华夏银行
HUAXIA BANK

2020 ANNUAL REPORT

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ANNUAL REPORT

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MESSAGE FROM CHAIRMAN

Chairman: Li Minji

2020 was an extraordinary year. In a strategic drive for great rejuvenation of the Chinese nation amid seismic changes not seen for a century, China carried out COVID-19 prevention and control and pursued economic and social development in a coordinated way. The country successfully met challenges posed by both the complicated international situation and the COVID-19 pandemic, securing a decisive victory in finishing the building of a moderately prosperous society in all respects.

2020 also witnessed breakthroughs Hua Xia Bank made in its development. In the past year, we overcome difficulties and forged ahead with high morale. We accomplished the goals and tasks preset for the year and successfully wrapped up the four-year development plan. All strategic measures achieved solid progress, the reform of systems and mechanisms was furthered and operating results showed steady improvements. With the burden of history eased notably and new progress made in all work, the Company has laid a solid foundation for high-quality development during the 14th Five-Year Plan period.

In the past four years, we grew in the course of tiding over difficulties and made new breakthroughs in business results. The Bank's ability to create income has been continuously enhanced, the business structure has been continuously improved, and the effort to pursue asset-light development began to reap tangible results. Risky assets were resolved in an orderly manner, with the capital base strengthened significantly. Compared with four years ago, the Bank recorded a growth of 44.29%, 73.34%, 48.89% and 68.51% in total assets, total loans, operating income and profit before provisions, respectively. Main operating indicators ranked among the top few among comparable peers. The Bank registered close to RMB10 trillion in on – and off-balance-sheet assets under management and nearly RMB100 billion in operating income. Among the Top 1000 World Banks 2020 published by The Banker (UK), the Company ranked 51st by Tier 1 capital and 65th by total assets, up 28 and 7 places respectively compared with four years ago.

In the persistent pursuit of development, we achieved new breakthroughs in reform and innovation during the past four years. We insisted on driving business development with reform and innovation and made solid progress in key reform tasks such as the comprehensive risk management system, the operation management system and the resource allocation mechanism, which delivered gratifying results. Breakthroughs have been made in major strategies, including the FinTech strategy that was further advanced, the retail banking transformation that was accelerated, the integrated operation that bore fruits, the strive for "a lead bank serving the coordinated development of the Beijing-Tianjin – Hebei Region financially" that went deeper, the "SME financial service provider" brand building that was further deepened, the green finance business that grew rapidly and the regional development strategy of "Three Regions, Two Lines and Multiple Points" that secured new progress. With notable improvements made in market competitiveness and social influence, the Company has demonstrated strong growth dynamics guided by strategy, driven by reform, accelerated by transformation and supported by technology.

In the past four years, we shouldered our responsibility in dealing with the burden of history and made new achievements in risk prevention and control. All at the Bank worked hard to overcome difficulties in a proactive and responsible manner, with financial resources put together to address legacy problems. As tough battle for asset quality has reaped a partial success, the Company has been significantly relieved from the historical burden that long bedeviled it, seeing a drop in the balance and ratio of overdue loans, ratio of loans overdue for more than 90 days to NPLs and ratio of loans overdue for more than 60 days to NPLs. Capital was replenished from internal and external sources. Capital replenishments totaled RMB151.778 billion in the form of private placements, perpetual bonds, Tier 2 capital bonds and profit capitalization, which greatly improved the risk resilience.

We upheld Party leadership and kept deepening corporate governance in 2020. The Company duly performed its duties as a state-owned financial institution, upheld the overall leadership of the Party and continued to integrate Party building with corporate governance. It completed the re-election of the Board of Directors and the Board of Supervisors and the re-appointment of Senior Management members and optimized the operating mechanisms for the Board of Directors, the Board of Supervisors, the Senior Management and the Shareholders' General Meeting. The management of equity and related party transactions was improved and voluntary disclosure was enhanced to protect the legitimate rights and interests of stakeholders and continuously improve the compliance and effectiveness of corporate governance.

We persisted in serving the real economy in a proactive manner in 2020. We implemented all requirements of the CPC Central Committee and the Central Government, took solid steps to ensure the stability on six fronts and security in six areas, allocated more financial resources to the real economy and stepped up support for key fields including manufacturing, private enterprises, micro and small businesses, technology and green development. The "two no-less-than and two control" regulatory objectives were met, and the inclusive finance service system were further refined. Green finance took up a bigger share, with the green finance brand becoming increasingly influential.

We adhered to reform and innovation in 2020 to enhance the development capacity. We kept increasing technological investment, made breakthroughs in innovative development and created new drivers for financial services. With "Head Office as central driver, branches as marginal revolutionaries", we gave better play to the mechanism in which the Head Office provides guidance and instructions and the branches make explorations and carry out pilot programs, vitalizing development at all levels across the board. Our financial service network was further expanded. Hebei Xiongan Branch, Beijing Municipal Administrative Center, Hong Kong Branch and Huaxia Wealth Management Co., Ltd. were opened or established successively to further strengthen the capability of comprehensive financial services.

In 2020, we insisted on fulfilling our social responsibilities, coordinated pandemic containment with financial services and introduced 32 measures in five categories to help enterprises resume business, open up expedited service channels for key enterprises joining the fight against the coronavirus and grant forbearance, fee reduction and interest concessions to enterprises affected by the outbreak. Immediately after the epidemic broke out in Wuhan, we provided emergency support for the construction of Leishenshan and Huoshenshan makeshift hospitals and also provided emergency funding for Beijing's first batch of overseas facemask purchase at an extraordinary efficiency. Hua Xia staff worked on the community frontline in the battle against COVID-19.

We made persistent efforts on poverty alleviation in 2020, delivering new contributions to improving public wellbeing. Regarding poverty alleviation as the paramount political task and top priority, Hua Xia Bank fully unleashed its strengths in financial poverty alleviation to provide credit support earmarked for poverty-stricken areas designated for Beijing's cooperation in poverty alleviation, creating over 10,000 jobs for local residents. We made donations to Moyu and Luopu, the last two counties in Xinjiang lifted out of poverty, and addressed difficulties and key issues in local poverty alleviation through employment. In the battle against poverty, there were numerous examples of selfless dedications from Hua Xia employees.

The road ahead is long, and striving is the only way forward. In 2021, Hua Xia Bank will resolutely implement the decisions and plans of the CPC Central Committee and strive to meet the requirements and expectations of the Board of Directors and all shareholders for our work. With the support and help of all sectors of society, we will adhere to the theme of "serving the new era, building a new Hua Xia", consolidate the corporate banking as cornerstone with comprehensive financial services, enhance the new driving force for the development of digital business and retail banking, 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, and deliver outstanding results to celebrate the 100th anniversary of the founding of the Communist Party of China.

Chairman: Li Minji

28 April 2021

MESSAGE FROM PRESIDENT

President: Zhang Jianhua

2020 was destined to be a special year to remember. The sudden outbreak of COVID-19, coupled with a complicated and changeable situation at home and abroad, posed additional challenges to Hua Xia Bank on top of the objectives set in the Four-Year Development Plan. They tested the resolve and wisdom of every person at Hua Xia Bank. Fortunately, we have withstood this arduous battle and test. Under the leadership of the Party Committee and the Board of Directors, all officers and employees rose above the fallout from the pandemic and other difficulties, seized policy opportunities and met market challenges. The Company achieved fruitful results in business development and accomplished the four-year plan objectives and annual tasks in full, laying a solid foundation for the implementation of the new five-year plan.

Guided by high-quality development, the Company ensured steady progress in operations. In 2020, we put focus on structural adjustments, deepened business transformation, promoted differentiated development, implemented key reform tasks and fulfilled the annual business tasks. As at the end of 2020, total assets increased by 12.55% compared with the previous year, with the NPL ratio down 0.03 percentage point. The operating income and profit before provisions for the year increased by 12.48% and 16.59%, respectively.

Driven by "Four Transformations", the operating structure has continued to improve. Retail transformation started to gain pace. We strengthened reform of the transformation mechanism, kick-started the construction of a sales system, built a wealth management and private banking system in an orderly manner and enhanced the capability of investment research and advisory services. Six coordination mechanisms were created, including mutual customer referral and cross-selling. Five action plans were carried out, including joint marketing and joint risk control. The policy requirements for ensuring the stability on six fronts and security in six areas were implemented and such products as "Private Enterprise Express" were created to speed up development of the MSE business. The transformation to a combination of commercial banking and investment banking moved forward steadily. In pursuit of headquarters-level cooperation, the number of "3-3-1-1" customers kept growing. With the customers classified into "core, strategic and base" categories for tiered management and the marketing at both industry and customer levels launched, corporate customers and deposits grew steadily. Stronger support was provided for manufacturers, enterprises engaged in "new infrastructure, new urbanization initiatives and major projects" and private enterprises. Green loans grew at a faster pace and the first ever green financial bond was successfully issued, in an ongoing effort to build the green finance brand. The financial market business made an array of achievements. The custody size exceeded RMB5 trillion and the wealth management subsidiary opened for business. FinTech innovation and technological empowerment were enhanced. FinTech investment was increased, taking up a steadily growing share in operating income. Digital transformation made solid progress, putting into practice the "Head Office as central driver, branches as marginal revolutionaries" philosophy.

The differentiated development was pursued in a deep-going manner by implementing the "Three Regions, Two Lines and Multiple Points" strategy. Persistently devoted to becoming "a lead bank serving the coordinated development of the Beijing-Tianjin-Hebei Region financially", the Company provided RMB65.639 billion of investment and financial services for key projects in the coordinated development of the Beijing-Tianjin-Hebei Region. RMB260.69 billion of investment and financial services were provided for Beijing. A work facilitation mechanism and a coordinated operation mechanism were created to promote integrated development of branches in the Yangtze River Delta. The Lingang FTZ Financial Innovation Lab and the Yangtze River Delta Product R&D Center were established. For coordinated development of branches in the Guangdong-Hong Kong-Macau Greater Bay Area, the first ever standard bill deal was accomplished, the overseas customer service platform was built at a faster pace, the cross-border interbank RMB lending was carried out successfully and the domestic and overseas branches worked together to launch the first ever offshore financing against onshore guarantee. Hong Kong Branch became an OTC settlement member of the Stock Exchange of Hong Kong.

As a responsible state-owned enterprise, the Company fulfilled its corporate social responsibility. It launched such products as "Reopening Loan" and "Ease Loan" to support enterprises in reopening their business capacity to 100 percent. Corporate borrowers hit hard by the COVID-19 pandemic were put on forbearance or granted fee reduction and interest concessions, serving the real economy in a pragmatic and responsible way. As part of its effort to carry out the decisions and plans of the CPC Central Committee and Beijing Municipality, the Company endeavored to implement precision poverty alleviation through financial services. It promoted poverty alleviation through financial aid, public assistance, education, employment and consumption by making donations to poverty-stricken areas, purchasing products from designated poor areas and issuing loans to areas designated for paired-up assistance and helped registered poor people get rid of poverty and increase income.

Only in hard times can courage and perseverance be manifested, and only after polishing can a piece of jade be finer. The results we delivered in 2020 came from the hard work of all at Hua Xia Bank under the strong leadership of the Party Committee, demonstrating the resolve and resilience of the Company to implement the blueprint thoroughly.

Great visions can be realized only through actions. 2021 marks the first year of the 14th Five-Year Plan of China, and also the beginning of the new five-year plan of Hua Xia Bank. We will study and implement the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and the guiding principles from the Fifth Plenary Session of the 19th CPC Central Committee. With the vision of building a colossal, competitive, outstanding modern financial group with stable operations and guided by Hua Xia Bank's five-year development plan, we will adhere to the basic tone of seeking progress while ensuring stability, maintain value creation as the core, remain oriented to asset-light, differentiated, digital and fine-grained operation, unswervingly follow the path toward resource-efficient, innovation-driven development and deliver further solid achievements in celebration of the 100th anniversary of the founding of the Communist Party of China.

President: Zhang Jianhua

28 April 2021

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 2020 of Hua Xia Bank Co., Limited and its Summary were reviewed and approved at the 10th Meeting of the Eighth Board of Directors of the Company on 28 April 2021. 15 of the 16 directors that should attend the meeting were present actually. Vice Chairman Luo Qianyi was absent due to official affairs and entrusted Director Ma Xiaoyan to exercise the right to vote. Therefore, there were 16 valid votes. 10 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 2020 as the base number, cash dividends will be distributed to all of the shareholders at RMB3.01 (before tax) per 10 shares.

For details, please refer to "Section V Significant Events".

iv. The 2020 Financial Statements of the Company have been audited by Deloitte Touche Tohmatsu Certified Public Accountants 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, Zhang Jianhua, President 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 IV Discussion and Analysis of Operations".

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

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 of the Group 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 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 and Hong Kong;
Central and Eastern China	Region where the following tier-one branches of the Group are located: Central and Eastern China: Jinan, Wuhan, Qingdao, Taiyuan, Fuzhou, Changsha, Xiamen, Zhengzhou, Nanchang and Haikou
Western China	Region where the following tier-one branches of the Group are located: Western China: 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: Northeastern China: 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.


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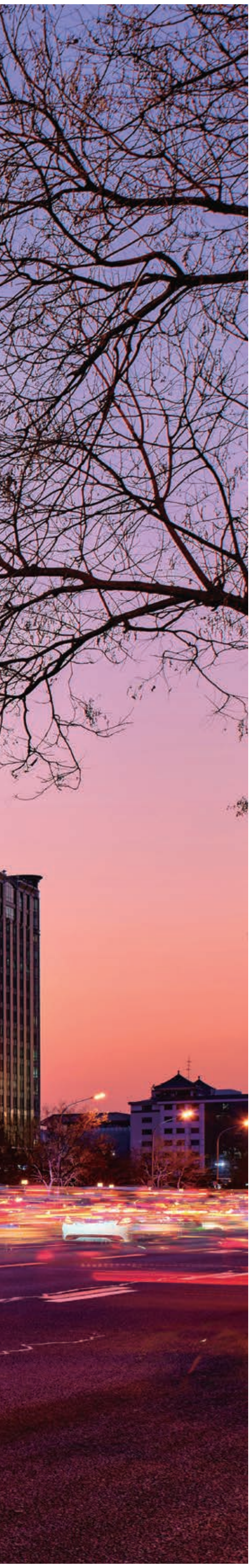


SECTION II COMPANY PROFILE

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

Tel: 010-85238570, 85239938

Fax: 010-85239605

Email: zhdb@hxb.com.cn

2.1.4 **Register place:** 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; http://www.95577.com.cn

Email: zhdb@hxb.com.cn

2.1.5 **Newspaper designated for disclosure of information:** *China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily*

Website designated by CSRC for publication of the annual report: http://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 Depositary and Clearing Corporation Limited.

