payments, every five years will be an interval for coupon rate adjustment. During each interval, interest will be paid at the fixed coupon rate agreed upon. The interest rate is 4.85% in the first interval. The coupon rate of the Bond consists of the benchmark rate and a fixed spread. The benchmark interest rate is the arithmetic mean (rounded to 0.01%) of the ChinaBond 5Y Treasury Bond YTM published by ChinaBond.com (or other website recognized by the CCDC) in the five trading days prior to the publication date of the Bond subscription documents. The fixed spread is the coupon rate determined at the time of this bond issue minus the benchmark rate at the time of this issue. Once determined, the fixed spread will remain constant. The non-cumulative interest payment method is adopted for the bond. The issuer may cancel all or part of the interest payment on the bond without constituting an event of default.

Note 2: (1) When the trigger event of other tier-1 capital instruments takes place, i.e., the issuer's core tier-1 capital adequacy ratio becomes as low as 5.125% (or below), the issuer is entitled, upon the approval by CBIRC and without the consent of bond holders, to write down all or part of the issued and outstanding bond based on the total par value so as to recover the core tier – 1 capital adequacy ratio to above 5.125%. In the case of partial write-down, all the bond issued and outstanding and other tier – 1 capital instruments of the issuer with a write-down feature under the same terms and conditions are written down in the same proportion of the par value. Before the total par value of the bond is fully written down, the issuer may conduct one or more writedowns so as to recover the core tier-1 capital adequacy ratio to above 5.125%.

(2) When the trigger event of tier-2 capital instruments takes place, the issuer is entitled to write down all the issued and outstanding bonds based on the total par value at that time without the approval of bond holders. The trigger event of tier-2 capital instruments is the earlier one in: 1) CBIRC determines that the issuer will not survive if it does not conduct write-down; and 2) the relevant authorities determine that the issuer will not survive if it does not obtain capital injection from the public sector or the support with the same effect. The bond is permanently terminated upon write-down of its principal and will no longer recover under any conditions.

Information on changes in issued perpetual bonds:

	1 January 2021		Increase over the year		Decrease over the year		31 December 2021	
	Number	Book value	Number	Book value	Number	Book value	Number	Book value
	Million shares	RMB millions	Million shares	RMB millions	Million shares	RMB millions	Million shares	RMB millions
Perpetual bonds	400	40,000	–	–	–	–	400	40,000
Issuing cost		(7)						(7)
Total perpetual bonds	400	39,993					400	39,993

Information on items attributable to holders of equity instruments is presented below:

	31 December 2021	31 December 2020
Equity attributable to parent company		
Equity attributable to ordinary shareholders of parent company	238,321	220,642
Equity attributable to other shareholders of parent company	59,971	59,971
Of which: Net profit	2,780	2,780
Distributed profit for the period	(2,780)	(2,780)
Equity attributable to minority shareholders	2,410	2,042
Total shareholders' equity	300,702	282,655

30. Capital reserve

	The Group			
	2021			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	53,291	–	–	53,291
Investment by minority shareholders at premium	1	–	–	1
Total	53,292	–	–	53,292

	The Group			
	2020			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	53,291	–	–	53,291
Investment by minority shareholders at premium	1	–	–	1
Total	53,292	–	–	53,292

	The Bank			
	2021			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	53,291	–	–	53,291

	The Bank			
	2020			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	53,291	–	–	53,291

31. Surplus reserve

	The Group and the Bank	
	31 December 2021	31 December 2020
Statutory surplus reserve	19,636	17,661
Discretionary surplus reserve	111	95
Total	19,747	17,756

- (1) According to relevant laws of the People's Republic of China, the Bank must appropriate statutory surplus reserve at 10% of the net profit based on the PRC GAAP until the statutory surplus reserve accumulated to 50% of the share capital. After the statutory surplus reserve is appropriated, the Bank can determine its amount of discretionary surplus reserve on its own upon approval by the Shareholders' General Meeting.
- (2) As at 31 December 2021, statutory surplus reserve accumulatively appropriated by the Bank had exceeded 50% of the share capital and the statutory surplus reserve in excess of 50% shall be subject to approval by the Shareholders' General Meeting.
- (3) For details on surplus reserve, please refer to Note IX-33 Retained Profit.

32. General risk reserve

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
General risk reserve	43,631	38,683	42,104	37,424

- (1) As at 1 July 2012, the Bank has set aside general risk reserve in accordance with the Administrative Measures for Reserve Provisioning of Financial Enterprises (C.J. [2012] No. 20). The general risk reserve is treated as profit distribution and its balance shall not be lower than 1.5% of the ending balance of risk assets in principle.
- (2) For details on surplus reserve, please refer to Note IX-33 Retained Profit.
- (3) According to the regulatory rules, some subsidiaries of the Bank should appropriate certain amount from the net profit as general risk reserve. Such general risk reserve is treated as profit distribution.

33. Retained profit

(1) Profit distribution for 2021

The profit distribution plan for 2021 that is passed by the Board of Directors and submitted to the Shareholders' General Meeting for approval on 28 April 2022 is as follows:

- (i) Set aside statutory surplus reserve of RMB2,162 million based on the Bank's net profit for 2021 which is RMB21,623 million;
- (ii) Set aside general risk reserve of RMB2,633 million, after which the Bank's balance of general risk reserve reaches 1.5% of the outstanding risk assets on 31 December 2021;
- (iii) Distribute dividends to all ordinary shareholders at the rate of RMB3.38 (pre-tax) per 10 shares, totaling RMB5,201 million, based on the Bank's total ordinary share capital of 15,387,223,983 shares at the end of 2021.

The above profit distribution plan is subject to approval by the Bank's Shareholders' General Meeting. Before that, accounting treatment is not made to the proposed surplus reserve, general risk reserve and dividend distribution.

- (iv) The interest accrual period for preference shares issued in 2016 is from 28 March 2021 to 27 March 2022 (at an annual dividend rate of 4.68%), and the dividends payable for these preference shares are RMB936 million. Dividends on preference shares were paid on 28 March 2022.

The above plan for distribution of dividends of preference shares was approved by the Board of Directors on 28 October 2021.

- (v) The interest accrual period for RMB perpetual bonds issued in June 2019 is from 26 June 2021 to 25 June 2022 (at an interest rate of 4.85%), and the accrued interest is RMB1,940 million.

(2) Profit distribution for 2020

The Bank has implemented the profit distribution plan for 2020 that was approved by the Shareholders' General Meeting on 28 May 2021. Particulars are as follows:

- (i) Set aside statutory surplus reserve of RMB1,991 million based on the Bank's net profit for 2020 which is RMB19,914 million; such statutory surplus has been recorded in the balance sheet of the Group and the Bank dated 31 December 2021;
- (ii) Set aside general risk reserve of RMB4,680 million, after which the Bank's balance of general risk reserve reaches 1.5% of the outstanding risk assets on 31 December 2020; such general risk reserve has been recorded in the balance sheet of the Group and the Bank dated 31 December 2021;
- (iii) Distribute dividends to all ordinary shareholders at the rate of RMB3.01 (pre-tax) per 10 shares, totaling RMB4,632 million, based on the Bank's total ordinary share capital of 15,387,223,983 shares at the end of 2020. The dividend was distributed in 2021.
- (iv) The interest accrual period for preference shares issued in 2016 is from 28 March 2020 to 27 March 2021 (at an annual dividend rate of 4.20%), and the dividends payable for these preference shares are RMB840 million. The aforesaid dividends have been distributed in 2021.
- (v) The interest accrual period for RMB perpetual bonds issued in June 2019 is from 26 June 2020 to 25 June 2021 (at an interest rate of 4.85%), and the accrued interest is RMB1,940 million. Such interest was paid on 28 June 2021.

(3) Profit distribution for 2019

The Bank has implemented the profit distribution plan for 2019 that was approved by the Shareholders' General Meeting on 15 May 2020. Particulars are as follows:

- (i) Set aside statutory surplus reserve of RMB2,094 million based on the Bank's net profit for 2019 which is RMB20,942 million; such statutory surplus has been recorded in the balance sheet of the Group and the Bank dated 31 December 2020.
- (ii) Set aside general risk reserve of RMB3,671 million, after which the Bank's balance of general risk reserve reaches 1.5% of the outstanding risk assets on 31 December 2019; such general risk reserve has been recorded in the balance sheet of the Group and the Bank dated 31 December 2020.
- (iii) Distribute dividends to all ordinary shareholders at the rate of RMB2.49 (pre-tax) per 10 shares, totaling RMB3,831 million, based on the Bank's total ordinary share capital of 15,387,223,983 shares at the end of 2019. The aforesaid dividends have been distributed in 2020.
- (iv) The interest accrual period for preference shares issued in 2016 is from 28 March 2019 to 27 March 2020 (at an annual dividend rate of 4.20%), and the dividends payable for these preference shares are RMB840 million. The aforesaid dividends have been distributed in 2020.
- (v) The interest accrual period for RMB perpetual bonds issued in June 2019 is from 26 June 2019 to 25 June 2020 (at an interest rate of 4.85% for the first interest accrual period), and the accrued interest is RMB1,940 million (before tax). Such interest was paid on 28 June 2020.

34. Net interest income

	The Group		The Bank	
	2021	2020	2021	2020
Interest income				
Loans and advances to customers	108,726	105,364	100,698	97,985
Of which: Corporate loans and advances to customers	68,813	68,233	60,844	60,911
Personal loans and advances to customers	36,612	33,044	36,553	32,987
Discounted bills	3,301	4,087	3,301	4,087
Financial investments	36,583	36,461	36,474	36,375
Of which: Debt investments	30,576	30,975	30,476	30,889
Other debt investments	6,007	5,486	5,998	5,486
Balances with central banks	2,621	2,632	2,618	2,629
Financial assets purchased under agreements to resell	1,937	1,502	1,914	1,496
Placements with banks and other financial institutions	2,897	1,129	3,044	1,132
Due from banks	77	151	74	150
Sub-total	152,841	147,239	144,822	139,767
Interest expense				
Deposits taken	(34,757)	(33,012)	(34,713)	(32,973)
Debt obligations payable	(15,375)	(13,249)	(15,017)	(13,034)
Due to banks and other financial institutions	(13,750)	(9,654)	(13,803)	(9,693)
Due to central banks	(4,151)	(3,779)	(4,149)	(3,777)
Placements from banks and other financial institutions	(3,610)	(3,569)	(770)	(931)
Financial assets sold under agreements to repurchase	(1,536)	(1,936)	(1,533)	(1,923)
Others	(57)	(73)	(57)	(73)
Sub-total	(73,236)	(65,272)	(70,042)	(62,404)
Net interest income	79,605	81,967	74,780	77,363
Of which: Interest income from impaired financial assets identified	642	664	637	659

35. Net fee and commission income

	Notes	The Group		The Bank	
		2021	2020	2021	2020
Fee and commission income					
Bank card business		5,070	5,849	5,070	5,850
Agency business	(1)	4,311	4,360	4,160	4,359
Credit commitments		1,707	1,916	1,707	1,915
Custody and other fiduciary services		1,181	1,192	1,181	1,192
Other business		1,119	890	1,176	899
Sub-total		13,388	14,207	13,294	14,215
Fee and commission expenses					
Fee expense	(2)	(4,136)	(3,649)	(4,503)	(3,703)
Net fee and commission income		9,252	10,558	8,791	10,512

- (1) The Group provides asset management services for wealth management products. The management fees of wealth management products are recognized to the extent that the uncertainty related to the management fee amount is eliminated and there will be no significant reversal in the future.

The Group distributes financial products for other financial institutions. A performance obligation is established when the customer enters into a contract with the relevant financial institution. The Group usually collects commissions from these financial institutions on a monthly or quarterly basis.

The Group provides underwriting, clearing and settlement services to its customers, and the performance obligation is satisfied at a point in time. The underwriting fee is usually collected within three months following the issuance of securities.

The original terms of contracts between the Group and its customers are mostly shorter than one year, so the remaining performance obligations under such contracts are not disclosed.

- (2) Fee and commission expenses mainly include expenses for UnionPay card services, agency settlement, international agency payment, etc.

36. Investment loss/(gain)

	The Group		The Bank	
	2021	2020	2021	2020
Held-for-trading financial assets	3,345	1,864	3,314	1,864
Disposal of debt instruments measured at fair value through other comprehensive income	723	14	723	14
Gains on derecognition of financial assets measured at amortized cost	4	–	4	–
Other equity instrument investments	52	11	52	11
Derivative financial instruments	(18)	10	(18)	10
Long-term equity investments	–	–	3	–
Others	(38)	(29)	(38)	(29)
Sub-total	4,068	1,870	4,040	1,870

In 2021, all the net gains on derecognition of financial assets measured at amortized cost came from profits/losses on trading.

37. Gains on changes in fair value

	The Group		The Bank	
	2021	2020	2021	2020
Held-for-trading financial assets	2,481	497	2,474	497
Derivative financial instruments	(66)	4	(66)	4
Others	(5)	2	(5)	2
Total	2,410	503	2,403	503

38. Exchange gains

The exchange gains of the Group and the Bank mainly include income from foreign exchange differences and translation differences from foreign currency-denominated currency assets and liabilities and the gains/losses on foreign exchange derivatives.

39. Tax and surcharges

	The Group		The Bank	
	2021	2020	2021	2020
Urban maintenance and construction tax	474	508	460	493
Education fee and surcharges	342	364	331	354
Others	212	204	196	192
Total	1,028	1,076	987	1,039

40. General and administrative expenses

		The Group		The Bank	
		2021	2020	2021	2020
Staff remuneration and welfare	(1)	15,733	14,984	15,220	14,687
Business expenses	(2)	8,153	8,244	8,110	8,192
Depreciation and amortization		3,977	3,394	3,858	3,361
Total		27,863	26,622	27,188	26,240

(1) Staff remuneration and welfare

	The Group		The Bank	
	2021	2020	2021	2020
Wages and bonuses	11,937	11,773	11,509	11,525
Employee welfare	451	421	441	417
Social insurance	2,143	1,442	2,095	1,413
Housing provident fund	886	830	871	822
Labor union funds and employee education expense	316	518	304	510
Total	15,733	14,984	15,220	14,687

(2) In the general and administrative expenses of the Group and the Bank in 2021, the lease expenses including short-term leases and low-value asset leases stood at RMB359 million and RMB350 million, respectively.

41. Impairment losses on credit

	The Group		The Bank	
	2021	2020	2021	2020
Impairment losses of loans and advances to customers	25,692	36,307	23,812	34,302
Impairment losses of due from banks	11	40	11	40
Impairment losses of placements with banks and other financial institutions	5	9	5	9
Impairment losses of debt investments	9,270	2,761	9,270	2,761
Impairment losses of other debt investments	46	111	46	111
Projected liabilities	51	164	39	168
Others	123	618	98	601
Total	35,198	40,010	33,281	37,992

42. Income tax expense

	The Group		The Bank	
	2021	2020	2021	2020
Current income tax expense	8,117	6,567	7,435	5,926
Deferred income tax expense	(527)	(982)	(297)	(947)
Total	7,590	5,585	7,138	4,979

Adjustments to income tax expense and accounting profit are presented as follows:

	The Group		The Bank	
	2021	2020	2021	2020
Pre-tax profit	31,493	27,153	28,761	24,893
Income tax at statutory tax rate of 25%	7,873	6,788	7,190	6,223
Tax effect of non-deductible expense	3,073	1,769	3,226	1,728
Tax effect of tax-exempt income	(3,356)	(2,972)	(3,278)	(2,972)
Total	7,590	5,585	7,138	4,979

43. Other comprehensive income

Changes in other comprehensive income

The Group	Opening balance	Amount in the year	2021	Internal transfer of owner's equity	Ending balance
			Transferred from other comprehensive income to profit or loss		
Other comprehensive income to be classified as profit/loss:					
Changes in fair value of other debt investments	(315)	156	1,917	–	1,758
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	(129)	(78)	129	–	(78)
Allowance for credit losses on other debt investments	149	44	–	–	193
Allowance for credit losses on loans and advances to customers measured at fair value through other comprehensive income	448	66	–	–	514
Difference from foreign currency translation	–	6	–	–	6
Income tax influence	(38)	(49)	(509)	–	(596)
Sub-total	115	145	1,537	–	1,797
Other comprehensive income not to be classified as profit/loss:					
Changes in fair value of other equity instrument investments	(1,104)	(171)	–	(11)	(1,286)
Income tax influence	275	45	–	2	322
Total	(714)	19	1,537	(9)	833



The Group	2020				
	Opening balance	Amount in the year	Transferred from other comprehensive income to profit or loss	Internal transfer of owner's equity	Ending balance
Other comprehensive income to be classified as profit/loss:					
Changes in fair value of other debt investments	1,483	(1,784)	(14)	–	(315)
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	(139)	(129)	139	–	(129)
Allowance for credit losses on other debt investments	40	109	–	–	149
Allowance for credit losses on loans and advances to customers measured at fair value through other comprehensive income	668	(220)	–	–	448
Income tax influence	(513)	506	(31)	–	(38)
Sub-total	1,539	(1,518)	94	–	115
Other comprehensive income not to be classified as profit/loss:					
Changes in fair value of other equity instrument investments	(606)	(339)	–	(159)	(1,104)
Income tax influence	151	84	40	–	275
Total	1,084	(1,773)	134	(159)	(714)

The Bank	2021				
	Opening balance	Amount in the year	Transferred from other comprehensive income to profit or loss	Internal transfer of owner's equity	Ending balance
Other comprehensive income to be classified as profit/loss:					
Changes in fair value of other debt investments	(315)	156	1,915	–	1,756
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	(129)	(78)	129	–	(78)
Allowance for credit losses on other debt investments	149	44	–	–	193
Allowance for credit losses on loans and advances to customers measured at fair value through other comprehensive income	448	66	–	–	514
Difference from foreign currency translation	–	6	–	–	6
Income tax influence	(38)	(47)	(510)	–	(595)
Sub-total	115	147	1,534	–	1,796
Other comprehensive income not to be classified as profit/loss:					
Changes in fair value of other equity instrument investments	(1,095)	(178)	–	(11)	(1,284)
Income tax influence	274	45	–	2	321
Total	(706)	14	1,534	(9)	833

The Bank	2020				
	Opening balance	Amount in the year	Transferred from other comprehensive income to profit or loss	Internal transfer of owner's equity	Ending balance
Other comprehensive income to be classified as profit/loss:					
Changes in fair value of other debt investments	1,483	(1,784)	(14)	–	(315)
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	(139)	(129)	139	–	(129)
Allowance for credit losses on other debt investments	40	109	–	–	149
Allowance for credit losses on loans and advances to customers measured at fair value through other comprehensive income	668	(220)	–	–	448
Income tax influence	(513)	506	(31)	–	(38)
Sub-total	1,539	(1,518)	94	–	115
Other comprehensive income not to be classified as profit/loss:					
Changes in fair value of other equity instrument investments	(602)	(334)	–	(159)	(1,095)
Income tax influence	150	84	40	–	274
Total	1,087	(1,768)	134	(159)	(706)

44. Earnings per share

	2021	2020
Net profit attributable to shareholders of the parent company in the year	23,535	21,275
Net profit attributable to ordinary shareholders of the parent company	20,755	18,495
Weighted average ordinary shares in issue (million shares)	15,387	15,387
Basic earnings per share (RMB yuan)	1.35	1.20

The Group has no potential ordinary share issued and outstanding in 2021 or 2020. Thus there is no need to disclose diluted earnings per share.

45. Cash and cash equivalents

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Cash on hand	1,842	2,062	1,829	2,051
Balances with central banks	33,426	45,777	33,212	45,008
Due from banks, placements with banks and other financial institutions and financial assets purchased under agreements to resell with the original term less than three months	39,361	49,525	33,115	49,938
Total	74,629	97,364	68,156	96,997

46. Supplementary information on the statement of cash flows

	The Group		The Bank	
	2021	2020	2021	2020
Net profit adjusted into cash flows from operating activities:				
Net profit	23,903	21,568	21,623	19,914
Plus: Impairment losses on credit	35,198	40,010	33,281	37,992
Other impairment losses on assets	178	421	177	421
Depreciation of fixed assets	1,055	1,080	1,050	1,076
Depreciation of right-of-use assets	1,801	N/A	1,745	N/A
Amortization of intangible assets	5	4	2	3
Amortization on long-term prepaid expenses	1,116	2,310	1,061	2,282
Interest income from investment and investment gains	(39,552)	(37,692)	(39,430)	(37,606)
Net gains or losses on disposal of fixed assets, intangible assets and other long-term assets	8	(3)	8	(3)
Unrealized exchange loss/(gain) and loss/(gain) on changes in fair value	(2,340)	79	(2,332)	79
Deferred income tax	(527)	(982)	(297)	(947)
Interest income from credit-impaired financial assets identified	(642)	(664)	(637)	(659)
Interest expense on bonds issued	5,107	4,332	4,749	4,117
Interest expenses on lease liabilities	231	N/A	224	N/A
Increase of operating receivables	(186,034)	(307,521)	(183,743)	(290,323)
Increase of operating payables	231,508	311,817	225,329	303,076
Net cash flows from operating activities	71,015	34,759	62,810	39,422
Net change of cash and cash equivalents:				
Closing balance of cash and cash equivalents	74,629	97,364	68,156	96,997
Less: Opening balance of cash and cash equivalents	(97,364)	(92,667)	(96,997)	(92,167)
Net change of cash and cash equivalents	(22,735)	4,697	(28,841)	4,830



X. SEGMENT REPORT

The Group determines the operating segments according to the organizational framework, management requirement and internal reporting system, and on this basis, determines the reporting segments.

An operating segment refers to the component within the Group meeting the following conditions at the same time: (1) such component can generate income and incur expenses in the daily activities; (2) the management of the enterprise can regularly assess the operating results of the component to determine the resources allocated to it and assess its performance; (3) the enterprise can obtain the accounting information relating to the component's financial position, operating results and cash flows.

The Group's reporting segments include the Beijing-Tianjin-Hebei Region, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area, Central and Eastern China, Western China, Northern China and subsidiaries. Particularly speaking:

- (1) Beijing-Tianjin-Hebei Region: Head Office, Credit Card Center, Beijing, Tianjin, Shijiazhuang, Tianjin FTZ and Beijing Municipal Administrative Center;
- (2) Yangtze River Delta: Nanjing, Hangzhou, Shanghai, Wenzhou, Ningbo, Shaoxing, Changzhou, Suzhou, Wuxi, Hefei and Shanghai FTZ;
- (3) Guangdong-Hong Kong-Macao Greater Bay Area: Shenzhen, Guangzhou, Hong Kong and Haikou;
- (4) Central and Eastern China: Jinan, Wuhan, Qingdao, Taiyuan, Fuzhou, Changsha, Xiamen, Zhengzhou and Nanchang;
- (5) Western China: Kunming, Chongqing, Chengdu, Xi'an, Urumqi, Hohhot, Nanning, Yinchuan, Guiyang, Xining and Lanzhou;
- (6) Northeastern China: Shenyang, Dalian, Changchun and Harbin;
- (7) Subsidiaries: Beijing Daxing Hua Xia Rural Bank Co., Ltd., Kunming Chenggong Hua Xia Rural Bank Co., Ltd., Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd, Huaxia Financial Leasing Co., Ltd. and Huaxia Wealth Management Co., Ltd.

When presenting information by operating segment, operating income is divided on the basis of location of branches generating income. Segment assets and capital expenditure are divided by the location of the related assets.

2021	Beijing-Tianjin-Hebei Region	Yangtze River Delta	Guangdong-Hong Kong-Macao Greater Bay Area	Central and Eastern China	Western China	Northeastern China	Subsidiaries	Offset among segments	Total
Operating income	37,058	21,211	6,348	12,997	11,289	1,601	5,413	(47)	95,870
Net interest income	22,403	21,310	6,033	12,529	10,985	1,522	4,823	–	79,605
Of which:									
Net external interest income	24,181	21,520	4,893	11,803	10,555	1,830	4,823	–	79,605
Segmental net interest income	(1,778)	(210)	1,140	726	430	(308)	–	–	–
Net fee and commission income	8,154	(281)	162	395	297	64	503	(42)	9,252
Other net operating income	6,501	182	153	73	7	15	87	(5)	7,013
Operating expenses	(29,321)	(10,951)	(3,391)	(10,339)	(4,918)	(2,755)	(2,658)	1	(64,332)
Operating profit	7,737	10,260	2,957	2,658	6,371	(1,154)	2,755	(46)	31,538
Net non-operating income	(99)	28	4	3	1	(6)	24	–	(45)
Total profit	7,638	10,288	2,961	2,661	6,372	(1,160)	2,779	(46)	31,493
Supplementary information									
1. Depreciation and amortization expenses	1,618	650	359	559	483	189	119	–	3,977
2. Capital expenditures	941	144	74	123	59	19	45	–	1,405
3. Impairment losses on credit	16,352	5,599	1,091	6,610	1,751	1,879	1,916	–	35,198
31 December 2021									
Segment assets	2,991,284	870,167	349,754	525,758	445,925	87,966	134,839	(1,739,575)	3,666,118
Undistributed assets									10,169
Total assets									3,676,287
Segment liabilities	2,732,190	860,734	347,204	524,175	440,790	90,804	119,220	(1,739,532)	3,375,585
Undistributed liabilities									–
Total liabilities									3,375,585

2020	Beijing-Tianjin-Hebei Region	Yangtze River Delta	Guangdong-Hong Kong-Macao Greater Bay Area	Central and Eastern China	Western China	Northeastern China	Subsidiaries	Offset among segments	Total
Operating income	36,013	20,804	6,349	13,658	11,832	1,966	4,698	(11)	95,309
Net interest income	24,203	20,631	6,048	13,189	11,401	1,891	4,604	–	81,967
Of which:									
Net external interest income	28,434	19,885	4,626	12,227	10,181	2,010	4,604	–	81,967
Segmental net interest income	(4,231)	746	1,422	962	1,220	(119)	–	–	–
Net fee and commission income	9,554	26	145	381	342	64	54	(8)	10,558
Other net operating income	2,256	147	156	88	89	11	40	(3)	2,784
Operating expenses	(28,557)	(11,215)	(3,151)	(11,753)	(8,557)	(2,474)	(2,454)	3	(68,158)
Operating profit	7,456	9,589	3,198	1,905	3,275	(508)	2,244	(8)	27,151
Net non-operating income	(36)	11	8	9	(14)	–	24	–	2
Total profit	7,420	9,600	3,206	1,914	3,261	(508)	2,268	(8)	27,153
Supplementary information									
1.Depreciation and amortization expenses	1,369	621	137	561	481	192	33	–	3,394
2.Capital expenditures	1,891	550	108	656	429	182	49	–	3,865
3.Impairment losses on credit	16,588	5,773	795	7,876	5,407	1,553	2,018	–	40,010
31 December 2020									
Segment assets	2,699,307	844,987	316,809	516,176	458,645	92,654	123,116	(1,662,033)	3,389,661
Undistributed assets									10,155
Total assets									3,399,816
Segment liabilities	2,457,601	835,321	313,555	513,234	455,373	94,503	109,599	(1,662,025)	3,117,161
Undistributed liabilities									–
Total liabilities									3,117,161

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Related parties

There is no related party that controls or jointly controls the Bank. Other related parties are as follows:

(1) Shareholders holding no less than 5% shares in the Bank and exerting significant influence on the Bank by the end of 2021

Name of related shareholder	Place of registration	Legal representative/ CEO	Business nature	Registered capital	Shareholding Percentage (%)	Voting rights Percentage (%)
Shougang Group	Beijing	Zhang Gongyan	Industries, construction, geologic exploration, transportation, foreign trade, telecommunication, finance and insurance, scientific research and comprehensive technological service, domestic commerce, public catering, material supply and sales, warehouse, etc.	RMB 28.755 billion	20.28	20.28
State Grid Yingda International Holdings Group Ltd.	Beijing	Yang Dongwei	Investment and assets operation and management; assets custody, rendering services for enterprise restructuring, M&A, strategic placement and venture capital investment; investment consultation; and investment advisory	RMB 19.9 billion	19.99	19.99
PICC Property and Casualty Company Limited	Beijing	Miao Jianmin	RMB and foreign currency insurance and related reinsurance; services and consultancy of insurance and reinsurance; handling relevant business on behalf of insurance institutions; investment and fund application, etc.	RMB 22.243 billion	16.66	16.66
Beijing Infrastructure Investment Co., Ltd.	Beijing	Zhang Yanyou	Manufacturing of metro vehicles and equipment; investment and investment management; planning, construction and operation management of metro lines; proprietary and agent import & export business of various commodities and technologies; design and repair of metro vehicles; design and installation of metro equipment; project supervision; property management; real estate development; and design and production of metro ads	RMB 164.207 billion	9.95	9.95

(2) Subsidiaries of the Bank

Please refer to Note VIII Business Combination and Consolidated Financial Statements.

(3) Other related parties

Other related parties include:

- (i) key management personnel (directors, supervisors and senior executives), and their close family members;
- (ii) enterprises controlled or jointly controlled by key management personnel and their close family members;
- (iii) companies, their subsidiaries and related companies which directors, supervisors and senior executives of the Bank control or can exert significant influence on;
- (iv) State Grid Corporation of China (parent company of State Grid Yingda International Holdings Group Ltd., the related shareholder of the Bank) and its subsidiaries; The People's Insurance Company (Group) of China (parent company of PICC Property and Casualty Company Limited, the related shareholder of the Bank) and its subsidiaries.

2. Related party transactions

Related party transactions between the Bank and its related parties, whose pricing will be based on general transaction price according to normal commercial terms, shall be subject to the approval of corresponding decision-making institution by transaction type.

(1) Related party transactions with shareholders holding no less than 5% shares in the Bank and exerting significant influence on the Bank and their subsidiaries

	31 December 2021		31 December 2020	
	Transaction balance	Percentage (%) ⁽ⁱ⁾	Transaction balance	Percentage (%) ⁽ⁱ⁾
Assets				
Loans and advances to customers	16,407	0.76	14,989	0.73
Held-for-trading financial assets	26,189	11.16	15,083	12.18
Liabilities				
Deposits taken	5,952	0.31	4,165	0.23
Due to banks and other financial institutions	41	0.01	301	0.07
Off-balance-sheet items				
L/Gs and other payment commitments issued	571	1.75	691	2.49
L/Cs issued	637	0.41	3	0.00
Bank acceptance drafts	525	0.14	480	0.15

	2021		2020	
	Amount of transactions	Percentage (%) ⁽ⁱ⁾	Amount of transactions	Percentage (%) ⁽ⁱ⁾
Interest income	665	0.44	626	0.43
Interest expense	87	0.12	48	0.07
Fee and commission income	42	0.31	46	0.32
Investment loss/(gain)	570	14.01	56	2.99
General and administrative expenses	47	0.17	5	0.02
Gains/(losses) from the changes in fair value	(119)	4.94	142	28.23

(i) Percentage of related party transaction balance or amount in the total balance or amount of the Group's transactions of the same type.