Name of accounting firm the Company engaged: Deloitte Touche Tohmatsu Certified Public Accountants LLP

Business address: 30/F Bund Center, 222 Yan An Road East, Shanghai, China

Signed CPAs: Wen Qisi & Ma Xiaobo

Sponsor institution for continuous supervision: CSC Financial Co. Ltd.

Business address: 9/F, Tower B, Metro World Center, No. 2 Chaonei Avenue, Dongcheng District, Beijing

Signed sponsor representatives: Lv Xiaofeng & Sui Yuyao

Period of continuous supervision: 8 January 2019 to 31 December 2020

2.2 BUSINESS OVERVIEW OF THE COMPANY

2.2.1 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 1,022 outlets with 39,300 employees in 122 Chinese cities at prefecture level and above, forming a nationwide service network based on presence in economically developed 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. Offering a range of retail banking products and services to individuals, the Company has innovated retail banking products and services vigorously leveraging on technology and customer experience enhancement, so as to meet the needs of financial consumers. 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 2020 published by *The Banker* (UK) in July 2020, the Company ranked 51st by Tier 1 capital and 65th by total assets, up 5 and 2 places respectively compared with the previous year.

Please refer to "Discussion and Analysis of Operations – Business Review" of the report for details.

2.2.2 CORE COMPETITIVENESS ANALYSIS

2020 was an extraordinary year full of seismic changes. Facing a tough and complicated environment at home and abroad, especially the COVID-19 shock, China managed to coordinate the pandemic prevention and control with economic and social development under the strong leadership of the CPC Central Committee with Comrade Xi Jinping as the core, made solid progress in ensuring the stability on six fronts and security in six areas, saw the economy recovering steadily and better than expected and secured a decisive victory in finishing the building of a moderately prosperous society in all respects. 2020 was also the closing year of the Company's development plan for 2017-2020. During the reporting period, the Company remained guided by the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, implemented guiding principles from the 19th CPC National Congress and its plenary sessions, put into action the decisions of the Central Economic Work Conference, work plans of the CPC Beijing Municipal Committee, Beijing Municipal Government and the State-owned Assets Supervision and Administration Commission of Beijing Municipal Government and regulatory requirements of CBIRC, and stayed on the track towards "featured, digital, asset-efficient, professional, comprehensive and international development". The Company upheld 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", kept boosting its core competitiveness and moved faster forward to build a modern "big and strong" financial service group that demonstrates "stability and excellence".

FinTech drove innovative development in pursuit of digital transformation. The Company set up the Digital Transformation Promotion Office to coordinate the effort to build a bank-wide digital transformation mechanism and fortify the foundation for digital transformation. It was among the first member organizations of the Digital Transformation Partnership Action Plan of the National Development and Reform Commission. Based on "One Department, Six Centers", a closed-loop management system covering the lifecycle of information technology was established. A pilot program was carried out on whole-process project optimization and agile R&D. The FinTech output and efficiency were further enhanced. With the online service fronts for internet finance taking shape at a faster pace, the Company has kept boosting its capability of online customer on-boarding. During the reporting period, the number of personal mobile banking users increased by 50.77%, and the main electronic channels reached a substitution ratio of 98.21%. The Company strengthened efforts to develop proprietary IT infrastructure and platforms. A unified artificial intelligence (AI) model development platform was built to create an open, shared center for AI research, development and operation.

The asset and liability management were strengthened to maintain the competitive edge in net interest margin (NIM). The Company continued to manage the structure of business growth and adjust the resource allocation strategy. Against the backdrop of interest rates going down, the size, structure and cost of deposits were managed in a coordinated way. The volume and price of high-cost deposits were dynamically managed and a differentiated authorization system was established. The classification-based management of costs was deepened, with the cost-income ratio reduced to 27.93%, showing marked strengths in cost control. The Group achieved a net interest margin of 2.59%, up 8 bps year-on-year, a net interest spread of 2.48%, up 11 bps year-on-year, and a deposit cost of 1.88%, maintaining a certain advantage in cost.

As a "Beijing-based bank", the Company remained dedicated to serving the economic and social development of China's capital. Always positioned as a "Beijing-based bank", the Company focuses on serving the economic and social development of the capital and its "Four Centers" drive. It actively approaches key projects and key customers in Beijing, implements project-based management and steps up the provision of comprehensive financing services. The Company has actively implemented the major decisions and plans the CPC Beijing Municipal Committee and Beijing Municipal Government on the development of the Beijing Municipal Administrative Center in an effort to relieve Beijing of functions non-essential to its role as the capital. Taking the opportunity of the Beijing Municipal Administrative Center Branch approved to open, the Company has enhanced financial support for the construction of the Beijing Municipal Administrative Center.

With the transformation of retail finance intensified, "Longying Wealth Management" has enjoyed a growing reputation. The Company always regards serving the public and benefiting the masses as the original mission of retail business. We have firmly grasped individual customers' demand for consumption, financing and wealth management during consumption structure upgrading. It has strengthened the development of products, channels and service systems leveraging on FinTech. Retail finance has gained pace and taken up a gradually rising share. The proportion of outstanding personal loans rose to 28.19%. The brand content of "Longying Wealth Management" was further enriched, with the product and service system improved to offer tailor-made wealth management and investment solutions and deliver a safe, solid and sustainable return. The market reputation has been growing steadily.

The distinctive service model combining "commercial banking and investment banking" was developed to strengthen the collaboration mechanism. The Company upholds the philosophy of "creating value for customers and competing for market share with products and services". It gives full play to corporate finance as groundwork and place a focus on core customers, strategic customers and basic customers, with improvements made in the multi-tier and classified marketing system and service mechanisms. Backed by market-based system and mechanism and supportive resources, the scale of investment banking has increasingly expanded, up by 69.28% over the previous year. During the COVID-19 pandemic, the Company issued a number of first-of-its-kind COVID-19 bonds, including the first debt financing instrument of central enterprise for targeted COVID-19 containment in China and the first debt financing instrument for targeted COVID-19 containment in the Guangdong-Hong Kong-Macao Greater Bay Area, which were recognized across the market. The working mechanism for horizontal and vertical collaboration was further streamlined to improve the quality and efficiency of business collaboration. Corporate finance, investment banking, interbank business and investment banking resources were integrated to create a closed loop of bond underwriting, bond investment, M&A and syndication, capital markets, asset securitization, advising and matchmaking and lending, providing customers with one-stop comprehensive financial services and the coordination among "lending, underwriting, investing and consulting".

The Company aligned its activity with the national strategies for development of key regions and got integrated into the local mainstream economies. Based on deep integration into national strategies such as the coordinated development of the Beijing-Tianjin-Hebei Region, the regional integration of the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area, the Company further aligned its business with key regions in the new round of opening-up. It increased asset allocation for the Yangtze River Economic Belt, the ecological conservation and high-quality development of the Yellow River Basin, the Hainan Free Trade Port and the Chengdu-Chongqing Urban Agglomeration and actively got integrated into development of the local mainstream economies. The Company further implemented the strategy of becoming "a lead bank serving the coordinated development of the Beijing-Tianjin – Hebei Region financially", with resources focused on key tasks and areas in the coordinated regional development of Beijing, Tianjin and Hebei, thus harnessing related market opportunities. It seized the opportunity of the Yangtze River Delta integration and opening-up to financially serve the Yangtze River Economic Belt at higher efficiency, established a regional innovation mechanism and built a regional R&D and production innovation chain. The Company also got deeply involved in the local economy of Guangdong, Hong Kong and Macao to serve all sectors of people's livelihood and made in-depth efforts on such fronts as FinTech, inclusive finance and green finance, providing strong support for the high-quality development of the Guangdong-Hong Kong-Macao Greater Bay Area.

Distinctive green finance was actively developed in an effort to build an ESG brand with Hua Xia characteristics. The Company insisted on serving green development with innovation, put the ESG philosophy into practice and served the diverse financial service demand in the domestic green finance sector in cooperation with international organizations, including the World Bank, the French Development Agency and the Asian Infrastructure Investment Bank. International cooperation was strengthened to deepen the World Bank on-lending business. Under China's and the World Bank's increasingly stringent requirements on the creativity, model role and value added of loan projects, the Company's "China Renewable Energy and Battery Energy Storage Promotion Project" got approved by the World Bank and funded by its first loan disbursement. The project, first of its kind in China, boasted a global leadership. The Company also actively implemented China's "30-60" carbon emissions requirement. The Company endeavored to implement the ESG investing philosophy by creating an ESG system focused on research, database and evaluation, strategic investment, theme products, indices and risk management. The ESG products gradually expanded in scale and proportion of investment.

2.3 IMPLEMENTATION OF THE COMPANY'S DEVELOPMENT STRATEGIES

In the face of the COVID-19 pandemic and international complexities in 2020, the Company maintained strategic resolve and accomplished the tasks as scheduled in the *2017-2020 Development Program of Hua Xia Bank* and further implemented the five-pronged development philosophy, namely "Innovative, Coordinated, Green, Open and Shared". Breakthroughs were made in six strategic priorities, namely promoting FinTech innovation, strengthening retail business development, improving the arrangements for integrated business, developing into the lead bank that served the coordinated development of the Beijing-Tianjin-Hebei Region financially, consolidating its positioning as the financial service providers for small and medium-sized enterprises, and advancing the green finance-featured business line. The Company endeavored to become a modern "big and strong" financial service group that demonstrates "stability and excellence".

The FinTech strategy was implemented to remarkable depth and breadth. During the planning period, the underlying technologies and basic capabilities of FinTech were enhanced. The Company improved its ability to innovate FinTech products and services and created enterprise-level technology platforms such as big data integration, artificial intelligence, biometrics and private clouds. Further progress was made in the transformation toward digital banking. The Mobile Banking 5.0 was launched with more application scenarios and higher intelligence, showing a leading edge over peers in platform performance and security. More FinTech resources were inputted to improve the innovation incentives mechanism, explore to set up a market-based, independent vehicle for FinTech, establish a FinTech innovation fund and create the innovation project incubation mechanism and the risk reserve for FinTech innovation. During the reporting period, the Company achieved initial success in reengineering the enterprise-level system architecture. The new-generation cloud native application development platform was developed in-house. The core system was reengineered and a FinTech product supermarket supporting the region-specific development of branches was established to enhance the capacity of online, mobile and digital financial services. The Company developed the first IT digital map in the industry, improved the intelligent level and emergency response capacity of system operation and maintenance and launched more than 10 featured products and services, such as the mobile banking-based E-certificate for basic medical insurance, PBOC commemorative coin reservation, online Homebuyer Eligibility Check, corporate mobile banking and corporate cash management. It also moved 48 offline service items online, including online account application service. The development volume of business requirements have doubled, with the customer experience and activity level improved significantly.

Strategic transformation of retail finance was pursued persistently. During the plan period, retail banking was transformed at a faster pace with bigger business volume and higher efficiency. With the logic of retail development gradually taking hold, the Company saw a consolidated base of personal deposits, faster growth in personal loans and steady expansion of individual customers. It exerted every effort to build an online-offline integrated sales management system and refine the hierarchical system of base, VIP, wealth management, high-net-worth and private banking customers. The Company launched the retail transformation mechanism reform during the reporting period, pressing the "accelerator key" for reform and development. The Company issued retain transformation policies and procedures, including transformation of retail outlets, professional assessment of retail account managers and professional training of retail business, thereby promoting in-depth retail transformation among branches. The private banking and wealth management system was improved in an orderly manner, with the wealth management and private banking department set up to create a powerhouse for upgrading. An embedded development mechanism was established for the integration of retail banking and information technology. Retail lending was accelerated, with the outstanding personal loans (excluding credit cards) standing at RMB424.251 billion, an increase of 27.07% over the end of the previous year. Thanks to the stronger ability to take personal deposits, and the balance of personal deposits increased by 12.22% from the end of the previous year to RMB350.867 billion. The first "Fixed Income Plus" customized mutual fund recorded a single-day sales volume of over RMB17 billion. The credit card business saw integration of data resources to strengthen cross-selling.

The capability of diversified operation was enhanced. During the planning period, the Company went deeper in integrated services. The Investment Banking Department was set up and the “lending, underwriting, investing and consulting” functions were coordinated to establish a closed business loop encompassing credit issuance, bond underwriting, bond investment, M&A and syndication, capital market, asset securitization, advising and matchmaking, payment and settlement, cash management and intermediary services, thereby providing one-stop integrated financial services by a combination of commercial banking and investment banking. Breakthroughs were made in diversified operation. Huaxia Financial Leasing Co., Ltd. completed a new round of capital replenishments to significantly reinforce its capital base. Huaxia Wealth Management Co., Ltd. was approved to open, giving a boost to the transformation and upgrading of wealth management. Hong Kong Branch opened for business, fully functioning as an overseas customer development platform and overseas investing/financing platform, facilitating the coordinated use of more domestic and international financial resources. During the reporting period, the Company gave full play to the groundwork role of corporate finance, strengthened the coordination between business lines and collaboration between the Head Office and branches, deepened the cooperation with its subsidiaries and peers and improved the hierarchical marketing system. The Company adhered to collaborative marketing of the financial markets segment, created an interbank cooperation platform and strengthened marketing synergies with financial institution customers. A mega retail collaboration mechanism was created and a customer data sharing platform were established to promote customer information sharing and cross-selling within the segment. Huaxia Financial Leasing Co., Ltd. recorded RMB117.385 billion in total assets, up 17.14% from the end of the previous year. Huaxia Wealth Management Co., Ltd. further enhanced its core competencies in wealth management and boosted its brand influence.

The Company devoted itself to becoming “a lead bank serving the coordinated development of the Beijing-Tianjin – Hebei Region financially”. During the plan period, the Company positioned as a “Beijing-based bank” optimized its working mechanism for coordinated development of the Beijing-Tianjin-Hebei Region, established a coordination office and improved the information sharing platform. The Hebei Xiongan Branch was established to financially serve the Xiongan New Area. Actively responding to the national and Beijing’s strategic plans, the Company set up the Municipal Administrative Center Branch, playing its part in the construction of Beijing Municipal Administrative Center. During the reporting period, the *Work Plan for Further Speeding up the Development of Branches in Beijing, Tianjin and Hebei* was formulated and issued, arranging for coordinated effort to accelerate development of branches in Beijing, Tianjin and Hebei in terms of business authorization, credit approval, performance assessment and resource allocation. Significant progress was made in serving the

Opening ceremony of Hebei Xiongan Branch.

economic and social development of the capital, serving coordinated development of the Beijing-Tianjin-Hebei Region and serving construction of the Xiongan New Area. The Company provided RMB65.639 billion of investment and financial services for key projects in coordinated development of the Beijing-Tianjin-Hebei Region. Outstanding loans issued by Beijing Branch rose by RMB30.564 billion or 18.03% from the end of the previous year. Taking the opportunity of opening the Xiongan Branch for business, implementing major projects and signing contracts with key customers, the Company continued to build the brand of "a lead bank serving the coordinated development of the Beijing-Tianjin – Hebei Region financially", demonstrating its responsibility and commitment.