(2) Related party transactions with other related legal persons

	31 December 2021		31 December 2020	
	Transaction balance	Percentage (%) ⁽ⁱ⁾	Transaction balance	Percentage (%) ⁽ⁱ⁾
Assets				
Loans and advances to customers	1,434	0.07	460	0.02
Placements with banks and other financial institutions	1,502	1.80	2,003	5.49
Held-for-trading financial assets	100	0.04	5,801	4.68
Debt investments	3,299	0.46	9,404	1.34
Other debt investments	503	0.26	678	0.39
Liabilities				
Deposits taken	9,815	0.51	7,351	0.40
Due to banks and other financial institutions	110	0.02	190	0.04
Off-balance-sheet items				
L/Gs and other payment commitments issued	5	0.02	4	0.01
L/Cs issued	397	0.25	463	0.32
Bank acceptance drafts	60	0.02	240	0.08
Non-principal-guaranteed wealth management products issued by the Bank	1,046	0.17	262	0.04

	2021		2020	
	Amount of transactions	Percentage (%) ⁽ⁱ⁾	Amount of transactions	Percentage (%) ⁽ⁱ⁾
Interest income	399	0.26	581	0.40
Interest expense	186	0.25	100	0.15
Fee and commission income	42	0.31	56	0.38
Investment loss/(gain)	28	0.69	21	1.12
General and administrative expenses	415	1.49	571	2.14
Gains on changes in fair value	–	–	1	0.20

(i) Percentage of related party transaction balance or amount in the total balance or amount of the Group's transactions of the same type.

(3) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Bank, directly or indirectly, including directors, supervisors and senior management members. Directors of the Bank are of the view that related party transactions between key management personnel stated above and the Bank are carried out under normal commercial terms as the same with those with non-related parties.

Remunerations of directors, supervisors and key senior management members received from the Bank are set out below:

	2021	2020
Remunerations	17	20

The final total compensation before tax for Chairman, President, Chairman of the Board of Supervisors, employee supervisors and other senior management members of the Bank is in the process of determination, and the remaining part will be disclosed separately after determination. Nevertheless, the Management of the Group expects that the difference between the above amount and the final compensation amount will not pose material influence on the consolidated financial statements of 2021.

(4) Transactions with related natural persons

As at 31 December 2021, the Bank's balance of loans to related natural persons totaled RMB163.53 million (31 December 2020: RMB74.55 million).

(5) Enterprise annuity

Except the normal fund contribution to enterprise annuity created by the Group and general banking businesses, the Group has no related party transactions in 2021 and 2020.

XII. CONTINGENCIES AND COMMITMENTS

1. Pending legal proceedings

As at 31 December 2021, the claimed amount of pending legal proceedings where the Bank or any of its subsidiaries is the defendant or the third party totaled RMB2,009 million. (31 December 2020: RMB2,483 million). Based on court order or suggestions of legal consultants, the Group has set aside provisions for losses arising from legal proceedings against it. The Management of the Group believes that the final court decision on these legal proceedings will not impose material impact on the Group's financial position or operation.

2. Capital expenditure commitments

	The Group and the Bank	
	31 December 2021	31 December 2020
Capital commitments signed but not confirmed in the financial statements		
Commitment to purchase long-term assets	1,915	888

3. Credit commitments

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Bank acceptance drafts	384,281	319,239	384,249	319,185
L/Cs issued	155,963	146,970	155,963	146,970
L/Gs and other payment commitments issued	32,665	27,764	32,642	27,742
Irrevocable loan commitments	9,222	2,411	9,222	2,411
Unused credit card limit	265,981	222,178	265,981	222,178
Total	848,112	718,562	848,057	718,486

4. Financial lease commitments

On the balance sheet date, the minimum lease payment maturity under the irrevocable financial lease contracts signed by the Group as the lessee is as follows:

	The Group	
	31 December 2021	31 December 2020
Within 1 year	8,507	2,044
1 – 5 years	174	–
Total	8,681	2,044

5. Collateral

(1) Collateral assets

On the balance sheet date, the book value of assets used as collateral for transactions under repurchase agreements is as follows:

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Bonds	42,278	43,629	42,278	42,350
Bills	4,010	5,493	4,010	5,493
Total	46,288	49,122	46,288	47,843

On 31 December 2021, the book value of financial assets sold under agreements to repurchase of the Group was RMB46,511 million, and the book value of financial assets sold under agreements to repurchase of the Bank was RMB46,511 million (31 December 2020: RMB49,155 million for the Group and RMB47,975 million for the Bank).

In addition, partial bond investment of the Group is used as collateral for third-party lending, time deposits of commercial banks under cash management of the central treasury and mid-term credit facility of PBOC or as collateral according to regulatory requirements. On 31 December 2021, the book value of the above collaterals was RMB251,423 million (31 December 2020: RMB181,062 million).

(2) Collateral received

The Group accepts such pledge as securities in relevant business of purchase under agreements to resell. Some of the securities accepted can be sold or re-used as collateral. On 31 December 2021 and 31 December 2020, the Group and the Bank held neither the pledged assets available for sale in the absence of counterparty's default nor the assets available for re-pledge in other transactions.

6. Government bonds underwriting and redemption

As a member of the underwriter group of savings government bonds of the Ministry of Finance, the Group underwrites and sells savings government bonds as an agent. Holders of savings government bonds may request redemption in advance and the Group is obliged to perform the duty of redemption. The Group is obliged to redeem the principal of the savings government bonds and the interest payable determined according to the early redemption agreement.

On 31 December 2021, the Group was obliged to redeem the savings government bond principal of RMB7,766 million (31 December 2020: RMB8,382 million). The original term of the above savings government bonds ranges from 1 to 5 years. The Management expects that the amount of redemption of these savings government bonds through the Group prior to maturity will not be material.

MOF will not provide fund for the early redemption of these savings government bonds in a timely manner but is obliged to repay the principal and the interest upon maturity or according to documents issued.

7. Entrusted transaction

(1) Entrusted deposits and loans

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Entrusted loans	149,325	173,793	148,612	173,106
Entrusted loan funds	149,325	173,793	148,612	173,106

(2) Entrusted investments

	The Group and the Bank	
	31 December 2021	31 December 2020
Entrusted investments	610,054	588,508

Entrusted investment means that the Group manages customer assets as entrusted by the non-principal – guaranteed wealth management customer and the investment risk of entrusted assets is taken by the customer.

XIII. TRANSFER OF FINANCIAL ASSETS

Asset-backed securities

The Group conducts asset-backed securities transactions during the normal operation. The Group sells part of financial assets to the Special Purpose Trust (SPT), which then issues asset-backed securities to investors. The Group decides whether to combine the special-purpose trusts by taking into the following into full account: whether exercising power over such trusts, whether being entitled to variable returns by participating in the activities relating to such trusts; and whether being able to influence its returns by wielding its power over such trusts.

The Group transferred the related financial assets and nearly all risks (mainly including credit risk, prepayment risk and interest rate risk of the target financial assets) thereof and returns arising from the ownership of such assets to other investors, so the Group derecognized such financial assets. As at the transfer date, the book value of the above securitized/structured financial assets of the Group for 2021 totaled RMB10,300 million (2020: The Group had none of the above securitized/structured financial assets). At the same time, the Group subscribed a certain ratio of asset-backed securities. As at 31 December 2021, the Group held none of the above securities (31 December 2020: RMB2 million).

In case that the Group neither transfers nor retains substantially all the risks and rewards related to ownership of the financial asset and it does not waive control over the financial asset, the Group continues to recognize the asset based on the degree of subsequent involvement. In 2021, the Group retained certain degree of continuing involvement in the transferred financial assets by holding some investments. The book value of transferred financial assets at the transfer date stood at RMB5,406 million (2020: none). On 31 December 2021, the value of assets the Group continued to recognize was RMB785 million (31 December 2020: RMB239 million).

Once the SPT established, such part of financial assets shall be discriminated from other assets without SPT when the above financial assets are being transferred. According to relevant transaction documents, in case of dissolution, liquidation, bankruptcy of the Group according to law, assets under the SPT shall not be subject to the liquidation. As the issuance consideration equaled to the book value of the transferred financial assets, the Group did not recognize any gains or losses from the transfer of such assets. The Group will charge certain fees as financial assets service provider subsequently. Please see Note XIV Structured Entities.

Repurchase agreements

A repurchase agreement means a deal in which the Group sells a financial asset while agreeing with the counterparty to buy back the asset (or substantially the same financial asset) at fixed price on a specified date in the future. As the buy-back price is fixed, the Group still takes nearly all the risk and return related to the ownership of the sold asset and thus the asset is not derecognized in financial statements. The Group recognizes a financial liability for the received consideration and records it as financial asset sold under agreements to repurchase at the same time.

For the book value of bond assets and bill assets sold by the Group under repurchase agreements as at 31 December 2021 and 31 December 2020, please see Note XII-5(1).

Credit assets transfer

In 2021, the Group disposed of loans with a book value of RMB7,104 million via transfer to third parties (2020: RMB3,306 million). The Group has transferred almost all the risk and return relating to the ownership of the above loans, and therefore they have been derecognized.

XIV. STRUCTURED ENTITIES

1. Interests and rights enjoyed in structured entities sponsored excluded from the consolidated financial statements

1.1 Interests and rights enjoyed in structured entities sponsored by the Group but excluded in the consolidated financial statements

Structured entities sponsored by the Group but excluded in the consolidated financial statements mainly include asset-backed securities and non-principal-guaranteed wealth management products issued by the Bank. The nature and purpose of these structured entities are to manage investors' assets and charge management fees. They raise funds by issuing investment products to investors.

As at the date of the balance sheet, the amount of unconsolidated structured entities sponsored by the Group and rights and interests therefrom are listed as follows:

The Group

31 December 2021					
	Sponsor amount/ Product balance	Book value	Maximum loss exposure	Income from structured entities in the year	Major income type
Asset-backed securities	10,300	–	–	101	Fee income
Non-principal-guaranteed wealth management products	610,054	N/A	N/A	2,832	Fee income
Total	620,354	–	–	2,933	

31 December 2020					
	Sponsor amount/ Product balance	Book value	Maximum loss exposure	Income from structured entities in the year	Major income type
Asset-backed securities	–	2	2	128	Fee income and interest income
Non-principal-guaranteed wealth management products	588,508	N/A	N/A	2,810	Fee income
Total	588,508	2	2	2,938	

As at 31 December 2021 and 31 December 2020, the Group provided no financial or other supports to structured entities excluded in the consolidated financial statements. It also has no plan to do so.

1.2 Rights and interests enjoyed in structured entities sponsored by third-party institutions

The Group enjoys rights and interests in structured entities sponsored by third-party institutions by directly holding investments. These structured entities mainly include asset-backed securities, wealth management products, financial institutions' asset management plans, fund investments and beneficiary rights of assets, whose nature and purpose are to manage investors' assets and charge management fees. They raise funds by issuing investment products to investors.

The book value and maximum loss exposure of rights and interests enjoyed by the Group in structured entities sponsored by third-party institutions by directly holding investments are presented as follows:

The Group	31 December 2021			
	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Asset-backed securities	–	1,554	25,261	26,815
Asset management plan of financial institutions	62,787	145,348	–	208,135
Fund investments	128,811	–	–	128,811
Beneficiary rights of assets and others	2,819	13,355	–	16,174
Total	194,417	160,257	25,261	379,935

The Group	31 December 2020			
	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Asset-backed securities	–	2,725	24,641	27,366
Asset management plan of financial institutions	20,096	131,512	–	151,608
Fund investments	77,112	–	–	77,112
Beneficiary rights of assets	1,998	1,115	–	3,113
Total	99,206	135,352	24,641	259,199

Note: On 31 December 2021 and 31 December 2020, asset-backed securities were included in financial institution bonds under Note IX-8 Debt Investments and financial institution bonds and bonds of public entities and quasi-governments under Note IX-9 Other Debt Investments.

2. Consolidated structured entities

Consolidated structured entities of the Group are ABS trust plans. As the Group has power over such structured entities and is entitled to variable return by participating the relevant activities and able to influence the return amount through its right on the investee, the Group has control over such structured entities. The Group provided no financial support for consolidated structured entities.

XV. RISK MANAGEMENT

1. Overview

The Group mainly faces credit risk, market risk and liquidity risk. Market risk includes exchange rate risk and interest rate risk.

2. Risks management framework

The Management of the Group is responsible for determining the overall risk appetite, and reviewing and approving the risk management objectives and strategies of the Group.

The risk management framework: Senior Management of the Group is responsible for the overall and specific risk management, including implementing risk management strategies, measures and credit and investment/financing policies, approving the internal rules, measures and procedures concerning risk management and establishing a risk management department and other relevant departments to manage financial risks.

3. Credit risk

3.1 Credit risk management

Credit risk refers to the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to a commercial bank, when the bank operates credit, inter-bank lending and investment businesses. The credit risk of the Group mainly exists in the on-balance-sheet and off-balance-sheet businesses including loans and advances to customers, placements with banks and other financial institutions, interbank lending, bond investments, bill acceptance, letters of credit, and letters of guarantee. The credit risk management process of the Group confirms and manages the above risks by mainly focusing on pre-loan due diligence, credit rating, loan approval procedure, loan-granting management, post-lending monitoring and loan collection management procedure.

Before granting credit to a single customer, the Group will conduct credit appraisal first and regularly inspect the credit limit granted. The means for credit risk mitigation include acquisition of collaterals and warranty. As for the off-balance-sheet businesses, the Group will charge security deposit in corresponding proportion based on the credit status of customers and business risk level to reduce the credit risk.

The Group classifies loans and advances to customers into five categories, namely pass, special-mention, substandard, doubtful and loss. The last three categories are deemed as non-performing loans (NPLs). Loan impairment is mainly determined by the possibility of repayment and recovery of principal and interest. Major assessment factors include repayment ability, credit record, repayment willingness, profitability of loan project, guarantee or mortgage measures and legal liability for loan repayment of the borrower. The Group measures and sets aside allowance for impairment losses using the ECL model method.

According to the guidelines of CBIRC on loan risk classification, the definitions of the Group's five-tier classifications of loans and advances to customers are listed as below:

- **Pass:** The borrower is able to perform the loan clauses and there is no reason for doubting the timely and full-amount repayment of loan principal and interest;
- **Special-mention:** Though the borrower is capable of repaying the loans at present, there are factors that are likely to adversely influence the repayment;
- **Substandard:** The repayment ability of the borrower is obviously doubtful and its normal operating income can't be fully relied on to repay the principal and interest. Even if guarantee or mortgage measures are taken, there still might be certain loss;
- **Doubtful:** The borrower can't repay the principal and interest in full amount. Even if guarantee or mortgage measures are taken, there must be material loss;
- **Loss:** The principal or interest cannot be recovered or only a small portion can be recovered after the Group takes all possible measures and resorts to all necessary legal proceedings.

Measurement of expected credit loss

As from 1 January 2019, the Group measures the credit losses on debt instruments-related financial assets measured at amortized cost and those measured at fair value through other comprehensive income using the "ECL Model" in accordance with the New Financial Instrument Standards.

For financial assets subject to ECL measurement, the Group assesses whether the credit risk of relevant financial assets has increased significantly since initial recognition and uses the "three-stage" impairment model to measure their allowance for impairment losses respectively and recognize the ECL and its changes:

Stage 1: For financial instruments that have not had a significant increase in credit risk since initial recognition, their ECL amount over the next 12 months should be recognized;

Stage 2: For financial instruments that have had a significant increase in credit risk since initial recognition, their ECL amount over the remaining life should be recognized;

Stage 3: For financial assets that have objective evidence of impairment on the balance sheet date, their ECL amount over the remaining life should be recognized.