The Company pushed harder as a SME financial service provider. During the reporting period, the Company strengthened the top-level design and adjusted the organizational structure to set up a MSE service organization and the Inclusive Finance Department. It embarked on developing a good corporate image of Hua Xia Bank in serving the national development goals and the real economy. It also strengthened the support in terms of credit resource access, internal transfer pricing and ear-marked funds. FinTech was employed to reduce the financing cost of MSEs and create featured products such as Long e-Loan, Mortgage Link and Hua Xia Quick Loan. During the reporting period, the Company implemented regulatory requirements for MSE services, formulated and executed the action plan and established a monthly self-assessment and regular supervision mechanism. The balance of loans covered by the "two increases" policy grew rapidly, with loan interest rates controlled at a reasonable level. The Company has maintained good performance in meeting MSE regulatory targets for many years in a row. MSEs' access to financial services was ensured during the COVID-19 pandemic. Such service modes as "Reopening Loan" and "Ease Loan" were launched to help virus-affected enterprises overcome difficulties in resumption of business, thus fulfilling its corporate social responsibility. In recognition of the broader availability and better satisfaction of its MSE financial services, the Company won the "2020 Inclusive Finance Award for Excellent Competitiveness" from *China Business Journal*, the "Top Ten Inclusive Finance Innovation Products Award" and the "2020 Special Contribution Award for the COVID-19 Fight in China's Financial Industry" from China Financial Innovation Development Forum.

The green finance brand was developed. During the planning period, the green finance business developed in depth. A long-term mechanism for green finance development was preliminarily established, with marketing strengthened and professionalism enhanced at industry, product and staff levels. In pursuit of international cooperation, the Company strengthened its cooperation with the World Bank in on-lending projects. The mid-term review of the "Beijing-Tianjin-Hebei Air Pollution Prevention Financing Innovation Project" gave a "Satisfactory" result. The "China Renewable Energy and Battery Energy Storage Promotion Project" was successfully implemented. The Company received 16 domestic and overseas awards with great influence, including the "Most Effective Green Finance Award" from the China Banking Association and the "Best Bank for Green Energy Development" by the US *Global Finance*. At the end of the reporting period, the balance of green loans reached RMB180.043 billion, up 51.10% from the end of the previous year, faster than growth of total loans. Green loans accounted for 9.04%, ranking the Company among the top few joint-stock commercial banks. RMB10 billion of green financial bonds were successfully issued. The Company was the only banking institution that won the "2020 Global Green Finance Innovation Award" from the International Finance Forum. The Company acted on the ESG philosophy as a pioneer in "responsible investment". It held the Second ESG Investment Summit of China Asset Management Industry and released the first ESG bond index, namely ChinaBond Hua Xia Wealth Management ESG Select Bond Strategy Index, as the performance benchmark and underlying index for ESG strategic investment in China's bond market. The index has attracted wide attention from the market and investors.

Risk management and compliance management went increasingly deeper. During the plan period, the Company reformed its comprehensive risk management system to strengthen intensive and professional risk management, deepen full-scale risk management throughout the process, strengthen risk constraints and move risk control forward to earlier stages and promote full coverage of risk management. The asset quality has turned for improvements, with non-performing assets mitigated significantly and new assets remaining in good quality. The tough battle for asset quality has begun to reap a harvest during the reporting period. The NPL ratio dropped steadily to a three-year low. Thanks to stronger effort to recover and dispose of NPLs and overdue loans, the proportion of loans and NPLs overdue for over either 90 or 60 days remained below 100%. The non-performing loans to new customers were strictly controlled through stringent customer acceptance and refining criteria. New loans had good quality. With the comprehensive risk management system and mechanism further reformed, the quality and efficiency of risk control were further enhanced in key areas and the digital risk control capability was further strengthened. The risk management policies and procedures were standardized to further fortify the foundation for forestalling systemic risks. The internal control and compliance management system was further improved to ensure fulfillment of responsibility for fraud prevention and foster a sound atmosphere of compliance culture that involves all people, runs through all processes and encompasses all aspects.

2.4 HONORS AND AWARDS

15 January 2020

the Company won the "Best Bank in Wealth Management" and "Best Bank in Fixed Income Investment" in the 2019 annual review by the Private Banking Committee of the China Banking Association.

12 March 2020

the Company was honored as an "Outstanding Green Bank in 2019" by the China Banking Association.

15 May 2020

the Company was named an "Excellent Settlement Member" and "Excellent Issuer" by Interbank Market Clearing House Co., Ltd. in 2019.

24 June 2020

the Company was awarded the "Trusted Asset Management Bank" in the selection of trusted financial institutions in 2019-2020 hosted by the *Economic Observer*.

21 July 2020

the Company won the "2019 Excellent Organization in Commercial Credit Reporting Database Data Quality Work" and the "2019 Excellent Organization in Personal Credit Reporting Data Quality Work" in the selection of excellent organizations and individuals in the credit reporting system data quality work in 2019 organized by the Credit Reference Center of the People's Bank of China.

20 September 2020

the Company won the first prize of emergency drill for major cybersecurity incidents in Beijing at the closing ceremony of Beijing National Cybersecurity Publicity Week hosted by the Cyberspace Administration of the CPC Beijing Municipal Committee.

24 September 2020

the Company was honored as the "Excellent Lead Underwriter of ABS" at the "Sixth Asset Securitization Jiefu Awards" ceremony hosted by Caishi China.

28 September 2020

the Company was granted the "2020 Tianji Award for Bank Wealth Management Brand", "2020 Tianji Award for Mobile Banking" and "2020 Tianji Award for Green Finance" at the 2020 Chinese Banking Tianji Awards sponsored by the *Securities Times*.

11 November 2020

the Company won the "Bank of the Year 2020 in Brand Building" and "Rising Star of the Year 2020 in Investment Banking" awards at the "21st Century Asian Financial Competitiveness Rankings" event sponsored by the *21st Century Business Herald*.

18 November 2020

the Company won the "Excellent Financial Planner Incubator Award" At the finals of the 2020 Yinhua Fund Cup Sina Bank Financial Planner Competition jointly sponsored by Sina Finance and Yinhua Fund Management.

20 November 2020

the Company won the "Digital Economy Leaders Award" in the "2020 Digital Economy Leaders Summit" jointly sponsored by Securities Daily, Zhongguancun Big Data Industry Alliance and Huatai Securities.

21 November 2020

the Company won the "2020 Global Green Finance Innovation Award" from the International Finance Forum (IFF).

23 November 2020

the Company was awarded the "Excellent Competitiveness in Inclusive Finance" at the award ceremony of the "Fifth Excellent Competitiveness Awards for Small and Medium-sized Banks" jointly sponsored by *China Business Journal and China's Economic Future*.

28 November 2020

the Company won the "Excellent Board of Directors in 2020" award at Fifth Golden Sail Awards held by the *21st Century Business Herald*.

3 December 2020

the Telemarketing Sub-center of the Company's Credit Card Center won the "Best Customer Contact Center in China", "Best Marketing Center in China" and "Best Operation Management in China" at the 18th China Best Customer Contact Center and Best Manager Awards organized by the Customer Contact Center Standard Committee.

3 December 2020

the Company was named the "Most Socially Responsible Listed Company" at the 2020 Tenth Hong Kong International Financial Forum and China Securities Golden Bauhinia Awards.

9 December 2020

the Company was named the "Bank of the Year 2020 in Trade Finance" in the competition for the "2020 Gold-Medal List of Chinese Financial Institutions – Golden Dragon Awards" sponsored by the Financial News.

10 December 2020

the Company won the "Best Smart Banking Award" and the "Best Mobile Banking User Experience Award" at the "2020 Digital Banking Ecosystem and Inclusive Finance Summit and the 16th China E-Banking Annual Festival" sponsored by China Financial Certification Authority (CFCA).

10 December 2020

the Company was named the "Bank of the Year 2020 in Asset Custody" at the 2020 "Lead Navigators of China" Annual Rankings for the Financial Sector.

11 December 2020

the Company won the "Program Administrator & Underwriter of the Year" and the "Supply Chain Financial Factoring ABS/ABN of the Year" at the 2020 Real Estate Securitization "Frontier Awards".

11 December 2020

the Company won the "Bank of the Year in Green Finance" at the "2020 China Banking Development Forum Smart Finance (Beijing) Summit and the 8th Banking Awards Ceremony".

18 December 2020

the Company was named the "2020 Outstanding Financial Enterprises Awards hosted jointly by the *Economic Observer* and Jingguan Media.

22 December 2020

the Company was named the "Bank of the Year in Featured Trade Finance" for the second consecutive year in the tenth annual selection of the Most Trusted Financial Service Providers for Chinese Economic and Trade Enterprises (Golden Trade Award).

23 December 2020

the Company won the "Top Ten Inclusive Finance Innovative Products" and "2020 Special Contribution to COVID-19 Fight in China's Financial Sector" at the 2020 China Financial Innovation and Development Forum jointly sponsored by Hong Kong Commercial Daily, Hong Kong Financial Development Association, Hong Kong Chamber of Commerce in China and Global Commercial Newspapers Union.

29 December 2020

the Company won the "FinTech Innovation of the Year" and "Credit Card Product with Special Features of the Year" at the "2020 Financial Digital Development Gold Awards" event sponsored by the Financial Digital Development Alliance.

4 January 2021

the Company was awarded four of the 2020 interbank RMB market awards published by the China Foreign Exchange Trading System, namely, "Core Institutional Investor", "Excellent Money Market Institutional Investor", "Excellent Issuer of Interbank Certificates of Deposit" and "Trading Mechanism Innovation Award – X-Repo".

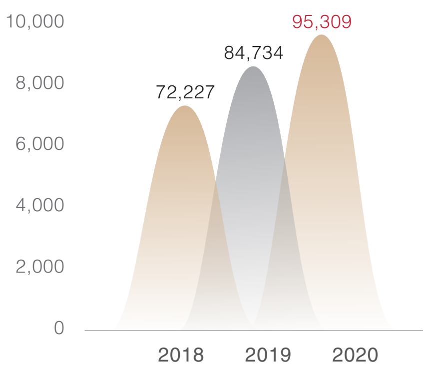
9 February 2021

the Company won the "Excellent Board of Directors" award at the 16th Gold Round Table Corporate Awards held by the *Board of Directors*.

SECTION III FINANCIAL HIGHLIGHTS

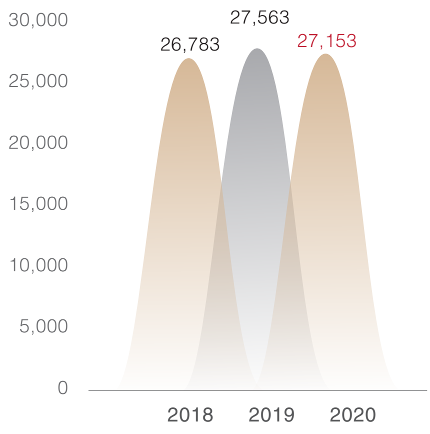
Operating income

(Unit: RMB1 million)



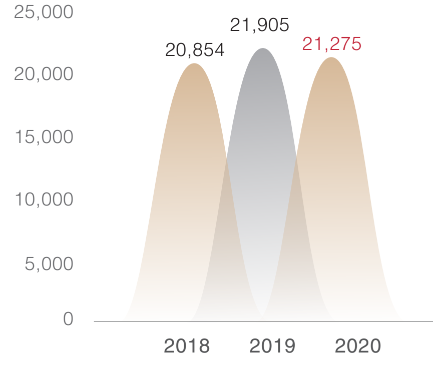
Total profit

(Unit: RMB1 million)



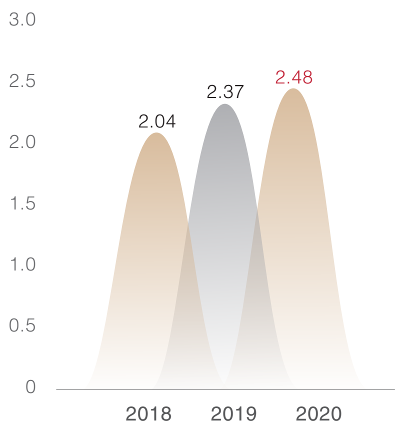
Net profit attributable to shareholders of the listed company

(Unit: RMB1 million)



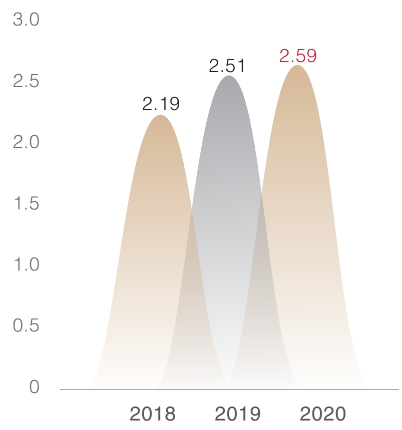
Net interest spread

(Unit: %)



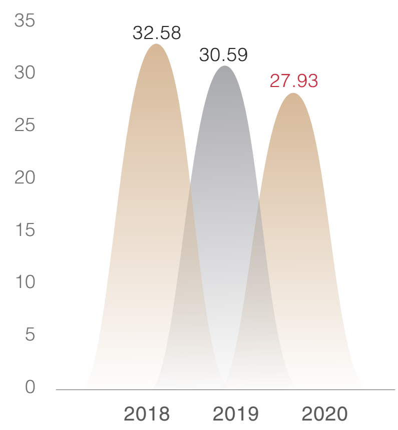
Net interest margin

(Unit: %)



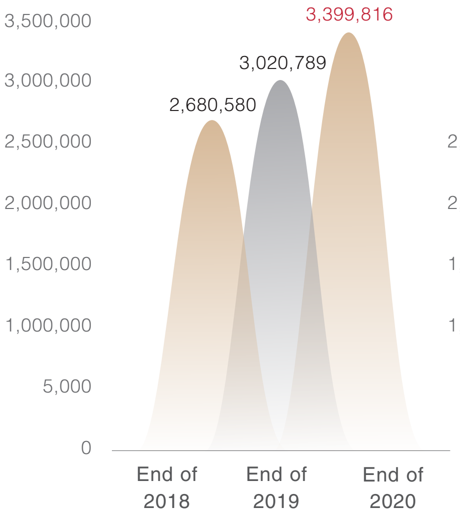
Cost-to-income ratio

(Unit: %)



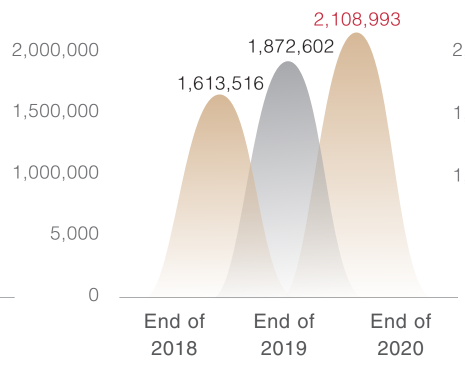
Total assets

(Unit: RMB1 million)



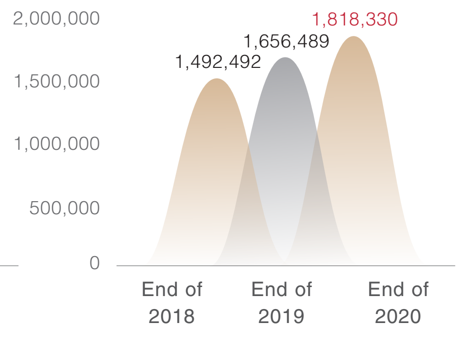
Total loans

(Unit: RMB1 million)



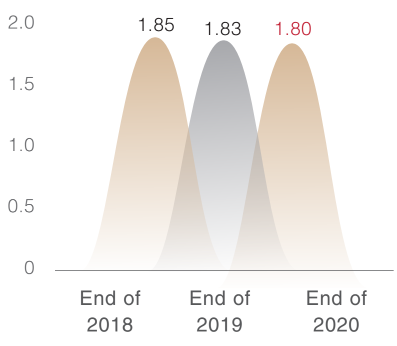
Total deposits

(Unit: RMB1 million)



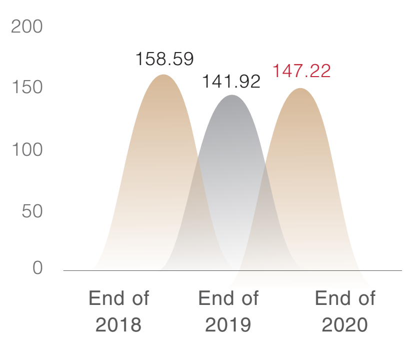
NPL ratio

(Unit: %)



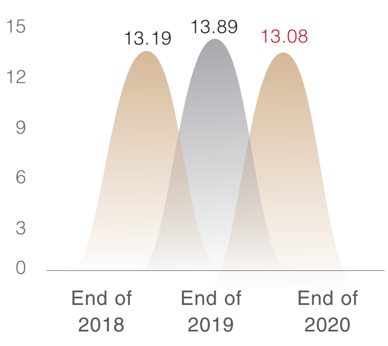
Allowance to NPLs

(Unit: %)



Capital adequacy ratio

(Unit: %)



3.1 MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

(Unit: RMB1 million)

Item	2020	2019	Increase/decrease compared with previous year (%)	2018
Main accounting data				
Operating income	95,309	84,734	12.48	72,227
Operating profit	27,151	27,497	–1.26	26,688
Total profit	27,153	27,563	–1.49	26,783
Net profit attributable to shareholders of the listed company	21,275	21,905	–2.88	20,854
Net profit attributable to shareholders of the listed company after deduction of extraordinary profit and loss	21,300	21,856	–2.54	20,807
Net cash flows from operating activities	34,759	79,082	–56.05	–100,935
Major financial indicator				
Basic earnings per share (in RMB)	1.20	1.37	–12.41	1.56
Diluted earnings per share (in RMB)	1.20	1.37	–12.41	1.56
Basic earnings per share after deduction of extraordinary profit and loss (in RMB)	1.20	1.37	–12.41	1.56
Net cash flow per share from operating activities (in RMB)	2.26	5.14	–56.03	–6.56
Profitability (%)				
Weighted average return on equity	8.64	10.61	Down 1.97 percentage points	12.67
Weighted average return on net assets after deduction of extraordinary profit and loss	8.65	10.59	Down 1.94 percentage points	12.64
Return on assets	0.67	0.78	Down 0.11 percentage points	0.81
Return on capital	7.81	9.21	Down 1.40 percentage points	10.81
Net interest spread	2.48	2.37	Up 0.11 percentage point	2.04
Net interest margin	2.59	2.51	Up 0.08 percentage point	2.19
Cost-to-income ratio	27.93	30.59	Down 2.66 percentage points	32.58

(Unit: RMB1 million)

Item	End of 2020	End of 2019	Increase/decrease compared with the end of previous year (%)	End of 2018
Scale indicators				
Total assets	3,399,816	3,020,789	12.55	2,680,580
Of which: Total loans	2,108,993	1,872,602	12.62	1,613,516
Total liabilities	3,117,161	2,751,452	13.29	2,461,865
Of which: Total deposits	1,818,330	1,656,489	9.77	1,492,492
Net assets attributable to shareholders of the listed company	280,613	267,588	4.87	217,141
Net assets attributable to ordinary shareholders of the listed company	220,642	207,617	6.27	197,163
Net assets per share attributable to ordinary shareholders of the listed company (in RMB)	14.34	13.49	6.30	12.81
Asset quality indicator (%)				
NPL ratio	1.80	1.83	Down 0.03 percentage point	1.85
Allowance to NPLs	147.22	141.92	Up 5.30 percentage point	158.59
Allowance to total loans ratio	2.65	2.59	Up 0.06 percentage point	2.93

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 2020. The Company paid interest totaling RMB1,940 million to holders of perpetual bonds in June 2020. 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. Pursuant to the *Notice on Strictly Implementing the Accounting Standards for Business Enterprises and Strengthening the Work on Annual Reports of Enterprises in 2020* (C.K. [2021] No. 2) jointly issued by the MOF, SASAC, CBIRC and CSRC, since 2020, the Group has reclassified credit card installment fees, rental fees and other income from fee and commission income to interest income and restated the data in previous years. The net interest spread, net interest margin in the table above are calculated based on adjusted data.

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

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

7. 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". Total loans and total deposits in the table above exclude interest accrued using the effective interest rate method.

8. 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. The Group's allowance to NPLs and allowance to total loans ratio in 2020 meet regulatory requirements.

3.2 MAJOR FINANCIAL DATA IN 2020 BY QUARTER

(Unit: RMB1 million)

Item	Q1	Q2	Q3	Q4
Operating income	23,594	23,987	23,078	24,650
Net profit attributable to shareholders of the listed company	4,840	4,497	4,783	7,155
Net profit attributable to shareholders of the listed company after deduction of extraordinary profit and loss	4,860	4,475	4,786	7,179
Net cash flows from operating activities	4,256	24,061	11,389	-4,947

3.3 OTHER MAIN REGULATORY INDICATORS

Item (%)		Regulatory value	End of 2020	End of 2019	End of 2018
Core tier-1 capital adequacy ratio		≥7.5	8.79	9.25	9.47
Tier-1 capital adequacy ratio		≥8.5	11.17	11.91	10.43
Capital adequacy ratio		≥10.5	13.08	13.89	13.19
Leverage ratio		≥ 4	7.25	7.68	7.06
Liquidity coverage ratio		≥100	133.07	113.95	107.14
Net stable funding ratio		≥100	105.10	103.16	103.42
Loan-to – deposit ratio	RMB		101.56	99.90	96.21
	RMB equivalent		46.43	57.28	54.75
	RMB and foreign currency		99.95	98.86	95.05
Liquidity ratio	RMB	≥25	55.01	53.69	51.23
	RMB equivalent	≥25	211.93	162.32	98.72
	RMB and foreign currency	≥25	57.94	55.84	52.32
Loan concentration ratio of the largest single borrower		≤10	3.58	3.20	2.35
Loan concentration ratio of top 10 borrowers			16.54	15.77	16.00

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%

SECTION IV DISCUSSION AND ANALYSIS OF OPERATIONS

4.1 DISCUSSION AND ANALYSIS OF BUSINESS PERFORMANCE

4.1.1 External environment and industry developments

With the global economy hit hard by COVID-19, it was difficult to balance pandemic containment with economic growth. The once-in-a-century COVID-19 epidemic took a heavy toll on the global economy in 2020. The world economy fell off a cliff as global industrial chains were suddenly interrupted and the international financial markets experienced violent turbulences. Economies across the world adopted strong fiscal and monetary policies in response to the crisis, once showing signs of bottoming out. As the second wave of the COVID-19 pandemic stayed strong, developed economies such as the United States, Europe and Japan had to resume lockdowns and experienced an economic re-contraction, seeing the recovery momentum frustrated significantly. Emerging economies were hit harder, as evidenced by the weakening growth momentum of Indian economy and the worse capital flight from Brazil, South Africa and Russia.

China's economy has demonstrated strong resilience in weathering the fallout from COVID-19. In 2020, the CPC Central Committee and the State Council coordinated COVID-19 containment with economic and social development amid the seismic changes not seen for a century, including a complicated, ever-changing international environment and the structural, institutional and cyclical contradictions in domestic development, coupled by the fallout from the global coronavirus pandemic. With macro policies well coordinated with social policies, China achieved great success in COVID-19 containment and managed to reopen the economy quickly in the year. The national economy showed good momentum for stable recovery and growth. In 2020, China's GDP exceeded RMB100 trillion for the first time, with a real year-on-year growth rate of 2.3%, making China the only major economy in the world that pocketed positive growth.

The monetary policy was implemented in a well-targeted manner, with the financial system running steadily. PBOC strengthened targeted support through RRR cuts, special-purpose re-lending, rediscounting and MSE loan forbearance, guiding the banking industry to increase targeted support for key areas of the real economy. The real estate curb policies gradually worked and drove down the balance of real estate loans continuously. The market-based interest rate reform further advanced, the outstanding floating-rate loans successfully shifted to the loan prime rate (LPR), the new pricing benchmark, as scheduled. The interest rate reform continued to unleash its positive effects and the monetary policy was transmitted more efficiently to bring down the corporate lending rates markedly. The tough battle against financial risks won a partial victory. All high-risk financial institutions were resolved in an orderly manner, the shadow banking shrank in scale, the risks of asset management products were mitigated notably and inter-bank exposures were reduced continuously. Risks were eased in the banking industry.

The banking exerted every effort to support COVID-19 containment and economic re-opening, bolstering healthy growth of the real economy. CBIRC issued a number of financial support policies and measures guiding banking institutions to provide differentiated, targeted and preferential financial services to regions, industries and enterprises hit hard by the pandemic. The overall financing costs of MSEs eligible for inclusive finance were reduced. The banking industry was guided to making concessions to the real economy while maintaining reasonable growth of profits. CBIRC resolutely implemented the policy that "houses are for living in, not for speculation", established a comprehensive statistical system for real estate financing, carried out the concentration management of real estate loans, and guided more financial resources from banking institutions to key areas and weaker links of the real economy. In accordance with the basic requirement of "stepping up efforts against business monopolies and guarding against unregulated expansion of capital", the competition behaviors of market players were regulated to safeguard the legitimate rights and interests of financial consumers and foster a financial environment for fair competition. Commercial banks were encouraged and supported to replenish capital through multiple channels, including introducing strategic investors, issuing Tier 2 capital instruments and issuing perpetual bonds, so as to improve commercial banks' ability to serve the real economy. Efforts were sped up to resolve high-risk institutions, improve the disposal mechanism of major swindle risks and major risk events and reduce the banking climate risk.

4.1.2 Overview of the Bank's Operating Results

During the reporting period, the Company coordinated the COVID-19 containment with business development, put the new development philosophy into practice, insisted on structural adjustments, accelerated business transformation, deepened differentiated development and fine-grained management, achieved remarkable results on all fronts and met all preset objectives for the year.

The balance sheet expanded fast. At the end of the reporting period, the Group's total assets reached RMB3,399.816 billion, up 12.55% over the end of the previous year; total loans increased by 12.62% to RMB2,108.993 billion; and deposit balance increased by 9.77% to RMB1,818.330 billion.

The quality and efficiency of development continued to improve. First, the Company improved its profit structure and profitability. The utilization efficiency of assets and liabilities was boosted and the fee-based business was developed with vigor. During the reporting period, net profit attributable to shareholders of the listed company stood at RMB21.275 billion. Operating income reached RMB95.309 billion, up RMB10.575 billion or 12.48% year-on-year. Second, the classification-based management of costs was deepened to ensure effective cost control. The cost-to-income ratio was 27.93% in the year, down 2.66 percentage points year on year. Third, dynamic pricing management was strengthened to ensure effective proactive management. The Company continued to manage the structure of business growth and adjust the resource allocation strategy, with the size, structure and cost of deposit managed in a coordinated way. The net interest margin reached 2.59%.

Efforts were strengthened to serve the real economy. First, the differentiated regional development strategy of "Three Regions, Two Lines and Multiple Points" made progress. The Company seized the national plans for regional development, sped up regional rebalancing, and deepened the drive for "a lead bank serving the coordinated development of the Beijing-Tianjin – Hebei Region financially", the integration of branches in Yangtze River Delta and the coordinated development of branches in the Guangdong-Hong Kong-Macao Greater Bay Area. Second, the brand image of "SME financial service provider" was enhanced continuously. In implementing the policy requirements on ensuring the stability on six fronts and security in six areas, the Company strengthened services for MSEs and private enterprises, with the "two no-less-than" loans growing by 26.65%. Third, the green finance business developed steadily. The Company strengthened international cooperation, deepen cooperation with the World Bank on the China Renewable Energy and Battery Energy Storage Promotion Project and ranked among the top few joint-stock commercial banks by proportion of green loans, manifesting remarkable achievements in building the green finance brand. Fourth, the cultural and creative business continued to advance with distinctive services and innovations. The financial product system for the cultural and creative business was continuously improved to implement the "Micro, Small and Medium-sized Business Aid Program".

The development model was further transformed. First, the retail business was transformed at a faster pace. The Company actively promoted personal banking development by strengthening reform of the transformation mechanism, kick-starting the construction of a sales system, building a wealth management and private banking system in an orderly manner and enhancing the capability of investment research and advisory services. Second, the transformation to a combination of commercial banking and investment banking moved forward steadily. The "3-3-1-1" strategy made solid progress. The number of customers and scale of business kept growing. Corporate customers and deposits grew steadily, with all core customers covered by the integrated financial service solutions. Investment banking grew fast. The international settlement volume reached a record high, with the supply chain finance growing rapidly. Third, the financial market business grew steadily. Such products as bond lending were launched to accelerate product innovation. The asset custody size increased rapidly. The asset management business was transformed in an orderly manner, with the wealth management subsidiary opened successfully and the net asset value (NAV)-based products taking up a growing percentage. Fourth, digital transformation made encouraging progress. An enterprise-level agile organization system was built to develop industrial digital finance. The iteration and in-depth application of FinTech were accelerated, and the proprietorship in key technologies was enhanced. The bank-wide integration of mobile applications oriented to customers was promoted, with the number of customers and monthly active users growing significantly compared with the previous year.