Significant increase in credit risk

The Group monitors all financial assets that meet impairment requirements to assess whether their credit risk has increased significantly or not since initial recognition. If the credit risk has increased significantly, the Group will measure allowance for impairment losses according to lifetime ECL rather than 12-month ECL.

If a financial instrument triggers one or more of the following criteria, the Group deems that the financial instrument has had a significant increase in credit risk:

- i. The principal or interest becomes overdue;
- ii. The credit transaction is risk-classified as special mention;
- iii. The debtor has undergone a deterioration in key financial indicators, with a marked rise in impairment loss and probability of default;
- iv. The credit risk has increased significantly in other circumstances.



Default and credit impairment

Where a financial instrument meets one or more of the following conditions, the Group will define the financial asset as credit-impaired:

- i. The principal or interest is overdue for more than 90 days;
- ii. The debtor goes bankrupt or suffers serious financial difficulties, expected to incur a major loss;
- iii. The financial asset is classified by risk category as Substandard, Doubtful or Loss; or
- iv. Other objective evidences indicating impairment of the financial assets.

The financial instrument can move between stages. The financial instrument in Stage 1 that has experienced significant deterioration in credit risk should be moved to Stage 2. The financial instrument in Stage 2 can move back to Stage 1 if it has improved to the extent of no longer showing significant deterioration in credit risk.

Parameters of ECL measurement

According to whether credit risk has increased significantly and whether the asset has been credit-impaired or not, the Group measures allowance for impairment losses for different assets at an amount equal to 12-month or lifetime ECL. Relevant terms are defined as follows:

- i. Probability of default means the likelihood that the borrower will be unable to meet its debt obligations in the coming 12 months or remaining lifetime;
- ii. Loss given default means the Group's projected level of loss on exposure at the time of default. LGD varies with the type of counterparty, the way and priority of recourse and availability of collateral and other credit enhancements. LGD is the loss expressed as a percentage of total exposure at the time of default, which is measured based on the coming 12 months or lifetime;
- iii. Exposure at default means the total amount of projected exposure of on-balance-sheet and off-balance-sheet items at the time of default. It reflects the total amount of possible losses. EAD generally includes used balance of credit, outstanding interest receivable and expected drawdown of unused credit limit and related possible expenses.

The Group has grouped exposures with similar risk characteristics into different categories to estimate the PD, LGD and EAD separately. The Group has acquired sufficient information to ensure their statistical reliability. The Group regularly monitors and back-tests the model rating outcomes according to actual defaults and losses of customers.

Forward-looking information

The Group uses forward-looking information that is available without undue cost or effort to measure ECL. The Group uses external economic information to calculate the relationship between relevant data and NPL ratio of commercial banks through statistical methods, so as to adjust the default rate parameters of the expected loss model. The macroeconomic information used by the Group includes macro indicators such as growth rate of gross domestic product (GDP), growth rate of consumer price index (CPI), growth rate of producer growth rate (PPI) and growth rate of money supply (monthly). According to the predicted values of relevant macro indicators, the relationship between the model and NPL ratio is established and different scenario weights are set to adjust the impact on the expected credit losses. This year, the average (weighted average of optimistic, neutral and pessimistic) estimates of the above four main parameters of the Group are 4.35%, 1.53%, 2.52% and 7.00%.

3.2 Maximum credit risk exposure

Without regard to the available collaterals or other credit enhancement measures, the amounts of the maximum credit exposure on the balance sheet date are presented as follows:

	The Group	
	31 December 2021	31 December 2020
Balances with central banks	184,332	202,020
Due from banks	17,703	18,505
Placements with banks and other financial institutions	83,263	36,470
Derivative financial assets	8,199	12,361
Financial assets purchased under agreements to resell	18,390	24,776
Loans and advances to customers	2,162,966	2,059,825
Held-for-trading financial assets	40,340	24,642
Debt investments	718,266	702,909
Other debt investments	196,272	172,926
Other financial assets	9,516	11,563
Sub-total	3,439,247	3,265,997
Off-balance-sheet credit risk exposure	854,438	718,297
Total	4,293,685	3,984,294

	The Bank	
	31 December 2021	31 December 2020
Balances with central banks	184,010	201,131
Due from banks	17,680	18,356
Placements with banks and other financial institutions	91,772	38,380
Derivative financial assets	8,199	12,361
Financial assets purchased under agreements to resell	12,611	23,582
Loans and advances to customers	2,043,989	1,948,555
Held-for-trading financial assets	40,340	24,642
Debt investments	715,904	700,879
Other debt investments	194,698	172,926
Other financial assets	6,653	9,830
Sub-total	3,315,856	3,150,642
Off-balance-sheet credit risk exposure	845,719	716,184
Total	4,161,575	3,866,826

The Group will adopt a series of policies and credit enhancement measures to reduce the credit risk exposure to an acceptable level. Common methods include asking the borrower to pay security deposit or providing collaterals or warranty. The amount and type of collaterals required by the Group depend on the assessment of the credit risk of the counterparty. As for the type and assessment parameters of collaterals, the Group has formulated relevant guidelines and it takes the acceptable type and its value as the specific implementation standard.

The types of collaterals accepted by the Group are as follows:

- (1) Reverse repurchase transactions: bills, bonds, etc.;
- (2) Corporate loans: house property, machinery equipment, land use rights, certificate of deposits and equity, etc.; and
- (3) Personal loan: house property and certificate of deposits, etc.

The Management regularly inspects the value of collaterals and requires the counterparty to increase the collaterals if necessary.

3.3 Derivative financial instruments

The credit risk of derivative financial instruments of the Group lies in whether the counterparty is able to make payments timely in line with the contract. As for the evaluation and control standard for credit risk of derivative financial instruments, the Group applied the same risk control standard with the other transactions.

3.4 Off-balance-sheet business risk

The Group includes the off-balance-sheet business into unified credit management. As for the off-balance-sheet businesses such as bank acceptance drafts, L/Cs and L/Gs, the Bank requires authentic trading background, charges security deposit in corresponding proportion based on the credit status of customers and business risk level, and requires effective guarantee for the remaining parts. The Group strictly controls financing L/Gs and other high-risk off-balance-sheet businesses.

3.5 Credit quality of financial instruments subject to impairment assessment

Allowances for impairment losses on financial assets measured at fair value through other comprehensive income are not included in book value.

31 December 2021					
The Group	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Book value
Financial assets measured at amortized cost:					
Balances with central banks	184,332	–	–	–	184,332
Due from banks	17,771	–	5	(73)	17,703
Placements with banks and other financial institutions	83,278	–	79	(94)	83,263
Financial assets purchased under agreements to resell	18,390	–	306	(306)	18,390
Loans and advances to customers measured at amortized cost	1,961,423	78,516	39,757	(58,483)	2,021,213
Debt investments	691,513	15,832	24,365	(13,444)	718,266
Other financial assets	7,075	475	3,941	(1,975)	9,516
Sub-total	2,963,782	94,823	68,453	(74,375)	3,052,683
Financial assets measured at fair value through other comprehensive income:					
Loans and advances to customers measured at fair value through other comprehensive income	141,753	–	–	(514)	141,753
Other debt investments	196,272	–	–	(193)	196,272
Sub-total	338,025	–	–	(707)	338,025
Off-balance-sheet items	855,764	780	249	(2,355)	854,438
Total	4,157,571	95,603	68,702	(77,437)	4,245,146

31 December 2020					
The Group	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Book value
Financial assets measured at amortized cost:					
Balances with central banks	202,020	–	–	–	202,020
Due from banks	18,564	–	5	(64)	18,505
Placements with banks and other financial institutions	36,479	–	82	(91)	36,470
Financial assets purchased under agreements to resell	24,776	–	306	(306)	24,776
Loans and advances to customers measured at amortized cost	1,885,229	74,051	38,282	(55,460)	1,942,102
Debt investments	694,202	11,560	2,344	(5,197)	702,909
Other financial assets	10,141	406	3,854	(2,838)	11,563
Sub-total	2,871,411	86,017	44,873	(63,956)	2,938,345
Financial assets measured at fair value through other comprehensive income:					
Loans and advances to customers measured at fair value through other comprehensive income	117,723	–	–	(448)	117,723
Other debt investments	172,926	–	–	(149)	172,926
Sub-total	290,649	–	–	(597)	290,649
Off-balance-sheet items	718,921	1,359	326	(2,309)	718,297
Total	3,880,981	87,376	45,199	(66,862)	3,947,291



31 December 2021					
The Bank	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Book value
Financial assets measured at amortized cost:					
Balances with central banks	184,010	–	–	–	184,010
Due from banks	17,748	–	5	(73)	17,680
Placements with banks and other financial institutions	91,787	–	79	(94)	91,772
Financial assets purchased under agreements to resell	12,611	–	306	(306)	12,611
Loans and advances to customers measured at amortized cost	1,841,373	74,209	39,038	(52,384)	1,902,236
Debt investments	688,971	15,832	24,365	(13,264)	715,904
Other financial assets	4,467	466	3,634	(1,914)	6,653
Sub-total	2,840,967	90,507	67,427	(68,035)	2,930,866
Financial assets measured at fair value through other comprehensive income:					
Loans and advances to customers measured at fair value through other comprehensive income	141,753	–	–	(514)	141,753
Other debt investments	194,698	–	–	(193)	194,698
Sub-total	336,451	–	–	(707)	336,451
Off-balance-sheet items	847,028	780	249	(2,338)	845,719
Total	4,024,446	91,287	67,676	(71,080)	4,113,036

31 December 2020					
The Bank	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Book value
Financial assets measured at amortized cost:					
Balances with central banks	201,131	–	–	–	201,131
Due from banks	18,415	–	5	(64)	18,356
Placements with banks and other financial institutions	38,389	–	82	(91)	38,380
Financial assets purchased under agreements to resell	23,582	–	306	(306)	23,582
Loans and advances to customers measured at amortized cost	1,774,496	69,028	37,652	(50,344)	1,830,832
Debt investments	691,992	11,560	2,344	(5,017)	700,879
Other financial assets	8,391	406	3,807	(2,774)	9,830
Sub-total	2,756,396	80,994	44,196	(58,596)	2,822,990
Financial assets measured at fair value through other comprehensive income:					
Loans and advances to customers measured at fair value through other comprehensive income	117,723	–	–	(448)	117,723
Other debt investments	172,926	–	–	(149)	172,926
Sub-total	290,649	–	–	(597)	290,649
Off-balance-sheet items	716,808	1,352	326	(2,302)	716,184
Total	3,763,853	82,346	44,522	(61,495)	3,829,823

3.6 Loans and advances to customers

(1) The Loans and advances to customers are distributed by industry as follows:

Industry	The Group			
	31 December 2021		31 December 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Leasing and commercial services	408,692	18.46	379,629	18.00
Manufacturing	190,744	8.62	192,254	9.12
Water conservancy, environment and public facilities management	165,691	7.48	143,721	6.81
Wholesale and retail	137,672	6.22	141,197	6.69
Real estate	125,953	5.69	153,005	7.25
Construction industry	100,084	4.52	104,095	4.94
Electric power, heat, gas and water production and supply industry	62,844	2.84	63,174	3.00
Transportation, warehousing and post industry	53,069	2.40	51,183	2.43
Mining industry	31,258	1.41	31,752	1.51
Other corporate industries	150,658	6.81	132,070	6.26
Discounted bills	136,564	6.17	122,402	5.80
Personal loans	650,300	29.38	594,511	28.19
Total	2,213,529	100.00	2,108,993	100.00

Industry	The Bank			
	31 December 2021		31 December 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Leasing and commercial services	399,574	19.13	372,222	18.68
Manufacturing	188,539	9.03	188,764	9.47
Wholesale and retail	136,178	6.52	140,736	7.06
Real estate	125,953	6.03	153,002	7.68
Water conservancy, environment and public facilities management	103,544	4.96	91,149	4.57
Construction industry	98,872	4.73	103,082	5.17
Electric power, heat, gas and water production and supply industry	39,675	1.90	33,837	1.70
Transportation, warehousing and post industry	39,278	1.88	38,646	1.95
Mining industry	28,570	1.37	29,425	1.48
Other corporate industries	146,326	7.01	125,818	6.31
Discounted bills	136,564	6.54	122,402	6.14
Personal loans	645,395	30.90	593,534	29.79
Total	2,088,468	100.00	1,992,617	100.00

For breakdown of personal loans, please see Note IX-6(1).

(2) The loans and advances to customers are distributed by region as follows:

Regions	The Group			
	31 December 2021		31 December 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Yangtze River Delta	617,129	27.88	580,053	27.50
Beijing-Tianjin-Hebei Region	569,468	25.73	537,563	25.49
Central and Eastern China	339,472	15.34	331,537	15.72
Western China	282,174	12.75	279,830	13.27
Guangdong-Hong Kong-Macao Greater Bay Area	219,037	9.89	198,665	9.42
Northeastern China	61,188	2.76	64,969	3.08
Subsidiaries	125,061	5.65	116,376	5.52
Total	2,213,529	100.00	2,108,993	100.00

Regions	The Bank			
	31 December 2021		31 December 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Yangtze River Delta	617,129	29.55	580,053	29.11
Beijing-Tianjin-Hebei Region	569,468	27.27	537,563	26.98
Central and Eastern China	339,472	16.25	331,537	16.64
Western China	282,174	13.51	279,830	14.04
Guangdong-Hong Kong-Macao Greater Bay Area	219,037	10.49	198,665	9.97
Northeastern China	61,188	2.93	64,969	3.26
Total	2,088,468	100.00	1,992,617	100.00

(3) The loans and advances to customers are distributed by collateral as follows:

	The Group		The Bank	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Unsecured loans	514,475	479,821	487,758	456,206
Guaranteed loans	645,243	641,954	553,518	556,837
Collateral loans	1,053,811	987,218	1,047,192	979,574
Of which: Mortgage loans	728,974	687,866	724,902	683,523
Pledged loans	324,837	299,352	322,290	296,051
Total	2,213,529	2,108,993	2,088,468	1,992,617

(4) Overdue loans

	The Group				Total
	31 December 2021				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	
Unsecured loans	3,209	6,745	2,235	421	12,610
Guaranteed loans	4,281	4,275	5,123	1,725	15,404
Mortgage loans	2,045	4,688	3,420	893	11,046
Pledged loans	687	283	1,009	518	2,497
Total	10,222	15,991	11,787	3,557	41,557

The Group					
31 December 2020					
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	3,589	5,194	1,838	208	10,829
Guaranteed loans	4,650	6,968	4,129	2,733	18,480
Mortgage loans	1,787	3,371	3,407	1,084	9,649
Pledged loans	197	626	871	595	2,289
Total	10,223	16,159	10,245	4,620	41,247

The Bank					
31 December 2021					
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	3,209	6,745	2,235	421	12,610
Guaranteed loans	3,586	4,258	5,122	1,725	14,691
Mortgage loans	2,032	4,679	3,410	893	11,014
Pledged loans	682	283	1,007	518	2,490
Total	9,509	15,965	11,774	3,557	40,805

The Bank					
31 December 2020					
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	3,588	5,194	1,838	208	10,828
Guaranteed loans	4,465	6,422	4,083	2,733	17,703
Mortgage loans	1,781	3,359	3,389	1,084	9,613
Pledged loans	190	618	871	595	2,274
Total	10,024	15,593	10,181	4,620	40,418

Note: If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

(5) Credit quality of loans and advances to customers

The Group					
31 December 2021					
	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Amount at year end
Loans and advances to customers measured at amortized cost					
Corporate loans and advances to customers	1,319,794	73,380	28,302	(40,565)	1,380,911
Personal loans and advances to customers	634,002	4,843	11,455	(17,918)	632,382
Sub-total:	1,953,796	78,223	39,757	(58,483)	2,013,293
Loans and advances to customers measured at fair value through other comprehensive income					
Corporate loans and advances to customers	141,753	–	–	(514)	141,753
Total	2,095,549	78,223	39,757	(58,997)	2,155,046

The Group					
31 December 2020					
	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Amount at year end
Loans and advances to customers measured at amortized cost					
Corporate loans and advances to customers	1,299,418	68,843	28,498	(39,542)	1,357,217
Personal loans and advances to customers	579,741	4,986	9,784	(15,918)	578,593
Sub-total:	1,879,159	73,829	38,282	(55,460)	1,935,810
Loans and advances to customers measured at fair value through other comprehensive income					
Corporate loans and advances to customers	117,723	–	–	(448)	117,723
Total	1,996,882	73,829	38,282	(55,908)	2,053,533

The Bank					
31 December 2021					
	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Amount at year end
Loans and advances to customers measured at amortized cost					
Corporate loans and advances to customers	1,204,643	69,082	27,595	(34,583)	1,266,737
Personal loans and advances to customers	629,119	4,833	11,443	(17,801)	627,594
Sub-total:	1,833,762	73,915	39,038	(52,384)	1,894,331
Loans and advances to customers measured at fair value through other comprehensive income					
Corporate loans and advances to customers	141,753	–	–	(514)	141,753
Total	1,975,515	73,915	39,038	(52,898)	2,036,084

The Bank					
31 December 2020					
	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Amount at year end
Loans and advances to customers measured at amortized cost					
Corporate loans and advances to customers	1,189,651	63,831	27,878	(34,454)	1,246,906
Personal loans and advances to customers	578,785	4,975	9,774	(15,890)	577,644
Sub-total:	1,768,436	68,806	37,652	(50,344)	1,824,550
Loans and advances to customers measured at fair value through other comprehensive income					
Corporate loans and advances to customers	117,723	–	–	(448)	117,723
Total	1,886,159	68,806	37,652	(50,792)	1,942,273

Impairment of loans and advances to customers measured at fair value through other comprehensive income does not affect their book value.