Risk and internal control management was further strengthened. On the one hand, the risk management capability was enhanced. The Company made solid progress in asset quality control, strengthened risk discipline, ensured adequate risk control in key areas, proceeded with developing basic risk control systems and improved the quality and efficiency of risk management bank-wide. The disposal of risky assets was intensified, the disposal channels and methods were expanded and the capability of in-house debt collection was obviously strengthened. On the other hand, the compliance work made solid progress. The Company deepened the "look-back" on market irregularities and self-examination and self-correction of major risks. The swindle risk management was strengthened and the accountability system was improved. The anti-money laundering management system was refined, special crackdowns were carried out and the money laundering prevention and control in key areas were strengthened.

4.2 INCOME STATEMENT ANALYSIS

(Unit: RMB1 million)

Item	2020	2019	Increase/ (decrease)	Growth (%)
Operating income	95,309	84,734	10,575	12.48
– Net interest income	81,967	72,395	9,572	13.22
– Net non-interest income	13,342	12,339	1,003	8.13
Operating expenses	68,158	57,237	10,921	19.08
– Tax and surcharges	1,076	890	186	20.90
– General and administrative expenses	26,622	25,920	702	2.71
– Impairment losses on credit and other assets	40,431	30,405	10,026	32.97
Net non-operating income and expenditure	2	66	–64	–96.97
Total profit	27,153	27,563	–410	–1.49
Income tax	5,585	5,448	137	2.51
Net profit	21,568	22,115	–547	–2.47

Extraordinary profit and loss items and amounts

(Unit: RMB1 million)

Item	2020	2019	2018
Profit/loss from the disposal of assets	3	15	–14
Other net operating income and expenses	2	66	95
Total extraordinary profit and loss	5	81	81
Less: Income tax influence of extraordinary profit and loss	26	30	30
Extraordinary profit and loss, net	–21	51	51
Less: Influence of extraordinary profit and loss attributable to minority shareholders of the Company, net (after-tax)	4	2	4
Extraordinary profit and loss attributable to ordinary shareholders of the Company	–25	49	47

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).*

4.2.1 Operating income

For the reporting period, the Group realized operating income of RMB95.309 billion, a growth of RMB10.575 billion or 12.48% over the previous year. Specifically, net interest income accounted for 86.00% and net non-interest income accounted for 14.00%. The table below sets out the composition of operating income of the Group in the past three years.

Item (%)	2020	2019	2018
Net interest income	86.00	85.44	80.00
Net fee and commission income	11.08	12.01	15.95
Other net incomes	2.92	2.55	4.05
Total	**100.00**	**100.00**	**100.00**

Breakdown of operating income by geography

(Unit: RMB1 million)

Regions	Operating income	Change compared with previous year (%)	Operating profit	Change compared with previous year (%)
Beijing-Tianjin-Hebei Region	36,013	10.78	7,456	–9.23
Yangtze River Delta	20,804	13.39	9,589	–6.98
Guangdong – Hong Kong – Macao Greater Bay Area	6,226	9.94	3,165	–5.07
Central and Eastern China	13,781	12.99	1,938	N/A
Western China	11,832	9.08	3,275	–43.39
Northeastern China	1,966	7.02	–508	N/A
Subsidiaries	4,698	40.95	2,244	44.96
Offset among segments	–11	N/A	–8	N/A
Total	**95,309**	**12.48**	**27,151**	**–1.26**

Explanations on reasons for major changes in profit composition, principal operation and structure, and profitability of principal operation from the previous reporting period

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.

4.2.2 Net interest income

During the reporting period, the Group realized net interest income of RMB81.967 billion, a growth of RMB9.572 billion or 13.22% over last year. The growth in net interest income was mainly attributable to the increased interest-generating assets and interest margin. 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)

	2020			2019		
Item	Average balance	Interest	Average interest rate (%)	Average balance	Interest	Average interest rate
Interest-generating assets:						
Loans and advances to customers	1,971,900	105,364	5.34	1,728,079	93,518	5.41
Balances with central banks	179,958	2,632	1.46	176,141	2,681	1.52
Peer assets	167,195	2,782	1.66	180,937	4,391	2.43
Financial investments	841,768	36,461	4.33	797,553	35,681	4.47
Total interest-generating assets	3,160,821	147,239	4.66	2,882,710	136,271	4.73
Interest-bearing liabilities:						
Deposits taken	1,752,361	33,012	1.88	1,595,181	29,557	1.85
Due to central banks	116,767	3,779	3.24	143,841	4,789	3.33
Debt obligations payable	443,752	13,249	2.99	405,569	14,023	3.46
Peer liabilities and others	679,320	15,232	2.24	557,889	15,507	2.78
Total interest-bearing liabilities	2,992,200	65,272	2.18	2,702,480	63,876	2.36
Net interest income		81,967			72,395	
Net interest spread			2.48			2.37
Net interest margin			2.59			2.51

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	2020 over 2019		
	Scale change	Interest rate change	Total
Interest-generating assets:			
Loans and advances to customers	13,195	–1,349	11,846
Balances with central banks	58	–107	–49
Peer assets	–333	–1,276	–1,609
Financial investments	1,978	–1,198	780
Change of interest income	14,898	–3,930	10,968
Interest-bearing liabilities:			
Deposits taken	2,912	543	3,455
Due to central banks	–901	–109	–1,010
Debt obligations payable	1,320	–2,094	–774
Peer liabilities and others	3,375	–3,650	–275
Change of interest expenses	6,706	–5,310	1,396
Change of net interest income	8,192	1,380	9,572

4.2.2.1 Interest income

During the reporting period, the Group recorded RMB147.239 billion in interest income, up RMB10.968 billion or 8.05% year-on-year, primarily because of the Group's expansion of interest-generating assets at a stable rate of return.

(Unit: RMB1 million)

Item	2020	Percentage (%)	% change	2019
Interest income from loans and advances to customers	105,364	71.56	12.67	93,518
Interest income from financial investments	36,461	24.76	2.19	35,681
Interest income on due from central banks	2,632	1.79	–1.83	2,681
Interest income from interbank business	2,782	1.89	–36.64	4,391
Total	**147,239**	**100.00**	**8.05**	**136,271**

Interest income from loans and advances to customers

The Group recorded RMB105.364 billion in interest income from loans and advances to customers for the reporting period, a growth of RMB11.846 billion or 12.67% 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	2020 Average balance	2020 Interest income	2020 Average interest rate	2019 Average balance	2019 Interest income	2019 Average interest rate
Corporate loans	1,434,552	72,320	5.04	1,274,052	66,259	5.20
Personal loans	537,348	33,044	6.15	454,027	27,259	6.00
Total	1,971,900	105,364	5.34	1,728,079	93,518	5.41

Note: Corporate loans include discounted bills.

By maturity structure

(Unit: RMB1 million)

Category	2020 Average balance	2020 Interest income	2020 Average interest rate	2019 Average balance	2019 Interest income	2019 Average interest rate
General short-term loans	764,948	37,732	4.93	676,202	33,203	4.91
Medium and long-term loans	1,206,952	67,632	5.60	1,051,877	60,315	5.73
Total	1,971,900	105,364	5.34	1,728,079	93,518	5.41

Note: General short-term loans include discounted bills.

Interest income from financial investments

During the reporting period, the Group recorded RMB36.461 billion in interest income from financial investments, up RMB780 million or 2.19% year-on-year, primarily because of the bigger size and higher average return on 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 RMB2.632 billion, a drop of RMB49 million or 1.83% from last year, mainly due to the central bank's interest rate cuts on excess reserves.

Interest income from interbank business

During the reporting period, the Group recorded RMB2.782 billion in interest income from interbank business, down RMB1.609 billion or 36.64% from the previous year, mainly due to the smaller size and lower rate of return on interbank business.

4.2.2.2 Interest expenses

During the reporting period, the Group recorded RMB65.272 billion in interest expenses, up RMB1.396 billion or 2.19% year-on-year, primarily because of the Group's expansion of liabilities at controlled cost.

Interest expenses on deposits taken

During the reporting period, the Group's interest expense on deposits taken was RMB33,012 million, an increase of RMB3,455 million or 11.69% over last year, mainly due to expansion in deposits taken and rise in deposit cost.

(Unit: RMB1 million)

Category	2020 Average balance	2020 Interest expense	2020 Average interest rate	2019 Average balance	2019 Interest expense	2019 Average interest rate
Corporate demand deposits	624,743	5,464	0.87	589,108	4,611	0.78
Corporate time deposits	789,200	20,251	2.57	701,493	18,335	2.61
Personal demand deposits	120,425	382	0.32	111,623	345	0.31
Personal time deposits	217,993	6,915	3.17	192,957	6,266	3.25
Total	**1,752,361**	**33,012**	**1.88**	**1,595,181**	**29,557**	**1.85**

Interest expenses on due to central banks

During the reporting period, the Group's interest expenses on amounts due to central banks were RMB3,779 million, a decrease of RMB1,010 million or 21.09% from last year, mainly because of the decline in amounts due to central banks and a lower cost ratio.

Interest expenses on debt obligations payable

During the reporting period, the Group recorded RMB13,249 million in interest expenses on debt obligations payable, a decrease of RMB774 million or 5.52% over the previous year, mainly due to a lower cost ratio of bonds payable.

Peer liabilities and other interest expenses

During the reporting period, the Group recorded RMB15,232 million in interest expenses on peer liabilities and others, a decrease of RMB275 million or 1.77% from the previous year, mainly due to the decline in cost ratio of interbank liabilities.

4.2.3 Net non-interest income

(Unit: RMB1 million)

Item	2020	2019	Increase/ (decrease)	Growth (%)
Net fee and commission income	10,558	10,182	376	3.69
Investment loss/(gain)	1,870	1,231	639	51.91
Gains on changes in fair value	503	823	–320	–38.88
Exchange loss/(gain)	192	–132	324	N/A
Other operating income	192	192	–	–
Gains on asset disposal	3	15	–12	–80.00
Other income	24	28	–4	–14.29
Total	**13,342**	**12,339**	**1,003**	**8.13**

4.2.3.1 Net fee and commission income

During the reporting period, the Group realized net fee and commission income of RMB10.558 billion, a growth of RMB376 million or 3.69% over last year, primarily because of the growth of agency business.

(Unit: RMB1 million)

Item	2020 Amount	2020 Percentage (%)	% change	2019 Amount	2019 Percentage (%)
Bank card business	5,849	41.17	1.28	5,775	43.60
Agency business	4,360	30.69	19.52	3,648	27.54
Credit commitments	1,916	13.49	–0.62	1,928	14.55
Custody and other fiduciary services	1,192	8.39	9.36	1,090	8.23
Other business	890	6.26	10.42	806	6.08
Total fee and commission income	14,207	100.00	7.25	13,247	100.00
Less: Fee and commission expenses	3,649	–	19.05	3,065	–
Net fee and commission income	10,558	–	3.69	10,182	–

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

During the reporting period, The Group recorded RMB2.565 billion in investment income, gains on changes in fair value and exchange loss/(gain), up RMB643 million or 33.45% from last year, mainly due to increase in investment income and gains on foreign exchange settlement and sales.

4.2.4 General and administrative expenses

During the reporting period, general and administrative expenses stood at RMB26.622 billion. While ensuring effective support for business development, the Group continued to deepen comprehensive budget management, strengthened input/output evaluation and promoted fine-grained management of expenses. At the end of the reporting period, cost-to-income ratio was 27.93%, down 2.66 percentage points from the end of the previous year.

(Unit: RMB1 million)

Item	2020 Amount	2020 Percentage (%)	% change	2019 Amount	2019 Percentage (%)
Staff remuneration and welfare	14,984	56.28	–7.67	16,229	62.61
Business expenses	8,244	30.97	25.23	6,583	25.40
Depreciation and amortization	3,394	12.75	9.20	3,108	11.99
Total	**26,622**	**100.00**	**2.71**	**25,920**	**100.00**
Cost-to-income ratio		27.93	Down 2.66 percentage points		30.59

4.2.5 Impairment losses on credit and other assets

During the reporting period, the Group's impairment losses on credit and other assets totaled RMB40.431 billion, an increase of RMB10.026 billion or 32.97% over the previous year, mainly due to the increase in allowance for impairment losses on loans and advances to customers and financial investments. 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	2020	2019	Increase/ (decrease)	Growth (%)
Loans and advances to customers	36,307	29,259	7,048	24.09
Financial investments	2,872	112	2,760	2,464.29
Interbank business	49	–507	556	N/A
Projected liabilities	164	75	89	118.67
Other	1,039	1,466	–427	–29.13
Total	40,431	30,405	10,026	32.97

4.2.6 Income tax expense

(Unit: RMB1 million)

Item	2020	2019
Pre-tax profit	27,153	27,563
Income tax at statutory tax rate of 25%	6,788	6,891
Plus: Tax effect of non-deductible expense	1,769	1,226
Less: Tax effect of tax-exempt income	2,972	2,669
Total	5,585	5,448

4.3 BALANCE SHEET ANALYSIS

4.3.1 Analysis of investments

As at the end of the reporting period, the Group recorded total assets of RMB3,399.816 billion, an increase of RMB379.027 billion or 12.55% 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)

	End of 2020		End of 2019	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Loans and advances to customers	2,059,825	60.59	1,829,171	60.55
Financial investments	1,005,167	29.56	899,430	29.77
Cash on hand and balances with central banks	204,082	6.00	192,911	6.39
Due from and placements with banks and other financial institutions	54,975	1.62	39,399	1.30
Financial assets purchased under agreements to resell	24,776	0.73	24,050	0.80
Other	50,991	1.50	35,828	1.19
Total	3,399,816	100.00	3,020,789	100.00

Note: Including derivative financial assets, fixed assets, intangible assets, deferred income tax assets and other assets.

Material Changes in Prime Assets of the Company during the Reporting Period

The Group's prime assets include loans and advances to customers, financial investments, cash on hand and balances with central banks, due from and placements with banks and other financial institutions and financial assets purchased under agreements to resell. At the end of the reporting period, loans and advances to customers totaled RMB2,108.993 billion, an increase of RMB236.391 billion or 12.62% over the end of the previous year. Financial investments totaled RMB997.995 billion, an increase of RMB107.339 billion or 12.05% over the end of the previous year. Due from and placements with banks and other financial institutions had a balance of RMB54.975 billion, an increase of RMB15.576 billion or 39.53% from the end of the previous year. The above assets changed significantly mainly due to the following factors: First, the Group steadily increased the lending sale as it took active steps to meet the real financing needs of customers and serve the real economy in line with the national and regulatory policies. Second, financial investments picked up steadily as the Group supported COVID-19 containment and business re-opening in fulfilling the requirement that the financial sector should serve the real sector of the economy. Third, due from banks and placements with banks and other financial institutions expanded in size to increase the overall efficiency of fund utilization.

4.3.1.1 Loans and advances to customers

At the end of the reporting period, the Group recorded RMB2,108.993 billion in total loans and advances to customers, up RMB236.391 billion or 12.62% 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.

4.3.1.2 Financial investments

As at the end of the reporting period, the Group recorded RMB997.995 billion total financial investments, growing by RMB107.339 billion or 12.05% over the end of the previous year, mainly due to increase in investments in bonds and funds. The table below shows the proportional mix of the Group's financial investments by product.