Credit-impaired loans and advances to customers

	The Group		
	31 December 2021		
	Corporate loans and advances to customers	Personal loans and advances to customers	Total
Original value of credit-impaired loans	28,302	11,455	39,757
Less: Allowance for impairment losses	(17,107)	(10,278)	(27,385)
Book value	11,195	1,177	12,372
Collateral value	23,411	7,270	30,681

	The Group		
	31 December 2020		
	Corporate loans and advances to customers	Personal loans and advances to customers	Total
Original value of credit-impaired loans	28,498	9,784	38,282
Less: Allowance for impairment losses	(17,182)	(8,781)	(25,963)
Book value	11,316	1,003	12,319
Collateral value	24,748	6,556	31,304

	The Bank		
	31 December 2021		
	Corporate loans and advances to customers	Personal loans and advances to customers	Total
Original value of credit-impaired loans	27,595	11,443	39,038
Less: Allowance for impairment losses	(16,474)	(10,271)	(26,745)
Book value	11,121	1,172	12,293
Collateral value	23,243	7,242	30,485

	The Bank		
	31 December 2020		
	Corporate loans and advances to customers	Personal loans and advances to customers	Total
Original value of credit-impaired loans	27,878	9,774	37,652
Less: Allowance for impairment losses	(16,691)	(8,774)	(25,465)
Book value	11,187	1,000	12,187
Collateral value	24,557	6,543	31,100

3.7 Credit quality of debt instruments

	The Group			
	31 December 2021			
	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Government bonds	1,535	283,869	42,806	328,210
Bonds of public entities and quasi-governments	3,134	90,002	58,686	151,822
Bonds of financial institutions	5,994	28,131	54,281	88,406
Corporate bonds	27,261	72,147	35,669	135,077
Certificates of deposit with banks and other financial institutions	2,022	–	2,322	4,344
Asset management plan of financial institutions	–	151,636	–	151,636
Debt financing plans	–	78,015	–	78,015
Beneficiary rights of assets	–	17,592	–	17,592
Sub-total	39,946	721,392	193,764	955,102
Accrued interest	394	10,318	2,508	13,220
Allowance for impairment losses	–	(13,444)	–	(13,444)
Total	40,340	718,266	196,272	954,878

	The Group			
	31 December 2020			
	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Government bonds	181	281,828	27,182	309,191
Bonds of public entities and quasi-governments	975	81,389	37,617	119,981
Bonds of financial institutions	6,589	39,248	59,046	104,883
Corporate bonds	15,610	65,319	33,169	114,098
Certificates of deposit with banks and other financial institutions	1,020	–	13,678	14,698
Asset management plan of financial institutions	–	133,289	–	133,289
Debt financing plans	–	95,596	–	95,596
Beneficiary rights of assets	–	1,564	–	1,564
Standard bill assets	–	5	–	5
Sub-total	24,375	698,238	170,692	893,305
Accrued interest	267	9,868	2,234	12,369
Allowance for impairment losses	–	(5,197)	–	(5,197)
Total	24,642	702,909	172,926	900,477



The Bank				
31 December 2021				
	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Government bonds	1,535	282,577	41,251	325,363
Bonds of public entities and quasi-governments	3,134	89,670	58,686	151,490
Bonds of financial institutions	5,994	28,131	54,281	88,406
Corporate bonds	27,261	71,247	35,669	134,177
Certificates of deposit with banks and other financial institutions	2,022	–	2,322	4,344
Asset management plan of financial institutions	–	151,636	–	151,636
Debt financing plans	–	78,015	–	78,015
Beneficiary rights of assets	–	17,592	–	17,592
Sub-total	39,946	718,868	192,209	951,023
Accrued interest	394	10,300	2,489	13,183
Allowance for impairment losses	–	(13,264)	–	(13,264)
Total	40,340	715,904	194,698	950,942

The Bank				
31 December 2020				
	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Government bonds	181	280,560	27,182	307,923
Bonds of public entities and quasi-governments	975	81,359	37,617	119,951
Bonds of financial institutions	6,589	39,248	59,046	104,883
Corporate bonds	15,610	64,419	33,169	113,198
Certificates of deposit with banks and other financial institutions	1,020	–	13,678	14,698
Asset management plan of financial institutions	–	133,289	–	133,289
Debt financing plans	–	95,596	–	95,596
Beneficiary rights of assets	–	1,564	–	1,564
Standard bill assets	–	5	–	5
Sub-total	24,375	696,040	170,692	891,107
Accrued interest	267	9,856	2,234	12,357
Allowance for impairment losses	–	(5,017)	–	(5,017)
Total	24,642	700,879	172,926	898,447

The debt instruments are classified based on credit ratings of credit rating agencies widely accepted in the market

The Group						
31 December 2021						
	Unrated	AAA	AA	A	Below A	Total
Government bonds	267,862	60,348	–	–	–	328,210
Bonds of public entities and quasi-governments	146,708	5,114	–	–	–	151,822
Bonds of financial institutions	5,725	82,480	201	–	–	88,406
Corporate bonds	94,845	28,923	10,809	500	–	135,077
Certificates of deposit with banks and other financial institutions	4,344	–	–	–	–	4,344
Asset management plan of financial institutions	151,636	–	–	–	–	151,636
Debt financing plans	78,015	–	–	–	–	78,015
Beneficiary rights of assets	17,592	–	–	–	–	17,592
Total	766,727	176,865	11,010	500	–	955,102

The Group						
31 December 2020						
	Unrated	AAA	AA	A	Below A	Total
Government bonds	251,400	57,791	–	–	–	309,191
Bonds of public entities and quasi-governments	114,261	5,720	–	–	–	119,981
Bonds of financial institutions	2,471	102,243	169	–	–	104,883
Corporate bonds	55,660	37,684	20,625	–	129	114,098
Certificates of deposit with banks and other financial institutions	14,047	651	–	–	–	14,698
Asset management plan of financial institutions	133,289	–	–	–	–	133,289
Debt financing plans	95,596	–	–	–	–	95,596
Beneficiary rights of assets	1,564	–	–	–	–	1,564
Standard bill assets	5	–	–	–	–	5
Total	668,293	204,089	20,794	–	129	893,305



	The Bank					
	31 December 2021					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	265,015	60,348	–	–	–	325,363
Bonds of public entities and quasi-governments	146,376	5,114	–	–	–	151,490
Bonds of financial institutions	5,725	82,480	201	–	–	88,406
Corporate bonds	93,945	28,923	10,809	500	–	134,177
Certificates of deposit with banks and other financial institutions	4,344	–	–	–	–	4,344
Asset management plan of financial institutions	151,636	–	–	–	–	151,636
Debt financing plans	78,015	–	–	–	–	78,015
Beneficiary rights of assets	17,592	–	–	–	–	17,592
Total	762,648	176,865	11,010	500	–	951,023

	The Bank					
	31 December 2020					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	250,132	57,791	–	–	–	307,923
Bonds of public entities and quasi-governments	114,231	5,720	–	–	–	119,951
Bonds of financial institutions	2,471	102,243	169	–	–	104,883
Corporate bonds	54,760	37,684	20,625	–	129	113,198
Certificates of deposit with banks and other financial institutions	14,047	651	–	–	–	14,698
Asset management plan of financial institutions	133,289	–	–	–	–	133,289
Debt financing plans	95,596	–	–	–	–	95,596
Beneficiary rights of assets	1,564	–	–	–	–	1,564
Standard bill assets	5	–	–	–	–	5
Total	666,095	204,089	20,794	–	129	891,107

3.8 Renegotiated financial assets

The book balance of the financial assets which have been subject to the Group's concession arrangement with borrowers or changed guarantee conditions is as follows:

	31 December 2021	31 December 2020
Loans and advances to customers	1,157	692

4. Liquidity risk

Liquidity risk is the risk that funds will not be available to make repayments when liabilities fall due. Liquidity risk may be resulted from mismatch of cash flows or terms between assets and liabilities.

The Bank has established the Asset & Liabilities Management Committee which is responsible for formulation, organization and implementation of the administrative policies on liquidity risk, established multi-channel financing mechanism, and designed a series of daily liquidity monitoring indicator systems complying with the actuality of the Bank based on the applicability principle, in accordance with the indicator system on liquidity risk monitoring of regulatory authorities. Meanwhile, taking into account both the economic efficiency and liquidity, the Bank held some government bonds and central bank bills in the assets portfolio, which could not only achieve stable investment income, but also be sold off or repurchased in the secondary market at any time to fulfill the liquidity requirements.

4.1 Liquidity analysis

(1) Maturity analysis

The table below analyzes the carrying amount of financial assets and liabilities during the residual maturity from the end of reporting period to expiry date of contract:

	The Group							Total
	31 December 2021							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	
Financial assets								
Cash on hand and balances with central banks	150,482	35,692	–	–	–	–	–	186,174
Due from banks	–	16,673	–	–	1,030	–	–	17,703
Placements with banks and other financial institutions	–	–	20,108	14,174	39,481	9,500	–	83,263
Derivative financial assets	–	–	1,495	2,122	4,417	165	–	8,199
Financial assets purchased under agreements to resell	–	–	9,747	2,188	6,455	–	–	18,390
Loans and advances to customers	15,244	–	195,922	152,847	659,438	720,603	418,912	2,162,966
Held-for-trading financial assets	–	152,690	3,123	3,564	17,460	11,851	46,069	234,757
Debt investments	16,059	–	17,254	37,290	129,751	406,120	111,792	718,266
Other debt investments	–	–	5,374	4,810	10,291	117,860	57,937	196,272
Other equity instrument investments	6,924	–	–	–	–	–	–	6,924
Other financial assets	1,375	8,141	–	–	–	–	–	9,516
Total financial assets	190,084	213,196	253,023	216,995	868,323	1,266,099	634,710	3,642,430

The Group								
31 December 2021								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial liabilities								
Due to central banks	–	–	11,008	616	138,090	–	–	149,714
Due to banks and other financial institutions	–	46,893	77,692	289,905	127,538	–	–	542,028
Placements from banks and other financial institutions	–	–	15,765	46,034	49,716	2,401	–	113,916
Financial liabilities for trading	–	–	–	–	206	–	–	206
Derivative financial liabilities	–	–	1,464	2,129	4,267	22	–	7,882
Financial assets sold under agreements to repurchase	–	–	42,466	1,637	2,408	–	–	46,511
Deposits taken	–	1,065,235	103,493	102,938	356,453	299,230	–	1,927,349
Lease liabilities	–	–	222	216	1,076	3,514	1,025	6,053
Debt obligations payable	–	–	21,313	84,324	304,124	137,487	–	547,248
Other financial liabilities	–	9,651	993	305	756	3,505	1,956	17,166
Total financial liabilities	–	1,121,779	274,416	528,104	984,634	446,159	2,981	3,358,073
Net position	190,084	(908,583)	(21,393)	(311,109)	(116,311)	819,940	631,729	284,357

The Group								
31 December 2020								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	154,978	48,072	–	–	1,032	–	–	204,082
Due from banks	–	17,859	151	495	–	–	–	18,505
Placements with banks and other financial institutions	–	–	10,462	2,058	22,250	1,700	–	36,470
Derivative financial assets	–	–	1,671	2,319	8,115	256	–	12,361
Financial assets purchased under agreements to resell	–	–	22,161	731	1,884	–	–	24,776
Loans and advances to customers	15,630	–	203,079	179,736	567,316	704,974	389,090	2,059,825
Held-for-trading financial assets	–	99,206	5,689	2,955	4,077	6,675	5,246	123,848
Debt investments	78	–	8,152	17,378	143,368	410,640	123,293	702,909
Other debt investments	–	–	3,387	12,019	21,824	103,792	31,904	172,926
Other equity instrument investments	5,484	–	–	–	–	–	–	5,484
Other financial assets	981	10,633	–	–	–	–	–	11,614
Total financial assets	177,151	175,770	254,752	217,691	769,866	1,228,037	549,533	3,372,800

The Group								
31 December 2020								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial liabilities								
Due to central banks	–	–	11,133	6	119,897	–	–	131,036
Due to banks and other financial institutions	–	38,716	62,154	208,164	125,958	–	–	434,992
Placements from banks and other financial institutions	–	–	18,674	27,607	58,986	3,750	–	109,017
Derivative financial liabilities	–	–	1,571	2,279	8,308	207	–	12,365
Financial assets sold under agreements to repurchase	–	–	44,597	2,516	2,042	–	–	49,155
Deposits taken	–	998,165	93,682	124,437	371,061	249,675	–	1,837,020
Debt obligations payable	–	–	43,322	154,852	216,140	67,500	30,000	511,814
Other financial liabilities	–	6,822	770	260	640	3,330	1,748	13,570
Total financial liabilities	–	1,043,703	275,903	520,121	903,032	324,462	31,748	3,098,969
Net position	177,151	(867,933)	(21,151)	(302,430)	(133,166)	903,575	517,785	273,831

The Bank								
31 December 2021								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	150,374	35,465	–	–	–	–	–	185,839
Due from banks	–	16,357	–	202	1,121	–	–	17,680
Placements with banks and other financial institutions	–	–	20,111	16,180	45,981	9,500	–	91,772
Derivative financial assets	–	–	1,495	2,122	4,417	165	–	8,199
Financial assets purchased under agreements to resell	–	–	3,968	2,188	6,455	–	–	12,611
Loans and advances to customers	15,127	–	195,762	152,422	655,870	638,898	385,910	2,043,989
Held-for-trading financial assets	–	151,200	3,123	3,564	17,460	11,851	46,069	233,267
Debt investments	16,059	–	17,254	37,290	129,751	405,832	109,718	715,904
Other debt investments	–	–	5,374	4,720	10,241	116,426	57,937	194,698
Other equity instrument investments	6,605	–	–	–	–	–	–	6,605
Other financial assets	1,375	5,278	–	–	–	–	–	6,653
Total financial assets	189,540	208,300	247,087	218,688	871,296	1,182,672	599,634	3,517,217



The Bank								
31 December 2021								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial liabilities								
Due to central banks	–	–	11,008	616	138,053	–	–	149,677
Due to banks and other financial institutions	–	47,053	77,692	289,902	127,538	–	–	542,185
Placements from banks and other financial institutions	–	–	5,123	12,324	3,703	–	–	21,150
Financial liabilities for trading	–	–	–	–	206	–	–	206
Derivative financial liabilities	–	–	1,464	2,129	4,267	22	–	7,882
Financial assets sold under agreements to repurchase	–	–	42,466	1,637	2,408	–	–	46,511
Deposits taken	–	1,064,121	103,389	102,800	356,042	298,835	–	1,925,187
Lease liabilities	–	–	213	210	1,029	3,390	993	5,835
Debt obligations payable	–	–	21,313	81,753	304,124	131,354	–	538,544
Other financial liabilities	–	9,239	981	150	392	36	565	11,363
Total financial liabilities	–	1,120,413	263,649	491,521	937,762	433,637	1,558	3,248,540
Net position	189,540	(912,113)	(16,562)	(272,833)	(66,466)	749,035	598,076	268,677

The Bank								
31 December 2020								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	154,858	47,292	–	–	1,032	–	–	203,182
Due from banks	–	17,595	151	508	102	–	–	18,356
Placements with banks and other financial institutions	–	–	10,361	4,069	22,250	1,700	–	38,380
Derivative financial assets	–	–	1,671	2,319	8,115	256	–	12,361
Financial assets purchased under agreements to resell	–	–	20,967	731	1,884	–	–	23,582
Loans and advances to customers	15,363	–	202,938	179,303	564,194	638,324	348,433	1,948,555
Held-for-trading financial assets	–	98,905	5,689	2,955	4,077	6,675	5,246	123,547
Debt investments	78	–	8,046	17,377	143,363	410,601	121,414	700,879
Other debt investments	–	–	3,387	12,019	21,824	103,792	31,904	172,926
Other equity instrument investments	5,472	–	–	–	–	–	–	5,472
Other financial assets	981	8,900	–	–	–	–	–	9,881
Total financial assets	176,752	172,692	253,210	219,281	766,841	1,161,348	506,997	3,257,121

The Bank								
31 December 2020								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial liabilities								
Due to central banks	–	–	11,131	–	119,808	–	–	130,939
Due to banks and other financial institutions	–	41,463	64,521	208,164	125,988	–	–	440,136
Placements from banks and other financial institutions	–	–	11,326	5,395	3,184	–	–	19,905
Derivative financial assets	–	–	1,571	2,279	8,308	207	–	12,365
Financial assets sold under agreements to repurchase	–	–	43,417	2,516	2,042	–	–	47,975
Deposits taken	–	996,679	93,532	124,309	370,605	249,133	–	1,834,258
Debt obligations payable	–	–	43,323	154,780	213,599	63,000	30,000	504,702
Other financial liabilities	–	6,426	735	113	294	27	423	8,018
Total financial liabilities	–	1,044,568	269,556	497,556	843,828	312,367	30,423	2,998,298
Net position	176,752	(871,876)	(16,346)	(278,275)	(76,987)	848,981	476,574	258,823

(2) Undiscounted contract cash flows classified by expiry date of contract

The table below presents the undiscounted cash flows of financial assets and liabilities during the residual maturity from the end of reporting period to expiry date of the contract:

The Group								
31 December 2021								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	150,482	35,692	–	716	523	–	–	187,413
Due from banks	–	16,673	3	7	1,030	–	–	17,713
Placements with banks and other financial institutions	–	–	20,226	14,713	40,508	9,646	–	85,093
Financial assets purchased under agreements to resell	–	–	10,094	2,232	6,576	–	–	18,902
Loans and advances to customers	15,371	–	204,498	166,557	712,112	853,643	520,169	2,472,350
Held-for-trading financial assets	–	152,690	3,130	3,622	18,013	12,793	46,213	236,461
Debt investments	16,084	–	17,606	41,620	149,141	450,149	143,079	817,679
Other debt investments	–	–	5,497	4,929	12,704	131,422	67,854	222,406
Other equity instrument investments	6,924	–	–	–	–	–	–	6,924
Other financial assets	1,375	8,141	–	–	–	–	–	9,516
Total financial assets	190,236	213,196	261,054	234,396	940,607	1,457,653	777,315	4,074,457



The Group								
31 December 2021								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial liabilities								
Due to central banks	–	–	11,359	1,325	140,066	–	–	152,750
Due to banks and other financial institutions	–	47,063	78,811	291,631	170,609	–	–	588,114
Placements from banks and other financial institutions	–	–	16,169	46,402	50,578	2,592	–	115,741
Financial liabilities for trading	–	–	–	–	206	–	–	206
Financial assets sold under agreements to repurchase	–	–	42,483	1,646	2,422	–	–	46,551
Deposits taken	–	1,065,235	106,682	108,790	370,662	331,574	–	1,982,943
Lease liabilities	–	–	240	232	1,155	3,866	1,205	6,698
Debt obligations payable	–	–	21,373	85,231	312,929	148,520	–	568,053
Other financial liabilities	–	9,651	993	305	756	3,504	1,956	17,165
Total financial liabilities	–	1,121,949	278,110	535,562	1,049,383	490,056	3,161	3,478,221
Net position	190,236	(908,753)	(17,056)	(301,166)	(108,776)	967,597	774,154	596,236
Derivative financial instruments settled on a net basis	–	–	46	51	36	143	–	276
Derivative financial instruments settled on a gross basis								
Of which: Cash inflows	–	11	10,683	8,016	36,993	2,709	–	58,412
Cash outflows	–	(11)	(10,698)	(8,074)	(36,879)	(2,709)	–	(58,371)

The Group								
31 December 2020								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	154,978	48,073	–	666	3,044	–	–	206,761
Due from banks	–	17,859	158	502	–	–	–	18,519
Placements with banks and other financial institutions	–	–	10,527	2,316	23,039	1,790	–	37,672
Financial assets purchased under agreements to resell	–	–	22,192	741	1,925	–	–	24,858
Loans and advances to customers	15,705	–	214,891	197,059	641,664	839,699	509,611	2,418,629
Held-for-trading financial assets	–	99,206	5,698	2,973	4,365	7,839	6,399	126,480
Debt investments	78	–	8,442	19,701	161,937	465,202	157,661	813,021
Other debt investments	–	–	3,499	12,692	24,983	117,672	40,159	199,005
Other equity instrument investments	5,484	–	–	–	–	–	–	5,484
Other financial assets	981	10,633	–	–	–	–	–	11,614
Total financial assets	177,226	175,771	265,407	236,650	860,957	1,432,202	713,830	3,862,043
Financial liabilities								
Due to central banks	–	–	11,153	23	122,804	–	–	133,980
Due to banks and other financial institutions	–	38,716	62,660	210,098	127,747	–	–	439,221
Placements from banks and other financial institutions	–	–	18,883	28,147	60,304	4,091	–	111,425
Financial assets sold under agreements to repurchase	–	–	43,426	2,536	2,060	–	–	48,022
Deposits taken	–	998,165	95,172	126,202	379,105	270,025	–	1,868,669
Debt obligations payable	–	–	43,451	157,047	227,161	77,526	32,880	538,065
Other financial liabilities	–	6,822	770	260	640	3,330	1,748	13,570
Total financial liabilities	–	1,043,703	275,515	524,313	919,821	354,972	34,628	3,152,952
Net position	177,226	(867,932)	(10,108)	(287,663)	(58,864)	1,077,230	679,202	709,091
Derivative financial instruments settled on a net basis	–	–	23	12	(423)	–	–	(388)
Derivative financial instruments settled on a gross basis								
Of which: Cash inflows	–	–	13,789	10,672	34,833	9,988	–	69,282
Cash outflows	–	–	(13,702)	(10,644)	(34,636)	(9,916)	–	(68,898)

The Bank								
31 December 2021								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	150,374	35,465	–	666	252	–	–	186,757
Due from banks	–	16,357	3	209	1,151	–	–	17,720
Placements with banks and other financial institutions	–	–	20,246	16,798	47,120	9,646	–	93,810
Financial assets purchased under agreements to resell	–	–	4,316	2,232	6,575	–	–	13,123
Loans and advances to customers	15,250	–	204,325	166,109	708,472	771,826	487,116	2,353,098
Held-for-trading financial assets	–	151,200	3,130	3,622	18,013	12,793	46,213	234,971
Debt investments	16,097	–	17,603	41,607	149,044	449,420	140,109	813,880
Other debt investments	–	–	5,497	4,839	12,619	129,951	67,854	220,760
Other equity instrument investments	6,605	–	–	–	–	–	–	6,605
Other financial assets	1,375	5,278	–	–	–	–	–	6,653
Total financial assets	189,701	208,300	255,120	236,082	943,246	1,373,636	741,292	3,947,377
Financial liabilities								
Due to central banks	–	–	11,359	1,324	140,030	–	–	152,713
Due to banks and other financial institutions	–	47,063	78,724	291,314	128,041	–	–	545,142
Placements from banks and other financial institutions	–	–	5,126	12,343	3,713	–	–	21,182
Financial liabilities for trading	–	–	–	–	206	–	–	206
Financial assets sold under agreements to repurchase	–	–	42,483	1,646	2,422	–	–	46,551
Deposits taken	–	1,064,121	106,578	108,652	370,252	331,179	–	1,980,782
Lease liabilities	–	–	230	227	1,106	3,730	1,162	6,455
Debt obligations payable	–	–	21,373	82,572	312,929	141,813	–	558,687
Other financial liabilities	–	9,238	981	150	392	36	565	11,362
Total financial liabilities	–	1,120,422	266,854	498,228	959,091	476,758	1,727	3,323,080
Net position	189,701	(912,122)	(11,734)	(262,146)	(15,845)	896,878	739,565	624,297
Derivative financial instruments settled on a net basis	–	–	46	51	36	143	–	276
Derivative financial instruments settled on a gross basis								
Of which: Cash inflows	–	11	10,683	8,016	36,993	2,709	–	58,412
Cash outflows	–	(11)	(10,698)	(8,074)	(36,879)	(2,709)	–	(58,371)

The Bank								
31 December 2020								
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	154,858	47,292	–	665	3,040	–	–	205,855
Due from banks	–	17,595	158	519	106	–	–	18,378
Placements with banks and other financial institutions	–	–	10,427	4,349	23,039	1,790	–	39,605
Financial assets purchased under agreements to resell	–	–	20,998	741	1,925	–	–	23,664
Loans and advances to customers	15,417	–	211,674	191,759	613,214	758,781	496,456	2,287,301
Held-for-trading financial assets	–	98,905	5,698	2,973	4,365	7,839	6,399	126,179
Debt investments	78	–	8,442	19,701	161,932	465,092	157,661	812,906
Other debt investments	–	–	3,499	12,692	24,983	117,672	40,159	199,005
Other equity instrument investments	5,472	–	–	–	–	–	–	5,472
Other financial assets	981	8,900	–	–	–	–	–	9,881
Total financial assets	176,806	172,692	260,896	233,399	832,604	1,351,174	700,675	3,728,246
Financial liabilities								
Due to central banks	–	–	11,151	–	122,569	–	–	133,720
Due to banks and other financial institutions	–	41,463	65,040	210,098	127,777	–	–	444,378
Placements from banks and other financial institutions	–	–	11,336	5,412	3,239	–	–	19,987
Financial assets sold under agreements to repurchase	–	–	43,425	2,536	2,060	–	–	48,021
Deposits taken	–	996,679	95,022	126,072	378,645	269,422	–	1,865,840
Debt obligations payable	–	–	43,451	156,888	224,441	72,788	32,880	530,448
Other financial liabilities	–	6,426	735	113	294	27	423	8,018
Total financial liabilities	–	1,044,568	270,160	501,119	859,025	342,237	33,303	3,050,412
Net position	176,806	(871,876)	(9,264)	(267,720)	(26,421)	1,008,937	667,372	677,834
Derivative financial instruments settled on a net basis	–	–	23	12	(423)	–	–	(388)
Derivative financial instruments settled on a gross basis								
Of which: Cash inflows	–	–	13,789	10,672	34,833	9,988	–	69,282
Cash outflows	–	–	(13,702)	(10,644)	(34,636)	(9,916)	–	(68,898)

4.2 Off-balance-sheet items

Off-balance-sheet items of the Group mainly include bank acceptance drafts, letter of credit issued, letter of guarantee issued, irrevocable loan commitments and unused credit card limit. Amounts of off-balance-sheet items are presented in the table below by residual maturity of contract:

	The Group			
	31 December 2021			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	384,281	–	–	384,281
L/Cs issued	155,230	733	–	155,963
L/Gs and other payment commitments issued	16,563	14,354	1,748	32,665
Irrevocable loan commitments	15,255	1,387	1,261	17,903
Unused credit card limit	265,981	–	–	265,981
Total	837,310	16,474	3,009	856,793

	The Group			
	31 December 2020			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	319,239	–	–	319,239
L/Cs issued	146,570	400	–	146,970
L/Gs and other payment commitments issued	14,011	11,700	2,053	27,764
Irrevocable loan commitments	2,439	1,919	97	4,455
Unused credit card limit	222,178	–	–	222,178
Total	704,437	14,019	2,150	720,606

	The Bank			
	31 December 2021			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	384,249	–	–	384,249
L/Cs issued	155,230	733	–	155,963
L/Gs and other payment commitments issued	16,540	14,354	1,748	32,642
Irrevocable loan commitments	6,748	1,213	1,261	9,222
Unused credit card limit	265,981	–	–	265,981
Total	828,748	16,300	3,009	848,057

The Bank				
31 December 2020				
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	319,185	–	–	319,185
L/Cs issued	146,570	400	–	146,970
L/Gs and other payment commitments issued	13,990	11,699	2,053	27,742
Irrevocable loan commitments	839	1,475	97	2,411
Unused credit card limit	222,178	–	–	222,178
Total	702,762	13,574	2,150	718,486

5. Market risk

Market risk means the possibility of loss to the Group's on- and off-balance-sheet businesses that results from changes in the market prices (including exchange rate, interest rate, commodity price and stock price). Market risk of the Group mainly consists of exchange rate risk and interest rate risk. Exchange rate risk of the Group mainly refers to risk of loss caused by exchange rate fluctuation in exposure of assets and liabilities denominated in foreign currency. Interest rate risk mainly refers to risk of loss caused by interest rate fluctuation arising from mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities.

5.1 Exchange rate risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and other currencies. Transactions in foreign currencies mainly include the Group's treasury operation exposure and foreign exchange business.

As for the business varieties involving exchange rate risk, the Group strictly manages various links of development, launching and operation, and formulates necessary risk control system in terms of business authorization, exposure limits and process monitoring. The Bank divides its foreign exchange trading businesses between banking book and trading book and the foreign exchange exposure of the whole bank is managed by the Head Office in a unified manner.