(Unit: RMB1 million)

	End of 2020		End of 2019	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Bond investment	648,153	64.94	582,911	65.45
Corporate bonds	77,112	7.73	49,470	5.55
Asset management plan of financial institutions	153,385	15.37	142,804	16.03
Beneficiary rights of assets	3,562	0.36	3,832	0.43
Certificates of deposit with banks and other financial institutions	14,698	1.47	10,917	1.23
Equity investment	5,484	0.55	4,961	0.56
Debt financing plans	95,596	9.58	95,761	10.75
Standard bill assets	5	0.00	–	–
Total	**997,995**	**100.00**	**890,656**	**100.00**
Plus: Accrued interest	12,369	–	11,331	–
Less: Allowance for impairment losses on debt investments	5,197	–	2,557	–
Total	**1,005,167**	**–**	**899,430**	**–**

Financial bonds held:

(Unit: RMB1 million)

Item	End of 2020 Amount	End of 2020 Percentage (%)	End of 2019 Amount	End of 2019 Percentage (%)
Financial bonds of policy banks	113,591	58.87	99,621	57.62
Financial bonds of commercial banks	67,104	34.77	62,245	36.01
Non-banking financial bonds	12,273	6.36	11,015	6.37
Total	192,968	100.00	172,881	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	3,800	2.08	29 April 2023	0.79
Bond 2	3,260	3.50	27 March 2022	0.85
Bond 3	3,000	3.52	25 May 2021	0.32
Bond 4	3,000	4.65	11 May 2028	–
Bond 5	2,860	3.18	7 August 2023	0.18
Bond 6	2,720	2.93	2 March 2025	–
Bond 7	2,600	3.63	19 July 2026	–
Bond 8	2,550	3.87	14 August 2030	–
Bond 9	2,530	3.26	24 February 2027	–
Bond 10	2,440	3.45	9 July 2022	0.15

4.3.1.3 Derivative financial instruments

(Unit: RMB1 million)

Item	End of 2020 Contractual/ nominal amount	End of 2020 Fair value Assets	End of 2020 Fair value Liabilities	End of 2019 Contractual/ nominal amount	End of 2019 Fair value Assets	End of 2019 Fair value Liabilities
Foreign exchange forwards	7,896	118	87	7,192	59	41
Foreign exchange swaps	561,409	12,084	12,122	646,602	856	1,749
Interest rate swaps	29,921	36	33	18,950	5	6
Option contracts	98,489	123	123	1,060	6	6
Total		12,361	12,365		926	1,802

4.3.1.4 Financial assets purchased under agreements to resell

(Unit: RMB1 million)

	End of 2020		End of 2019	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Bonds	14,765	58.98	16,867	69.37
Bills	10,271	41.02	7,449	30.63
Total	**25,036**	**100.00**	**24,316**	**100.00**
Plus: Accrued interest	46	–	40	–
Less: Allowance for impairment losses	306	–	306	–
Total	**24,776**	**–**	**24,050**	**–**

4.3.1.5 Cash on hand and balances with central banks

At the end of the reporting period, the Group recorded RMB204.082 billion in cash on hand and balances with central banks, an increase of RMB11.171 billion or 5.79% from the end of the previous year, mainly due to increase in excess reserves.

4.3.1.6 Due from and placements with banks and other financial institutions

At the end of the reporting period, the Group registered RMB54.975 billion in due from banks and placements with banks and other financial institutions, an increase of RMB15.576 billion or 39.53% 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.

4.3.2 Liability analysis

As at the end of the reporting period, the Group recorded total liabilities of RMB3,117.161 billion, up RMB365.709 billion or 13.29% from the end of the previous year, primarily due to the increase in deposits taken, due to banks and other and placements from 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)

	End of 2020		End of 2019	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Due to central banks	131,036	4.20	143,617	5.22
Deposits taken	1,837,020	58.93	1,671,276	60.74
Due to and placements from banks and other financial institutions	544,009	17.45	406,401	14.77
Financial assets sold under agreements to repurchase	49,155	1.58	93,774	3.41
Debt obligations payable	511,814	16.42	403,584	14.67
Other	44,127	1.42	32,800	1.19
Total	**3,117,161**	**100.00**	**2,751,452**	**100.00**

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

4.3.2.1 Deposits taken

As at the end of the reporting period, the Group recorded RMB1,818.33 billion in total deposits taken, up RMB161.841 billion or 9.77% over the end of the previous year.

(Unit: RMB1 million)

	End of 2020		End of 2019	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Corporate demand deposits	691,013	38.00	632,009	38.15
Corporate time deposits	589,609	32.43	531,566	32.09
Personal demand deposits	133,660	7.35	116,909	7.06
Personal time deposits	218,276	12.00	196,713	11.88
Other deposits	185,772	10.22	179,292	10.82
Total	**1,818,330**	**100.00**	**1,656,489**	**100.00**
Plus: Accrued interest	18,690	–	14,787	–
Total	**1,837,020**	**–**	**1,671,276**	**–**

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

4.3.2.2 Financial assets sold under agreements to repurchase

(Unit: RMB1 million)

	End of 2020		End of 2019	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Bonds	43,608	88.77	86,440	92.26
Bills	5,515	11.23	7,250	7.74
Total	**49,123**	**100.00**	**93,690**	**100.00**
Plus: Accrued interest	32	–	84	–
Total	**49,155**	**–**	**93,774**	**–**

4.3.3 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 entity	Total shareholders' equity
1 January 2020	15,387	59,971	53,292	1,084	15,662	34,706	87,486	1,749	269,337
Increase in the reporting period	–	–	–	–	2,094	3,977	21,434	293	27,798
Decrease in the reporting period	–	–	–	1,798	–	–	12,682	–	14,480
31 December 2020	15,387	59,971	53,292	–714	17,756	38,683	96,238	2,042	282,655

Major reasons for changes in shareholders' equity:

1. Decrease 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.

4.4 CASH FLOW STATEMENT ANALYSIS

Net cash inflows from operating activities

The Group's net cash inflows from operating activities registered RMB34.759 billion, down RMB44.323 billion over last year, mainly due to the decrease in placements from banks and other financial institutions and financial assets sold under agreements to repurchase and increase in placements with banks and other financial institutions and financial assets purchased under agreements to resell.

Net cash outflows from investing activities

The Group's net cash outflows from investing activities recorded RMB61.704 billion, an increase of RMB60 million from last year, showing no significant changes when compared with last year.

Net cash inflows from financing activities

The Group's net cash inflows from financing activities recorded RMB32.224 billion, an increase of RMB23.394 billion from last year, mainly because the Group issued RMB65 billion of financial bonds in the reporting period and issued RMB40 billion of perpetual capital bonds in the year before, which resulted in higher capital inflows from financing activities in the reporting period than in the previous year.

4.5 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	36,470	55.45	Increase in placements with banks and other financial institutions
Derivative financial assets	12,361	1,234.88	Increase in derivative financial assets
Held-for-trading financial assets	123,848	37.94	Increase in held-for-trading financial assets
Other debt investments	172,926	33.64	Increase in other debt investments
Due to banks and other financial institutions	434,992	43.88	Increase in due to banks and other financial institutions
Derivative financial assets	12,365	586.18	Increase in derivative financial liabilities
Financial assets sold under agreements to repurchase	49,155	-47.58	Decrease in financial assets sold under agreements to repurchase
Taxes and dues payable	7,740	38.91	Increase in taxes and dues payable
Other comprehensive income	-714	-165.87	Effect of fair value fluctuations
Major accounting item	**Reporting period**	**% change**	**Main reason**
Investment loss/(gain)	1,870	51.91	Increase in investment gain
Gains on changes in fair value	503	-38.88	Changes in fair value
Exchange loss/(gain)	192	N/A	Increase in exchange gains
Gains on asset disposal	3	-80.00	Decrease in gains on asset disposal
Impairment losses on credit	40,010	32.26	Increase in impairment losses on credit
Other impairment losses on assets	421	173.38	Increase in other impairment losses on assets
Other business costs	29	31.82	Increase in other business costs
Non-operating expenses	158	54.90	Non-operating expenses increased

4.6 LOAN QUALITY ANALYSIS

During the reporting period, faced with a complicated external environment and the sudden COVID-19 outbreak, the Group made strong, forward-looking responses to continuously improve the business structure, reform the risk management system and mechanism in an orderly manner and intensify the prevention of risks and disposal of problem loans. All risk management indicators met expectations.

4.6.1 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 normal, while the last three categories are regarded as non-performing loans.

As at the end of the reporting period, the balance of special mention loans at the Group was RMB72.31 billion, an increase of RMB5.698 billion over the end of the previous year, with a ratio of 3.43%, down 0.13 percentage point compared with the end of the previous year. The balance of NPLs was RMB37.976 billion, representing an increase of RMB3.739 billion compared with the end of the previous year. The NPL ratio was 1.80%, down 0.03 percentage point from the end of the previous year.

(Unit: RMB1 million)

	End of 2020			End of 2019	
Item	Balance	Percentage (%)	Increase/decrease compared with the end of previous year (%)	Balance	Percentage (%)
Pass loans	1,998,707	94.77	12.81	1,771,753	94.61
Special-mention loans	72,310	3.43	8.55	66,612	3.56
Sub-standard loans	16,290	0.77	19.47	13,635	0.73
Doubtful loans	13,946	0.66	21.27	11,500	0.61
Loss	7,740	0.37	-14.96	9,102	0.49
Total	**2,108,993**	**100.00**	**12.62**	**1,872,602**	**100.00**
Performing loans	2,071,017	98.20	12.66	1,838,365	98.17
NPLs	37,976	1.80	10.92	34,237	1.83

4.6.2 Distribution of loans and NPLs by product type

As at the end of the reporting period, outstanding loans of the Group amounted to RMB1,392.08 billion, an increase of RMB160.73 billion or 13.05% compared with the end of the previous year. Outstanding personal loans amounted to RMB594.511 billion, an increase of RMB91.508 billion or 18.19% compared with the end of the previous year. Outstanding discounted bills amounted to RMB122.402 billion, down RMB15.847 billion or 11.46% compared with the end of the previous year. Specifically, outstanding corporate NPLs was RMB28.192 billion, representing an increase of RMB1.875 billion compared with the end of the previous year and a NPL ratio of 2.03%, down 0.11 percentage point from the end of the previous year. Outstanding personal NPLs was RMB9.784 billion, representing an increase of RMB1.864 billion compared with the end of the previous year and a NPL ratio of 1.65%, up 0.08 percentage point from the end of the previous year.

(Unit: RMB1 million)

	End of 2020				End of 2019			
Product type	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Corporate loans	1,392,080	66.01	28,192	2.03	1,231,350	65.76	26,317	2.14
Personal loans	594,511	28.19	9,784	1.65	503,003	26.86	7,920	1.57
Discounted bills	122,402	5.80	–	–	138,249	7.38	–	–
Total	2,108,993	100.00	37,976	1.80	1,872,602	100.00	34,237	1.83

4.6.3 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 COVID-19 pandemic in a full effort to support the real economy. It supported economic reopening at controlled risks, promoted structural adjustments, boosted the granularity and adaptability of credit policies, strengthened credit support for key areas such as manufacturing, strategic emerging industries, micro and small businesses, 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 48.45% of the Group's total NPLs, down 5.47 percentage points from the end of the previous year. The two sectors recorded a NPL ratio of 5.59% and 5.42% respectively. Specifically, the NPL ratio for manufacturing rose by 0.39 percentage point from the end of the previous year, and the NPL ratio for wholesale & retail fell by 0.37 percentage point from the end of the previous.

(Unit: RMB1 million)

	End of 2020				End of 2019			
Industry	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Leasing and commercial services	379,629	18.00	952	0.25	275,650	14.72	402	0.15
Manufacturing	192,254	9.12	10,748	5.59	190,969	10.20	9,938	5.20
Real estate	153,005	7.25	14	0.01	141,000	7.53	96	0.07
Water conservancy, environment and public facilities management	143,721	6.81	504	0.35	117,432	6.27	594	0.51
Wholesale and retail	141,197	6.69	7,651	5.42	147,086	7.86	8,523	5.79
Construction industry	104,095	4.94	1,633	1.57	102,469	5.47	2,154	2.10
Electric power, heat, gas and water production and supply industry	63,174	3.00	399	0.63	62,067	3.31	645	1.04
Transportation, warehousing and post industry	51,183	2.43	2,247	4.39	51,476	2.75	662	1.29
Mining industry	31,752	1.51	2,109	6.64	27,612	1.48	1,931	6.99
Other corporate industries	132,070	6.26	1,935	1.47	115,589	6.17	1,372	1.19
Discounted bills	122,402	5.80	–	–	138,249	7.38	–	–
Personal loan	594,511	28.19	9,784	1.65	503,003	26.86	7,920	1.57
Total	**2,108,993**	**100.00**	**37,976**	**1.80**	**1,872,602**	**100.00**	**34,237**	**1.83**

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.

4.6.4 Distribution of loans and NPLs by geographical area

Following the national strategic plans for regional development, the Group firmly promoted the differentiated regional development strategy of "Three Regions, Two Lines and Multiple Points" differentiated regional development strategy and actively implemented the regional development strategies including the Beijing-Tianjin-Hebei coordination, the Yangtze River Delta integration and Guangdong-Hong Kong-Macao Greater Bay Area. With concentration of resources and in-deep integration, the Group accelerated the support and coordination of branches in the "Two Lines and Multiple Points", supported the branches in "Two Lines" in seizing the local development opportunities and looking for breakthrough points. Branches at "Multiple Points" were encouraged to get integrated into the local mainstream economy and accelerate the adjustments to regional business structure. As at the end of the reporting period, the Group recorded RMB2,108.993 billion in total loans, up RMB236.391 billion or 12.62% over the end of the previous year. Specifically, the Yangtze River Delta, the Beijing-Tianjin-Hebei Region and Central and Eastern China were the top three regions by balance of loans, which stood at RMB580.053 billion, RMB537.563 billion and RMB336.018 billion, accounting for 27.50%, 25.49% and 15.93%, respectively. By growth rate, the Group recorded the fastest growth in loans for the Guangdong-Hong Kong-Macau Greater Bay Area and the Yangtze River Delta, which reached 28.19% and 23.87%, up 1.12 and 2.49 percentage points, respectively.

The Group's loans were mainly exposed to regional risks in the Beijing-Tianjin-Hebei Region, Central and Eastern China and Northeastern China where the NPL ratio was 2.83%, 2.21% and 5.28%, respectively. The risk in the Beijing-Tianjin-Hebei Region was concentrated in Tianjin and Hebei, with the regional NPL ratio up 0.30 percentage point from the end of the previous year. The regional NPL ratio for Northeastern China and Central and Eastern China rose by 0.19 percentage point and dropped by 0.34 percentage point from the end of the previous year respectively. Risks in the above regions got fully exposed amid the industrial structure upgrading and COVID-19 pandemic, giving rise to substantial NPLs.

(Unit: RMB1 million)

	End of 2020				End of 2019			
Geographical area	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Beijing-Tianjin-Hebei Region	537,563	25.49	15,201	2.83	523,662	27.96	13,237	2.53
Yangtze River Delta	580,053	27.50	4,799	0.83	468,276	25.01	4,969	1.06
Guangdong – Hong Kong – Macao Greater Bay Area	194,184	9.21	1,585	0.82	151,480	8.09	1,151	0.76
Central and Eastern China	336,018	15.93	7,416	2.21	320,096	17.09	8,168	2.55
Western China	279,830	13.27	4,914	1.76	254,278	13.58	3,640	1.43
Northeastern China	64,969	3.08	3,431	5.28	54,885	2.93	2,792	5.09
Subsidiaries	116,376	5.52	630	0.54	99,925	5.34	280	0.28
Total	**2,108,993**	**100.00**	**37,976**	**1.80**	**1,872,602**	**100.00**	**34,237**	**1.83**

4.6.5 Distribution of loans and NPLs by guarantee type

During the reporting period, the Group kept the security structure basically stable. Its unsecured loans accounted for 22.75%, up 2.50 percentage points over the end of last year; its guaranteed loans took a 30.44% share, down 0.85 percentage point from the end of last year; and its collateral-backed loans made up 46.81%, down 1.65 percentage points from the end of last year.

(Unit: RMB1 million)

	End of 2020				End of 2019			
Guarantee method	Balance	Percentage (%)	Balance of NPLsa	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Unsecured loans	479,821	22.75	7,149	1.49	379,151	20.25	6,056	1.60
Guaranteed loans	641,954	30.44	18,013	2.81	585,920	31.29	17,079	2.91
Collateral loans	987,218	46.81	12,814	1.30	907,531	48.46	11,102	1.22
– Mortgage loans	687,866	32.62	9,500	1.38	609,017	32.52	8,962	1.47
– Pledged loans	299,352	14.19	3,314	1.11	298,514	15.94	2,140	0.72
Total	**2,108,993**	**100.00**	**37,976**	**1.80**	**1,872,602**	**100.00**	**34,237**	**1.83**

4.6.6 Distribution of loans by overdue period

As at the end of the reporting period, the balance of overdue loans at the Group was RMB41.247 billion, an increase of RMB80 million over the end of the previous year, with a ratio of 1.96%, down 0.24 percentage point compared with the end of the previous year. Specifically, loans overdue for up to 90 days amounted to RMB10.223 billion, accounting for 0.49%, and loans overdue for more than 90 days stood at RMB31.024 billion, accounting for 1.47%. 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 81.69% of total overdue loans, down 4.62 percentage points year-on-year.

(Unit: RMB1 million)

	End of 2020		End of 2019	
	Balance	Percentage (%)	Balance	Percentage (%)
Performing loans	2,067,746	98.04	1,831,435	97.80
Overdue loans	41,247	1.96	41,167	2.20
Of which: Overdue for 1 to 90 days (inclusive)	10,223	0.49	11,617	0.62
Overdue for 91 to 360 days (inclusive)	16,159	0.77	13,732	0.73
Overdue for 361 days to 3 years (inclusive)	10,245	0.48	8,735	0.47
Overdue for more than 3 years	4,620	0.22	7,083	0.38
Total	**2,108,993**	**100.00**	**1,872,602**	**100.00**
Overdue for more than 90 days	31,024	1.47	29,550	1.58

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.

4.6.7 Restructured loans

(Unit: RMB1 million)

	End of 2020		End of 2019	
Item	Amount	Percentage in total loans (%)	Amount	Percentage in total loans (%)
Restructured loans	692	0.03	767	0.04

4.6.8 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 RMB51.586 billion, accounting for 2.59% of total loans and 16.54% of net capital at the end of the period, respectively. The balance of single largest legal-person customer loans of the Company was RMB11.15 million, accounting for 0.56% of total loans of the Company at the end of the reporting period and 3.58% of net capital.

(Unit: RMB1 million)

	End of 2020		End of 2019	
Item	Balance	Percentage in total loans (%)	Balance	Percentage in total loans (%)
Top 10 borrowers	51,586	2.59	47,520	2.68

4.6.9 Loan migration

Item (%)	End of 2020	End of 2019	End of 2018
Pass loan migration ratio	4.61	3.82	3.35
Special-mention loan migration ratio	28.43	33.35	23.98
Substandard loan migration ratio	69.00	71.00	26.46
Doubtful loan migration ratio	23.90	47.74	20.02

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%.

4.6.10 Basic Information on repossessed assets

(Unit: RMB1 million)

	End of 2020		End of 2019	
Category	Amount	Allowance for impairment losses	Amount	Allowance for impairment losses
Repossessed assets to be disposed of	2,328	970	2,511	605

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

(Unit: RMB1 million)

Item	End of 2020	End of 2019
Balance at the beginning of the period	**48,590**	**55,300**
Charge for the year	36,307	29,259
Recovery in the year	1,628	645
Less: Transferred out in the year	664	831
Less: Write-offs in the year	29,939	35,785
Change in exchange rate	-14	2
Balance at the end of the period	**55,908**	**48,590**

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.

4.7 CAPITAL MANAGEMENT

4.7.1 Capital composition and its changes

(Unit: RMB1 million)

	31 December 2020		31 December 2019		31 December 2018	
Item	Consolidated	Unconsolidated	Consolidated	Unconsolidated	Consolidated	Unconsolidated
1. Net core tier-1 capital	222,230	208,463	209,148	199,951	198,197	190,131
2. Net tier-1 capital	282,413	268,434	269,302	259,922	218,313	210,109
3. Net capital base	330,769	311,880	314,020	301,242	276,056	265,799
4. Risk-weighted Assets	2,529,132	2,410,045	2,260,986	2,157,978	2,092,350	2,014,894
Of which: Credit risk-weighted assets	2,361,335	2,248,351	2,111,272	2,012,281	1,956,605	1,881,942
Market risk-weighted assets	12,655	12,655	14,103	14,103	12,836	12,836
Operational risk-weighted assets	155,142	149,039	135,611	131,594	122,909	120,116
5. Core tier-1 CAR (%)	8.79	8.65	9.25	9.27	9.47	9.44
6. Tier-1 CAR (%)	11.17	11.14	11.91	12.04	10.43	10.43
7. CAR (%)	13.08	12.94	13.89	13.96	13.19	13.19

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%.

4.7.2 Leverage ratio and its changes

(Unit: RMB1 million)

Item	31 December 2020	30 September 2020	30 June 2020	31 March 2020
Net tier-1 capital	268,434	261,808	261,378	264,643
Adjusted on and off-balance sheet asset balance	3,700,647	3,641,834	3,646,675	3,492,584
Leverage ratio (%)	7.25	7.19	7.17	7.58

Note: The above are unconsolidated data calculated according to the **Regulation Governing Leverage Ratio of Commercial Banks (Revised)** (CBRC Decree No. 1 in 2015).

4.7.3 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.

4.8 ANALYSIS OF INVESTMENTS

4.8.1 Material equity investments

During the reporting period, the Company contributed RMB250 million to National Financing Guarantee Fund Co., Ltd. and contributed RMB3 billion to Huaxia Wealth Management 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	11.41	0.03	3.56	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.	750	–	1.51	750	–	–	Other equity instrument investments	Investment with self-owned capital
China UnionPay Co., Ltd.	81	62.50	2.13	1,776	11.25	−166.19	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	–	–	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.

4.8.2 Analysis of major controlling and equity participation companies

4.8.2.1 Huaxia Financial Leasing Co., Ltd.

The company, with a registered capital of RMB6 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 RMB117.385 billion and RMB10.886 billion, respectively. For the reporting period, the company realized operating income of RMB4.495 billion and net profit of RMB1.602 billion.

4.8.2.2 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 RMB3.079 billion and RMB3.04 billion, respectively. For the reporting period, the company realized operating income of RMB97 million and net profit of RMB40 million.

4.8.2.3 Beijing Daxing Hua Xia Rural Bank Co., Ltd

The bank with a registered capital of RMB125 million 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 RMB1,527,220,800 and RMB123,329,500, respectively. The deposit balance stood at RMB1,138,846,400 and total loans at RMB806,323,100. For the reporting period, the bank realized operating income of RMB30,496,900 and net profit of RMB1,580,100.

4.8.2.4 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 RMB608,516,100 and RMB65,371,600, respectively. The deposit balance stood at RMB531,788,400 and total loans at RMB436,005,400. For the reporting period, the bank realized operating income of RMB24,404,000 and net profit of RMB8,760,700.

4.8.2.5 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 RMB1,259,559,600 and RMB124,549,600, respectively. The deposit balance stood at RMB1,051,790,300 and total loans at RMB938,316,800. For the reporting period, the bank realized operating income of RMB49,900,400 and net profit of RMB8.96 million.

4.8.3 Material non-equity investments

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

4.9 OTHER INFORMATION DISCLOSED PURSUANT TO REGULATORY REQUIREMENTS

4.9.1 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.

4.9.2 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. Is 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)

Item	Beginning of 2020	Changes in fair value through profit or loss during the period	Accumulated changes in fair value through equity	Allowances for impairment losses during the period	End of 2020
Derivative financial assets	926	11,435	–	–	12,361
Loans and advances to customers measured at fair value through other comprehensive income	133,731	–	-129	-220	117,723
Held-for-trading financial assets	89,783	497	–	–	123,848
Other debt investments	129,400	–	-315	111	172,926
Other equity instrument investments	4,961	–	-1,104	–	5,484
Other	–	2	–	–	51
Total financial assets	**358,801**	**11,934**	**-1,548**	**-109**	**432,393**
Derivative financial assets	1,802	-10,563	–	–	12,365

Note: There is no necessary articulation in the table.

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

(Unit: RMB1 million)

Item	Balance at the end of 2020	Balance at the end of 2019
Credit commitments	720,606	693,101
Of which:		
Irrevocable loan commitments	2,411	3,428
Bank acceptance drafts	319,239	333,918
L/Gs and other payment commitments issued	27,764	29,368
L/Cs issued	146,970	136,609
Unused credit card limit	222,178	187,003
Financial lease commitments	2,044	2,775
Operating lease commitments	8,117	7,231
Capital expenditure commitments	888	736

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.

4.9.4 Gain/loss on asset securitization in the reporting period

During the reporting period, the Company conducted no asset securitization business.

4.9.5 Innovative products

The Company remains customer-centric and oriented to customer demand to innovate and optimize products on an ongoing basis in light of policy and market changes, thus serving the real economy.

The Company furthered the combination of commercial banking and investment banking in corporate finance, providing customers with integrated financial services. Corporate banking launched an annual review-based loan product designed to provide medium and long-term financing for manufacturers, so that customers can renew loans without repaying the principal. The project financing product series was improved in support of key projects. The transferable large-denomination certificates of deposit were rolled out to enhance customer experience. The trade finance innovatively launched the non-recourse re-factoring for supply chain and other online services with a focus on online scenarios in the customer's transaction chain, with the electronic letter of credit and blockchain forfeiting platform going live. The investment banking rolled out such products and services as lifecycle consultant for special-purpose local government bonds, market-oriented debt-to-equity swaps, standardized bills, and M&A bills, thus better meeting the diversified and customized financial needs of the real economy.

The retail finance strengthened product innovation and accelerated online migration of services. The Company innovatively launched the "Zhou Zhou Ying" and "Nian Nian Le" online deposits and the new "Hua Xia Easy Loan" comprehensive service brand and created a "Cloud Studio" digital marketing service platform for the account managers. To facilitate the COVID-19 battle and economic reopening, the Company launched the "Reliable Loan • Salary Butler" inclusive credit product and the Hua Xia Love Loan exclusive service. The scenario-based acquiring service was deepened, and the payment products such as Hua Xia Cashier and E Cashier were launched. The logistics loan products were developed and rolled out in an effort to implement the national policy on logistics development.

The financial market business endeavored to help customers improve the efficiency of asset and capital operation and launched the bond lending business. The asset management business strengthened market segment research and created new wealth management products such as Longying Centennial Life, hybrid products, structured products and regular net asset value-based products. The COVID-19 fight select theme wealth management products were issued to enhance the brand image of the Company in performing corporate social responsibility.

The internet finance got deeply involved in the reshaping of end-to-end customer journey, improved the corporate internet finance products and services, launched the corporate mobile banking APP, optimized the "Qiyue Treasury Manager" cash management platform and innovated industry solutions, which were widely used in more than 10 industries such as transportation, wholesale and foreign trade, thus boosting the implementation of local bank-government and public wellbeing projects and fulfilling the corporate responsibility of serving the real economy and developing inclusive finance.

4.9.6 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.

4.9.7 Material asset and stock right sales

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

4.10 BUSINESS REVIEW

Unless otherwise specially stated, Section 4 starting from 4.10 analyzes all data and information from the Company's perspective.

4.10.1 Corporate banking

During the reporting period, we upheld the strategy of putting deposits at the heart of the bank, went deeper in the transformation to the "commercial bank + investment bank" pattern, reduced our focus on assets and capital, and shifted our orientation of services from assets to clients and from holding assets to asset trading and circulation. Our transformation efforts yielded positive results. 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 loan and guarantee, investment banking, green finance, trade finance, and cash management, thus serving and supporting the development of real economy in a substantive way.

Corporate customer management

The Company strengthened the hierarchical and classified development of core, strategic and basic customers on a customer-centric basis, with appropriate resources allocated and proper service mode implemented for each defined level of marketing. The marketing services were provided according to the class and level of customers, in an effort to expand and diversify the customer base and build a customer ecosystem in which bigger customers lead smaller customers while smaller customers cement the base of bigger customers. At the end of the reporting period, the Company had 589,400 corporate accounts, an increase of 3.91% over the end of the previous year.

The Company actively integrated itself into the mainstream economy in line with the national industrial policies, implemented the "3-3-1-1"[1] customer strategy in depth, strengthened the efforts to serve the coordinated development of Beijing-Tianjin-Hebei region, the regional integration of the Yangtze River Delta and the development of Guangdong-Hong Kong-Macao Greater Bay Area, continuously optimized the customer structure and consolidated the customer base. For the "3-3-1-1" strategic customers and the strategic customers at the Head Office level, the Company implemented list-based management, carried out hierarchical and classified marketing, provided customers with integrated financial services including credit, bond underwriting and M&A financing by a combination of "commercial banking and investment banking", known as "integrated financial service solutions", to continuously improve the overall marketing and service level. The Company strengthened the headquarters-level strategic cooperation with local governments, key enterprises and institutions, and signed strategic partnership agreements with 22 government agencies and business conglomerates, including Hangzhou Municipal Government, Shenzhen Stock Exchange, China Unicom and Hikvision, to actively deepen business cooperation. At the end of the reporting period, the Company had 79 Head Office-level strategic customers, up 19 from the end of the previous year, business cooperation with 4,848 or 29.26% of the 16,570 whitelisted customers, up 0.61 percentage point from the end of the previous year. The above whitelisted "3-3-1-1" customers contributed RMB247.187 billion of corporate deposits per day in average, up 9.60% from the previous year. The balance of loans stood at RMB239.199 billion, up 42.42% from the end of the previous year.