At the end of the reporting period, exchange rate risk of financial assets and financial liabilities is as follows:

The Group					
31 December 2021					
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	163,989	22,089	64	32	186,174
Due from banks	4,789	9,939	1,320	1,655	17,703
Placements with banks and other financial institutions	83,263	–	–	–	83,263
Derivative financial assets	26	8,111	39	23	8,199
Financial assets purchased under agreements to resell	18,390	–	–	–	18,390
Loans and advances to customers	2,123,465	29,661	6,370	3,470	2,162,966
Held-for-trading financial assets	233,204	1,553	–	–	234,757
Debt investments	687,850	29,982	–	434	718,266
Other debt investments	174,756	20,623	736	157	196,272
Other equity instrument investments	6,861	11	52	–	6,924
Other financial assets	9,015	449	52	–	9,516
Total financial assets	3,505,608	122,418	8,633	5,771	3,642,430



The Group					
31 December 2021					
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Due to central banks	149,714	–	–	–	149,714
Due to banks and other financial institutions	542,021	6	–	1	542,028
Placements from banks and other financial institutions	95,394	15,381	843	2,298	113,916
Financial liabilities for trading	206	–	–	–	206
Derivative financial liabilities	26	7,762	39	55	7,882
Financial assets sold under agreements to repurchase	44,288	2,223	–	–	46,511
Deposits taken	1,855,590	65,310	1,540	4,909	1,927,349
Lease liabilities	6,044	–	9	–	6,053
Debt obligations payable	542,452	4,796	–	–	547,248
Other financial liabilities	13,516	768	12	2,870	17,166
Total financial liabilities	3,249,251	96,246	2,443	10,133	3,358,073
Net exposure	256,357	26,172	6,190	(4,362)	284,357

The Group					
31 December 2020					
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	183,344	20,628	69	41	204,082
Due from banks	4,800	12,023	536	1,146	18,505
Placements with banks and other financial institutions	34,183	2,287	–	–	36,470
Derivative financial assets	157	12,190	–	14	12,361
Financial assets purchased under agreements to resell	24,776	–	–	–	24,776
Loans and advances to customers	2,034,128	20,390	1,654	3,653	2,059,825
Held-for-trading financial assets	123,848	–	–	–	123,848
Debt investments	672,169	30,427	–	313	702,909
Other debt investments	161,000	11,926	–	–	172,926
Other equity instrument investments	5,468	11	5	–	5,484
Other financial assets	11,421	140	53	–	11,614
Total financial assets	3,255,294	110,022	2,317	5,167	3,372,800

The Group					
31 December 2020					
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Due to central banks	131,036	–	–	–	131,036
Due to banks and other financial institutions	434,985	6	–	1	434,992
Placements from banks and other financial institutions	90,143	15,381	843	2,650	109,017
Derivative financial assets	154	12,197	–	14	12,365
Financial assets sold under agreements to repurchase	49,155	–	–	–	49,155
Deposits taken	1,783,783	50,284	1,289	1,664	1,837,020
Debt obligations payable	509,073	2,741	–	–	511,814
Other financial liabilities	10,116	793	–	2,661	13,570
Total financial liabilities	3,008,445	81,402	2,132	6,990	3,098,969
Net exposure	246,849	28,620	185	(1,823)	273,831

The Bank					
31 December 2021					
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	163,654	22,089	64	32	185,839
Due from banks	4,766	9,939	1,320	1,655	17,680
Placements with banks and other financial institutions	91,772	–	–	–	91,772
Derivative financial assets	26	8,111	39	23	8,199
Financial assets purchased under agreements to resell	12,611	–	–	–	12,611
Loans and advances to customers	2,004,567	29,582	6,370	3,470	2,043,989
Held-for-trading financial assets	231,714	1,553	–	–	233,267
Debt investments	685,488	29,982	–	434	715,904
Other debt investments	173,182	20,623	736	157	194,698
Other equity instrument investments	6,542	11	52	–	6,605
Other financial assets	6,395	206	52	–	6,653
Total financial assets	3,380,717	122,096	8,633	5,771	3,517,217



The Bank					
31 December 2021					
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Due to central banks	149,677	–	–	–	149,677
Due to banks and other financial institutions	542,178	6	–	1	542,185
Placements from banks and other financial institutions	2,628	15,381	843	2,298	21,150
Financial liabilities for trading	206	–	–	–	206
Derivative financial liabilities	26	7,762	39	55	7,882
Financial assets sold under agreements to repurchase	44,288	2,223	–	–	46,511
Deposits taken	1,853,428	65,310	1,540	4,909	1,925,187
Lease liabilities	5,826	–	9	–	5,835
Debt obligations payable	533,748	4,796	–	–	538,544
Other financial liabilities	7,719	768	12	2,864	11,363
Total financial liabilities	3,139,724	96,246	2,443	10,127	3,248,540
Net exposure	240,993	25,850	6,190	(4,356)	268,677

The Bank					
31 December 2020					
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	182,444	20,628	69	41	203,182
Due from banks	4,651	12,023	536	1,146	18,356
Placements with banks and other financial institutions	36,093	2,287	–	–	38,380
Derivative financial assets	157	12,190	–	14	12,361
Financial assets purchased under agreements to resell	23,582	–	–	–	23,582
Loans and advances to customers	1,922,858	20,390	1,654	3,653	1,948,555
Held-for-trading financial assets	123,547	–	–	–	123,547
Debt investments	670,139	30,427	–	313	700,879
Other debt investments	161,000	11,926	–	–	172,926
Other equity instrument investments	5,456	11	5	–	5,472
Other financial assets	9,688	140	53	–	9,881
Total financial assets	3,139,615	110,022	2,317	5,167	3,257,121

The Bank					
31 December 2020					
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Due to central banks	130,939	–	–	–	130,939
Due to banks and other financial institutions	440,129	6	–	1	440,136
Placements from banks and other financial institutions	1,031	15,381	843	2,650	19,905
Derivative financial assets	154	12,197	–	14	12,365
Financial assets sold under agreements to repurchase	47,975	–	–	–	47,975
Deposits taken	1,781,021	50,284	1,289	1,664	1,834,258
Debt obligations payable	501,961	2,741	–	–	504,702
Other financial liabilities	4,564	793	–	2,661	8,018
Total financial liabilities	2,907,774	81,402	2,132	6,990	2,998,298
Net exposure	231,841	28,620	185	(1,823)	258,823

The potential impact on pre-tax profit and shareholders' equity is presented below, in the case that the spot and forward exchange rates of RMB against all foreign currencies appreciate or depreciate by 5% at the same time.

The Group and the Bank				
	31 December 2021		31 December 2020	
	Pre-tax profit	Interests	Pre-tax profit	Interests
Appreciation by 5%	(445)	(448)	(396)	(397)
Depreciation by 5%	445	448	396	397

Impact on pre-tax profit arises from impact of RMB exchange rate fluctuation on net exposure of monetary assets and liabilities and monetary derivative instruments denominated in foreign currency.

The impact on pre-tax profit is determined based on the assumption that the Group's exchange rate sensitive position and net position of monetary derivative instruments remain unchanged on balance sheet dates. The Group actively adjusts foreign currency exposure and applies proper derivative instruments to reduce the foreign exchange risk, based on the Management's judgment on the exchange rate fluctuation trend. Therefore, the sensitivity analysis above may deviate from the actualities to some extent.

5.2 Interest rate risk

The Group's interest rate risk mainly arises from the impact of mismatches between the interest rate repricing periods for assets and liabilities in the banking book on income. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The Group measures risks through sensitivity analysis of net interest income, sensitivity analysis of economic value, repricing gap and stress testing.

The Group intensified the cost control over interest-bearing liabilities management, established term and interest rate structure matching with the interest-bearing liabilities over the interest-generating assets management, optimized assets and liabilities portfolio management, and proactively developed fee-based business and non-interest rate sensitive financial products, so as to reduce the impact of interest rate risk on the Group's operation.

At the end of reporting periods, the expiry date of contract or repricing date (whichever is earlier) of financial assets and financial liabilities is as follows:

	The Group						Total
	31 December 2021						
	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue/ non-interest generating	
Cash on hand and balances with central banks	176,421	–	–	–	–	9,753	186,174
Due from banks	14,640	–	1,030	1	–	2,032	17,703
Placements with banks and other financial institutions	20,084	14,110	39,481	9,500	–	88	83,263
Derivative financial assets	–	–	–	–	–	8,199	8,199
Financial assets purchased under agreements to resell	9,700	2,155	6,401	–	–	134	18,390
Loans and advances to customers	722,734	265,004	242,487	853,501	56,076	23,164	2,162,966
Held-for-trading financial assets	148,457	3,461	17,243	11,851	46,069	7,676	234,757
Debt investments	17,577	36,690	127,243	400,431	109,948	26,377	718,266
Other debt investments	29,888	5,067	8,502	98,597	51,710	2,508	196,272
Other equity instrument investments	–	–	–	–	–	6,924	6,924
Other financial assets	232	–	–	–	–	9,284	9,516
Total financial assets	1,139,733	326,487	442,387	1,373,881	263,803	96,139	3,642,430
Due to central banks	10,700	600	137,035	–	–	1,379	149,714
Due to banks and other financial institutions	122,463	289,905	127,538	–	–	2,122	542,028
Placements from banks and other financial institutions	15,639	45,846	49,527	2,398	–	506	113,916
Financial liabilities for trading	–	–	206	–	–	–	206
Derivative financial liabilities	–	–	–	–	–	7,882	7,882
Financial assets sold under agreements to repurchase	42,444	1,632	2,406	–	–	29	46,511
Deposits taken	1,113,734	126,280	372,321	292,051	–	22,963	1,927,349
Lease liabilities	222	216	1,076	3,514	1,025	–	6,053
Debt obligations payable	21,305	84,248	303,254	136,000	–	2,441	547,248
Other financial liabilities	3,500	–	–	–	–	13,666	17,166
Total financial liabilities	1,330,007	548,727	993,363	433,963	1,025	50,988	3,358,073
Net position	(190,274)	(222,240)	(550,976)	939,918	262,778	45,151	284,357

The Group							
31 December 2020							
	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	198,453	–	–	–	–	5,629	204,082
Due from banks	15,756	490	–	–	–	2,259	18,505
Placements with banks and other financial institutions	10,451	2,027	22,250	1,700	–	42	36,470
Derivative financial assets	–	–	–	–	–	12,361	12,361
Financial assets purchased under agreements to resell	22,135	725	1,870	–	–	46	24,776
Loans and advances to customers	617,284	278,816	706,098	392,913	42,792	21,922	2,059,825
Held-for-trading financial assets	96,263	2,898	3,906	6,675	5,246	8,860	123,848
Debt investments	49,066	37,839	132,197	355,801	118,060	9,946	702,909
Other debt investments	28,165	13,041	20,487	85,204	23,795	2,234	172,926
Other equity instrument investments	–	–	–	–	–	5,484	5,484
Other financial assets	184	–	–	–	–	11,430	11,614
Total financial assets	1,037,757	335,836	886,808	842,293	189,893	80,213	3,372,800
Due to central banks	10,802	6	119,089	–	–	1,139	131,036
Due to banks and other financial institutions	100,516	207,460	125,656	–	–	1,360	434,992
Placements from banks and other financial institutions	18,940	28,556	58,086	2,750	–	685	109,017
Derivative financial liabilities	–	–	–	–	–	12,365	12,365
Financial assets sold under agreements to repurchase	44,580	2,505	2,038	–	–	32	49,155
Deposits taken	1,088,946	122,584	363,394	242,897	–	19,199	1,837,020
Debt obligations payable	43,322	154,112	214,252	67,500	30,000	2,628	511,814
Other financial liabilities	3,205	–	–	–	–	10,365	13,570
Total financial liabilities	1,310,311	515,223	882,515	313,147	30,000	47,773	3,098,969
Net position	(272,554)	(179,387)	4,293	529,146	159,893	32,440	273,831



The Bank							
31 December 2021							
	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	176,099	–	–	–	–	9,740	185,839
Due from banks	14,325	202	1,121	–	–	2,032	17,680
Placements with banks and other financial institutions	20,085	16,110	45,981	9,500	–	96	91,772
Derivative financial assets	–	–	–	–	–	8,199	8,199
Financial assets purchased under agreements to resell	3,926	2,155	6,400	–	–	130	12,611
Loans and advances to customers	722,576	264,580	238,926	771,801	23,074	23,032	2,043,989
Held-for-trading financial assets	147,839	3,461	17,243	11,851	46,069	6,804	233,267
Debt investments	17,577	36,690	127,243	400,144	107,891	26,359	715,904
Other debt investments	29,889	4,977	8,452	97,181	51,710	2,489	194,698
Other equity instrument investments	–	–	–	–	–	6,605	6,605
Other financial assets	232	–	–	–	–	6,421	6,653
Total financial assets	1,132,548	328,175	445,366	1,290,477	228,744	91,907	3,517,217
Due to central banks	10,700	600	137,000	–	–	1,377	149,677
Due to banks and other financial institutions	122,623	289,902	127,538	–	–	2,122	542,185
Placements from banks and other financial institutions	5,121	12,314	3,702	–	–	13	21,150
Financial liabilities for trading	–	–	206	–	–	–	206
Derivative financial liabilities	–	–	–	–	–	7,882	7,882
Financial assets sold under agreements to repurchase	42,444	1,632	2,406	–	–	29	46,511
Deposits taken	1,112,577	126,143	371,907	291,656	–	22,904	1,925,187
Lease liabilities	213	210	1,029	3,390	993	–	5,835
Debt obligations payable	21,305	81,748	303,254	130,000	–	2,237	538,544
Other financial liabilities	3,500	–	–	–	–	7,863	11,363
Total financial liabilities	1,318,483	512,549	947,042	425,046	993	44,427	3,248,540
Net position	(185,935)	(184,374)	(501,676)	865,431	227,751	47,480	268,677

The Bank							
31 December 2020							
	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	197,565	–	–	–	–	5,617	203,182
Due from banks	15,493	500	100	–	–	2,263	18,356
Placements with banks and other financial institutions	10,351	4,027	22,250	1,700	–	52	38,380
Derivative financial assets	–	–	–	–	–	12,361	12,361
Financial assets purchased under agreements to resell	20,941	725	1,870	–	–	46	23,582
Loans and advances to customers	603,636	250,117	657,339	379,555	36,263	21,645	1,948,555
Held-for-trading financial assets	95,963	2,898	3,906	6,675	5,246	8,859	123,547
Debt investments	48,966	37,839	132,197	355,762	116,181	9,934	700,879
Other debt investments	28,165	13,041	20,487	85,204	23,795	2,234	172,926
Other equity instrument investments	–	–	–	–	–	5,472	5,472
Other financial assets	184	–	–	–	–	9,697	9,881
Total financial assets	1,021,264	309,147	838,149	828,896	181,485	78,180	3,257,121
Due to central banks	10,800	–	119,000	–	–	1,139	130,939
Due to banks and other financial institutions	105,622	207,460	125,686	–	–	1,368	440,136
Placements from banks and other financial institutions	11,318	5,383	3,168	–	–	36	19,905
Derivative financial assets	–	–	–	–	–	12,365	12,365
Financial assets sold under agreements to repurchase	43,402	2,505	2,038	–	–	30	47,975
Deposits taken	1,087,348	122,456	362,939	242,356	–	19,159	1,834,258
Debt obligations payable	43,322	154,112	211,752	63,000	30,000	2,516	504,702
Other financial liabilities	3,205	–	–	–	–	4,813	8,018
Total financial liabilities	1,305,017	491,916	824,583	305,356	30,000	41,426	2,998,298
Net position	(283,753)	(182,769)	13,566	523,540	151,485	36,754	258,823

The Group measures the possible effects of interest rate changes on the Group's net interest income and equity through sensitivity analysis. The table below presents the results of interest rate sensitivity analysis based on assets and liabilities on 31 December 2021 and 31 December 2020.

Change in interest rate (basis points)	The Group			
	31 December 2021		31 December 2020	
	Net interest income	Interests	Net interest income	Interests
Up 100 basis points	(5,742)	(7,860)	(4,091)	(5,113)
Down 100 bps	5,742	8,486	4,091	5,522

Change in interest rate (basis points)	The Bank			
	31 December 2021		31 December 2020	
	Net interest income	Interests	Net interest income	Interests
Up 100 basis points	(5,200)	(7,860)	(4,192)	(5,113)
Down 100 bps	5,200	8,486	4,192	5,522

The above sensitivity analysis is conditional upon the static interest rate risk structure of assets and liabilities.

The relevant analysis only measures interest rate changes in one year, reflecting the impact of the Group's non-derivative asset and liability repricing within one year on annualized interest income of the Group upon the following assumptions: (i) the 100 bps change in interest rate represents the interest rate change over the next full year commencing on the balance sheet date; (ii) the yield curve moves in parallel with interest rate changes; (iii) no other changes occur to the asset and liability portfolios.

Sensitivity analysis on equity is conducted based on the impact of interest rate change on changes in fair value of fixed-rate financial assets measured at fair value through other comprehensive income held on balance sheet dates after revaluation.

This analysis will not take into account the impact of risk management methods the Management may take. Given the above assumptions, the actual changes in the Group's net interest income resulting from interest rate changes may be different from the sensitivity analysis results.

The Group's activities affected by the benchmark interest rate reform mainly include LIBOR-linked lending, bond investment and derivatives trading. The Group has attached great importance to and made overall planning for benchmark rate reform, with relevant work proceeding in a well-ordered manner. After assessment, the Group believes that adoption of the revision has no material impact on the Group's financial position and operating results for the reporting period.

6. Capital management

Since 2013, the Group has managed capital in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)* issued by the former CBRC. In particular, credit risk is measured by the weighting approach, market risk the standard approach and operational risk the basic indicator approach.

Capital composition of the Group is as follows:

Core tier-1 capital: share capital, capital reserve, other comprehensive income, surplus reserve, general risk reserve, retained profit and recognizable part of capital contribution from minority shareholders;

Other tier-1 capital: recognizable part of capital contribution from other equity instruments and minority shareholders;

Tier-2 capital: tier-2 capital instruments and premium thereof, excessive allowance for impairment losses on loans and recognizable part of capital contribution from minority shareholders.

Net capital is calculated by deducting corresponding capital deductions from capital at all levels in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)*.

The Management of the Group monitors the adequacy of capital and application of regulatory capital in a real-time manner based on relevant guidelines of the Basel Committee and regulatory requirements of CBIRC.

To ensure the capital adequacy ratio meeting the regulatory requirement and support balanced and sound development of various businesses on this basis, the Group proactively expands the capital supplementary channel to promote the capital strength, reasonably controls the growth rate of risk assets, vigorously optimizes the structure of risk assets and strived to enhance the utilization efficiency of risk assets.

The Group calculates the net capital at all levels and the capital adequacy ratio in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)* issued by the former CBRC. Particulars are as follows:

	31 December 2021	31 December 2020
Net core tier-1 capital	240,073	222,230
Net tier-1 capital	300,279	282,413
Net capital	350,673	330,769
Core tier-1 capital adequacy ratio	8.78%	8.79%
Tier-1 capital adequacy ratio	10.98%	11.17%
Capital adequacy ratio	12.82%	13.08%

7. Fair value of financial assets and financial liabilities

Fair value refers to the amount received from selling an asset or the amount to be paid for transferring a liability by market players in orderly transactions on the measurement date. Whether the fair value is observed or estimated with valuation techniques, it is the basis of the fair value measured and disclosed in these financial statements. The Group measures and discloses the fair value of financial instruments on the following levels:

Level 1: Fair value measurement refers to the unadjusted quotation of the same assets or liabilities obtainable in the active market on the measurement date;

Level 2: Fair value measurement refers to the directly or indirectly observable input value of related assets or liabilities other than the input value in Level 1. Most bond investments classified on Level 2 are RMB bonds. The fair value of these bonds is determined on the valuation results provided by CCDC. Also on the level are most OTC derivatives. Valuation techniques include forward pricing, swap modeling and option pricing & modeling. The entered parameters come from the observable open markets such as Bloomberg, Wind and Reuters trading systems.

Level 3: Fair value measurement refers to the unobservable input value of related assets or liabilities.

Fair value measurement of financial assets and financial liabilities of the Group did not shift between Level 1 or Level 2 and Level 3.

7.1 Fair value of financial assets and financial liabilities continuously measured at fair value

The following table shows the financial instruments measured at fair value evaluated at three levels:

	The Group			
	31 December 2021			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	8,199	–	8,199
Loans and advances to customers measured at fair value through other comprehensive income	–	141,753	–	141,753
Held-for-trading financial assets	49,073	182,278	3,406	234,757
Other debt investments	–	196,272	–	196,272
Other equity instrument investments	609	–	6,315	6,924
Financial liabilities				
Financial liabilities for trading	–	206	–	206
Derivative financial liabilities	–	7,882	–	7,882



The Group				
31 December 2020				
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	12,361	–	12,361
Loans and advances to customers measured at fair value through other comprehensive income	–	117,723	–	117,723
Held-for-trading financial assets	77,112	43,346	3,390	123,848
Other debt investments	–	172,926	–	172,926
Other equity instrument investments	462	–	5,022	5,484
Other assets	51	–	–	51
Financial liabilities				
Derivative financial assets	–	12,365	–	12,365

The Bank				
31 December 2021				
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	8,199	–	8,199
Loans and advances to customers measured at fair value through other comprehensive income	–	141,753	–	141,753
Held-for-trading financial assets	48,577	181,284	3,406	233,267
Other debt investments	–	194,698	–	194,698
Other equity instrument investments	590	–	6,015	6,605
Financial liabilities				
Financial liabilities for trading	–	206	–	206
Derivative financial liabilities	–	7,882	–	7,882

The Bank				
31 December 2020				
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	12,361	–	12,361
Loans and advances to customers measured at fair value through other comprehensive income	–	117,723	–	117,723
Held-for-trading financial assets	76,811	43,346	3,390	123,547
Other debt investments	–	172,926	–	172,926
Other equity instrument investments	450	–	5,022	5,472
Other assets	51	–	–	51
Financial liabilities				
Derivative financial assets	–	12,365	–	12,365

Fair value measurement of financial assets and financial liabilities of the Group neither shifted between Level 1 and Level 2 nor between Level 1 or Level 2 and Level 3 in the year and the previous year. For financial assets and liabilities stipulated by standard articles and traded on the active market, their fair value shall be determined separately with reference to the buy-in and sell-out prices available on the market. When the quotation is not available in the active market, the Group determines the fair value of financial assets and financial liabilities continuously measured at fair value by valuation techniques.

Valuation techniques used by the Group include cash flow discounting model for some derivative financial instruments whose quotation is not available in the active market (including FX forward, FX swap, interest rate swap, etc.) and the Black-Scholes option pricing model for valuation of option derivative instruments and the market comparison method for other equity instrument investments. Parameters used by the cash flow discounting model mainly include recent transaction prices and related yield curve while those used by the Black-Scholes option pricing model are related yield curve, exchange rate and volatility of underlying assets, etc. The main parameters used by the market comparison method include industry price-to-book ratio, price-to-earnings ratio and other industry ratios and liquidity discount.

The fair value of other financial instruments (including interbank market securities) is determined according to the general pricing model which is based on the future cash flow discounting method. No major changes occurred to the valuation techniques the Group used for fair value measurement in 2021 or 2020.

Except the financial assets and financial liabilities continuously measured at fair value, the Group held no financial instruments not continuously measured at fair value.

The table below presents the changes between opening balance and ending balance of fair value measured at Level 3 of fair value.

The Group	2021		Total
	Held-for-trading financial assets	Other equity instrument investments	
1 January 2021	3,390	5,022	8,412
Additions	1,032	1,636	2,668
Decrease	(15)	(25)	(40)
Losses recorded in profit or loss	(1,001)	–	(1,001)
Losses recorded in other comprehensive income	–	(318)	(318)
31 December 2021	3,406	6,315	9,721



The Group	2020		
	Held-for-trading financial assets	Other equity instrument investments	Total
1 January 2020	2,253	4,732	6,985
Additions	1,152	961	2,113
Decrease	(16)	–	(16)
Gains recorded in profit or loss	1	–	1
Losses recorded in other comprehensive income	–	(671)	(671)
31 December 2020	3,390	5,022	8,412

The Bank	2021		
	Held-for-trading financial assets	Other equity instrument investments	Total
1 January 2021	3,390	5,022	8,412
Additions	1,032	1,336	2,368
Decrease	(15)	(25)	(40)
Losses recorded in profit or loss	(1,001)	–	(1,001)
Losses recorded in other comprehensive income	–	(318)	(318)
31 December 2021	3,406	6,015	9,421

The Bank	2020		
	Held-for-trading financial assets	Other equity instrument investments	Total
1 January 2020	2,253	4,732	6,985
Additions	1,152	961	2,113
Decrease	(16)	–	(16)
Gains recorded in profit or loss	1	–	1
Losses recorded in other comprehensive income	–	(671)	(671)
31 December 2020	3,390	5,022	8,412

Effects of Level 3 assets on profit or loss for the year:

The Group and the Bank	2021			2020		
	Realized	Unrealized	Total	Realized	Unrealized	Total
Effect on net gains	1	(1,002)	(1,001)	–	1	1

7.2 Financial assets and financial liabilities not measured at fair value

The table below shows the book value and fair value of financial assets and financial liabilities that are not presented by fair value. Financial assets and financial liabilities with similar book value and fair value are not included in the table below, including balances with central banks, due from banks, placements with banks and other financial institutions, financial assets purchased under agreements to resell, loans and advances to customers measured at amortized costs, due to central banks, due to banks and other financial institutions, placements from banks and other financial institutions, and financial assets sold under agreements to repurchase, deposits taken etc.

Financial assets	The Group			
	31 December 2021		31 December 2020	
	Book value	Fair value	Book value	Fair value
Debt investments	718,266	719,884	702,909	706,201

Financial liabilities	The Group			
	31 December 2021		31 December 2020	
	Book value	Fair value	Book value	Fair value
Debt obligations payable	547,248	549,225	511,814	515,023

Financial assets	The Bank			
	31 December 2021		31 December 2020	
	Book value	Fair value	Book value	Fair value
Debt investments	715,904	717,389	700,879	703,991

Financial liabilities	The Bank			
	31 December 2021		31 December 2020	
	Book value	Fair value	Book value	Fair value
Debt obligations payable	538,544	540,423	504,702	507,770

The table below lists the levels of fair value of financial assets and financial liabilities that are not presented at fair value on the balance sheet date:

The Group				
31 December 2021				
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments	–	474,890	244,994	719,884
Financial liabilities				
Debt obligations payable	–	549,225	–	549,225

The Group				
31 December 2020				
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments	–	475,752	230,449	706,201
Financial liabilities				
Debt obligations payable	–	515,023	–	515,023

The Bank				
31 December 2021				
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments	–	473,226	244,163	717,389
Financial liabilities				
Debt obligations payable	–	540,423	–	540,423

The Bank				
31 December 2020				
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments	–	473,542	230,449	703,991
Financial liabilities				
Debt obligations payable	–	507,770	–	507,770

As for the financial institutions' asset management plans and beneficiary rights of assets classified as debt investments, its fair value will be determined based on the cash flow discounting model and the unobservable discounting rate which reflects credit risk of counterparties and is adjusted based on the liquidity profile. These financial instruments are classified into Level 3.

The fair value of other financial instruments is determined according to the general pricing model which is based on the future cash flow discounting method. These financial instruments are classified into Level 2.

XVI. POST BALANCE SHEET DATE EVENTS

1. The Bank held a meeting of the Board of Directors on 28 October 2021, approving to distribute cash dividend of RMB4.68 (pre-tax) per share to preference shareholders. The dividends above totaled RMB936 million, and were distributed on 28 March 2022.

The Bank held a meeting of the Board of Directors on 28 April 2022, approving to distribute dividend of RMB3.38 (pre-tax) per 10 shares after setting aside statutory surplus reserve and general risk reserve. Calculated based on the shares issued by the Bank as at 31 December 2021, the dividends distributed totaled RMB5,201 million. The above profit distribution plan is subject to approval by the Shareholders' General Meeting. Before that, accounting treatment is not made to the proposed surplus reserve, general risk reserve and dividend distribution.

2. As approved by CBIRC and PBOC, the Bank issued the financial bond (series 1) of Hua Xia Bank Co., Ltd. for 2022 on 25 February 2022 and the issuance volume was RMB20 billion. The bonds have a term of three years, the coupon rate is fixed at 2.78%. The value date is 1 March 2022 and the maturity date is 1 March 2025.
3. As approved by CBIRC and PBOC, the Bank issued the financial bond (series 2) of Hua Xia Bank Co., Ltd. for 2022 on 20 April 2022 and the issuance volume was RMB10 billion. The bonds have a term of three years, the coupon rate is fixed at 2.83%. The value date is 22 April 2022 and the maturity date is 22 April 2025.

XVII. COMPARATIVE DATA

Certain comparative data have been reclassified to be consistent with this year's presentation of financial statements.

XVIII. APPROVAL OF THE FINANCIAL STATEMENTS

The Financial Statements were approved by the Board of Directors of the Bank on 28 April 2022.

UNAUDITED SUPPLEMENTARY INFORMATION

1 January to 31 December 2021(In RMB millions, unless otherwise stated)

1. DETAIL LIST OF EXTRAORDINARY PROFIT AND LOSS

The table below is prepared in accordance with the *Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public – Extraordinary Profit and Loss (2008)* issued by CSRC.

	2021	2020
Profit/loss from the disposal of assets	(8)	3
Government subsidies	92	52
Other net operating income and expenses	(88)	(50)
Income tax influence of extraordinary profit and loss	(34)	(26)
Less: Extraordinary profit and loss attributable to minority shareholders	(4)	(4)
Total extraordinary profit and loss attributable to ordinary shareholders of the parent company	(42)	(25)

Extraordinary profit and loss refers to the profit or loss resulting from transactions and events that have no direct relation with normal operation of the Group or that although have direct relation with normal operation of the Group, they may affect the financial statements users' normal judgment on the Group's operating results and profitability due to their special and accidental nature.

2. RETURN ON EQUITY AND EARNINGS PER SHARE

The table below is prepared in accordance with the *Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings Per Share (2010 Revision)* issued by CSRC. During relevant periods, basic earnings per share will be calculated by dividing the current net profit with the weighted average ordinary shares issued.

	2021	2020
Net profit attributable to ordinary shareholders of the parent company	20,755	18,495
Weighted average return on equity (%)	9.04	8.64
Basic earnings per share (RMB yuan/share)	1.35	1.20
Net profit attributable to ordinary shareholders of the parent company after deduction of extraordinary profit and loss	20,797	18,520
Weighted average return on equity (%)	9.06	8.65
Basic earnings per share (RMB yuan/share)	1.35	1.20

The Group has no potential diluted ordinary share.



Address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing
Postal code: 100005
Tel: 010-85238570 010-85239938 Fax: 010-85239605
Website: www.hxb.com.cn