Deputy Party Committee Secretary and President Zhang Jianhua negotiated a tie-up with Shenzhen Stock Exchange.

The Company strengthened institutional banking policy research and professional guidance and continuously laid a solid foundation for institutional banking development with a focus on "attaining important qualifications, marketing major projects and developing key areas". The Company further deepened the bank-government cooperation, signed a cooperation agreement with the National Healthcare Security Administration and launched the comprehensive medical insurance services in 22 provinces, becoming a pilot bank partner for long-term care insurance in Beijing. It signed cooperation agreements with many local government agencies (e.g. finance, housing and veterans management), rated as "excellent" by the Ministry of Finance in the comprehensive evaluation of non-tax revenue collection service for the central government or four consecutive years. Riding on the trend of service-oriented government, smart cities and digital development, the Company enhanced the IT service level and implemented a number of technology projects in the fields of finance, public resources, social security, provident fund and education, provided innovative and scenario-based financial service solutions for institutional customers, effectively enhanced the cooperation stickiness and improved the capability of comprehensive services for institutional customers.

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.

Corporate deposits

The Company firmly implemented regulatory requirements on downsizing the structured deposits, strengthened the marketing of deposits, deepened the guide to deposit sources, carried out list-based marketing, strengthened the combination of products in the form of "integrated financial service solutions", 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 9.18% year-on-year to RMB1,464.744 billion. The balance of corporate structured deposits accounted for 1.07%, a relatively low level among joint-stock commercial banks. The cost of corporate deposits was 1.82%, up 0.04 percentage point from the end of the previous year, still a relatively low level among joint-stock commercial banks.

Corporate loans

The Company deepened financial services pursuant to China's major strategic plans for development, "following the direction of industrial adjustments, mainstream economic trends and industry development" to serve the real economy. Asset allocations were strengthened for key regions, such as the Beijing-Tianjin-Hebei region, the Yangtze River Delta, and 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 RMB1,276.681 billion, up 12.75% compared with the end of the previous year. Outstanding corporate loans (excluding discounted bills) to the Three Regions amounted to RMB783.299 billion, up 18.25% compared with the end of the previous year.

Investment banking

Taking "deepening structural adjustments and promoting business transformation" as main tasks, the Company continued with the transformation to a combination of commercial banking and investment banking, and focused on pursuing a bigger base of corporate customers with a better mix, higher level and deeper cooperation through efficiency enhancement, product innovation as well as internal and external coordination. The Company achieved the operating objectives for quality, profitability and scale, demonstrating stronger market competitiveness and broader customer recognition.

At the end of the reporting period, the Company's investment banking totaled RMB447.921 billion, up 69.28% over the previous year. Specifically, the issue volume of credit bonds in the inter-bank market reached RMB233.786 billion, including RMB187.099 billion of non-financial corporate debt financing instruments. The Company moved up two places in the ranking by underwriting scale when compared with the end of the previous year. The loans issued through matchmaking service was RMB153.435 billion, an increase of 87.81% over the end of the previous year, showing high-quality growth of the scale, coverage and types of business. The full-process consulting services were provided for RMB28.619 billion of special-purpose local government bonds issued in the year. The market-oriented debt-for-equity swap projects implemented in the year totaled RMB7.4 billion.

During the reporting period, the Company made breakthroughs in innovative investment banking. In terms of COVID-19 prevention and control, eight COVID-19 bonds were issued with a total underwriting value of RMB5.45 billion, including the first COVID-19 bond in China's coal industry, the first commercial paper labelled for COVID-19 response in the inter-bank market, the first debt financing instrument of central enterprise for targeted COVID-19 containment in China and the first debt financing instrument for targeted COVID-19 containment in the Guangdong-Hong Kong-Macao Greater Bay Area. In the asset securitization business, the Company issued the first asset-backed note (ABN) in the general aviation sector with a total size of RMB320 million, actively helping the issuer revitalize idle assets.

Green finance business

The Company turned the new development philosophy into practice and deepened its professional service ability in green finance. Green loans expanded substantially in size with a growing influence of the green finance brand. The Innovative Financing Project for Air Pollution Control in the Beijing-Tianjin-Hebei Region in the charge of the World Bank was implemented in a deep-going manner. The China Renewable Energy and Battery Energy Storage Promotion Project officially entered into force. RMB10 billion of green financial bonds were successfully issued and the proceeds were utilized in full. The bond life management was enhanced. Special resources were allocated for green finance, guiding bank-wide stronger support for green industries. Research programs were conducted on green energy, carbon finance and green buildings as part of the persistent effort to innovate green finance products and services. The working mechanism for green finance was further improved to ensure higher standardization of management. As at the end of the reporting period, the balance of green loans of the Company increased by 51.10% year-on-year to RMB180.043 billion.

Trade finance

Taking development opportunities in the new development pattern featuring "dual circulation", which takes the domestic market as the mainstay while letting domestic and foreign markets boost each other, the Company endeavored to promote integrated development of "domestic and overseas, online and offline, domestic and foreign trade as well as onshore and offshore" trade finance activities. At the end of the reporting period, the Company recorded RMB561.551 billion in balance of trade finance assets on and off the balance sheet. The balance of domestic L/Cs and other capital-light business assets stood at RMB188.014 billion, an increase of 12.78% over the end of the previous year. The international settlements for the year reached USD142.855 billion, an increase of 5.72% year-on-year. The Company expanded the correspondent banking network serving the Belt and Road Initiative, with 637 or 52.82% of its correspondent banks located along the Belt and Road.

4.10.2 Retail finance

The Company comprehensively strengthened the development strategy for retail finance, promoted the development of the wealth management and private banking system in an orderly manner, accelerated transformation of development model, strengthened innovation-driven development and pursued higher quality and efficiency, provided services for consumers and created wealth for the society.

The retail system and mechanism were strengthened and the retail transformation was further advanced. The retail support mechanism was gradually improved in terms of resource allocation, staffing, performance assessment and professional training, guiding branches to deepen their retail transformation. As of the end of the reporting period, more than 50% of the Bank's outlets had undertaken retail transformation. A retail business logic evaluation system was created to guide branches toward faster transformation and higher-quality development. The Company continued to deepen the coordination mechanism for the retail segment and implemented five action plans for "joint marketing, joint risk control, joint training, joint potential tapping and joint activation".

Individual customers

During the reporting period, the Company remained customer-centric, enriched product offerings, expanded online service scenarios, strengthened customer management by tier, group and level and continued to build a tiered customer service system with coordinated online and offline operations.

The customer groups kept expanding. As at the end of the reporting period, the Company had 29,613,800 personal customers (excluding credit cards), up 10.08% over the end of last year, 465,700 VIP customers[2], up 3.80% over the end of last year, 254,000 wealth management customers[3], up 5.2% over the end of last year, 22,400 high-net-worth individual (HNWI) customers[4], up 8.89% over the end of last year, and 11,400 private banking customers[5], up 15.52% over the end of last year.

Key customer groups grew fast. As at the end of the reporting period, the Company had 647,700 consumer credit customers, up 25.82% over the end of last year, 438,300 acquiring customers, up 19.75% over the end of last year, 4,743,800 elderly customers[6], up 17.72% over the end of last year, and 2,440,100 ETC customers, up 7.46% over the end of last year.

Personal deposits

The Company adapted itself to market changes and regulatory policy developments in a proactive manner. The logic for personal deposit management and organization was reshaped on a customer-centric basis, putting focus on customer management, product innovation and organizational upgrading. Personal deposits were taken from a variety of sources and expanded steadily in size.

To boost the growth in personal deposits, the aggregate size of personal financial assets was expanded. The Company established a long-term mode with deposit growth driven by personal financial assets by enhancing the sales capability, improving asset allocation and expanding the high-value customer groups. The Company strengthened the customer-centered deposit management, adopted a well-designed marketing strategy through precise identification of customer needs based on data analysis, launched well-targeted products and services, promoted the "Deposit Plus" portfolio strategy, and effectively expanded the sources of deposit through effective customer management. The omni-channel, multi-category deposit product system divided between customer groups was improved. The "Nian Nian Le" and "Zhou Zhou Ying" online deposits were launched, and the large-denomination certificate of deposit, whitelist and new customer features went live. The "Monday Shopping", "Buy in Five Seconds", "Investment Hotspots" and "Saving Ideal Life Festival" personal deposit brands were introduced. The product and service contents were enriched to support a multi-term, multi-channel mix of personal deposits. As at the end of the reporting period, the balance of personal deposits of the Company stood at RMB350.867 billion, up 12.22% from the end of the previous year.

Personal loans

Staying true to the original aspirations for banking services, the Company strengthened the support for consumer-side supply. With technology-driven innovation in financial services, the Company sped up the smart, digital and agile transformation of personal loan products. It took the opportunity of post-pandemic recovery of consumption to help upgrade consumption and fulfill its corporate social responsibility.

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2 VIP customers mean individuals with an average daily balance of personal financial assets under management of RMB200,000 to RMB600,000 in a month.

3 Wealth management customers mean individuals with an average daily balance of personal financial assets under management of RMB600,000 to RMB3 million in a month.

4 HNWI customers mean individuals with an average daily balance of personal financial assets under management of RMB3 million to RMB6 million in a month.

5 Private banking customers mean individuals with an average daily balance of personal financial assets under management of over RMB6 million in a month.

6 Elderly customers mean individuals aged above 55.

The new integrated service brand "Hua Xia Easy Loan" was launched, covering five product series, namely "Hua Xia e Loan", "Easy Elite Loan", "Easy Home Loan", "Easy Auto Loan" and "Easy Student Loan", and encompassing the financing needs of the general public. Housing loan business grew compliantly and steadily. The housing loan business adhered to the doctrine that the "houses are for living in, not for speculation" and the "city-specific policy" strategy, focused on supporting the first-home buyers and home upgraders, adopted regional, differentiated and fine-grained housing credit policies and ensured complying, stable growth of personal housing loans. In addition, the Company actively shifted outstanding personal loans to the new pricing benchmark LPR, with the conversion ratio reaching 99.53% at the end of the reporting period. The online credit structure continued to improve. Pursuant to the new regulation on internet loans, the personal online credit business was carried out in terms of institutionalization, policy making, platform cooperation, project management and data governance. The online credit business expanded fast, with the product management system gradually improved and the online credit structure continuously optimized to ensure stable asset quality. Innovation-driven development of consumer credit was strengthened. With a focus on technological experience and smart services, the Company accelerated the upgrading of products, completed development of the online application function for the Easy Elite Loan product and launched the mini-apps for online customer acquisition. Taking into account the characteristics of regional demand, the Hua Xia e Loan whitelist function was used to create a flexible combination of consumer loan products and effectively use them to develop personal consumption loan products with regional characteristics. At the end of the reporting period, the Company's balance of personal loans (excluding credit cards) was RMB424.251 billion, up 27.07% over the end of the previous year.

Wealth management and private banking

Guided by the retail finance transformation strategy, the Company accelerated the construction of wealth management and private banking systems and mechanisms to enable real operation of the Wealth Management and Private Banking Department. The wealth management and private banking service brand was fostered by setting up a professional service team, stepping up innovation in products, enhancing the capability of wealth management service, exerting every effort to build the wealth management and private banking system and starting to set up a customer value added service system. As of the end of the reporting period, nine key branches of the Company established the tier-one wealth management and private banking departments, showing significantly stronger capability of wealth management services.

The product innovation effort was intensified to keep enriching the product offerings. Facing new opportunities and challenges, the Company continued with the net asset value (NAV)-based transformation of products, took the opportunity of establishing the Wealth Management and Private Banking Department to expand the supply channels for wealth management products and extended financial product investment to broader areas. The Company remained oriented to customer demand, provided customers with products well selected across the market in cooperation with selected external partners, including fund, securities, trust and insurance institutions, thereby meeting the diverse investment demand of customers. The Company actively promoted the inception of private banking products, sold PE manager products, real estate equity trust products and perpetual debt trust products, keeping enriching the financial product offerings.

The marketing capacity building was intensified to build a competent sales team with stronger professional skills and improved ability to organize marketing. The first customized fund and the first wealth management product of the wealth management subsidiary made smooth progress, the proceeds from both of which reached a record high with a new market image. The family trust business continued to grow, providing customers with comprehensive management services ranging from wealth investment and value increase to wealth safeguarding and planning. An elite training system for wealth managers was created, with first session of training completed. As at the end of the reporting period, the trust product sales sell by the Company as an agent grew by 74.26% over the end of the previous year, and the funds distributed by the Company as an agent increased by 184.56% over the end of the previous year. During the reporting period, the Bank recorded a net fee and commission income of RMB1.673 billion from wealth management, down 2.05% from the previous year.

The capability of investment research and advisory services was enhanced in support of the wealth management and private banking development. A professional investment research and advisory service team was established to provide guidance on asset allocation strategy based on a scientific decision making mechanism. An investment research and reporting system was created to unleash the professional role of investment research and advisory services in supporting customers' asset allocation and assistance in marketing of key products.

The Company insisted on FinTech-driven development to empower the wealth management and private banking system. The wealth management and private banking system was developed at a faster pace to integrate business systems and enhancing the capability of customer development, management and service based on system support and technological empowerment. The big data-based analysis technology and AI models were used for intelligent assessment and accurate profiling of customers. Professional strategy models were used to enable smarter asset allocation, help customers optimize the allocation of personal financial assets and provide customers with more intelligent, professional and targeted financial services.

During the reporting period, the Company recorded RMB862.425 billion in total financial assets of personal customers, up 10.45% over the end of the previous year. VIP customers had RMB163.749 billion in total financial assets, up 4.46% over the end of the previous year. Wealth management customers had RMB296.782 billion in total financial assets, up 5.03% over the end of the previous year. HNWI customers had RMB91.541 billion in total financial assets, up 9.46%% over the end of the previous year. Private banking customers had RMB191.187 billion in total financial assets, up 18.16% over the end of the previous year.

Debit cards and acquiring and payment services

The innovation in debit card products was strengthened to better serve customers. The bank card products were further innovated based on customer's payment scenarios. The Company launched the third-generation social security cards, promoted the customized card numbers and put online such new functions as ETC debit updates, combination of credit card application and electronic debit card processing as well as multiple subscription channels for Face Scan Pay service. A series of online marketing events were carried out to promote customer lifecycle service. In response to the COVID-19 outbreak, service modes for different customer groups were adjusted. Livestreaming and long-distance instruction were adopted to familiarize the elderly with mobile banking features. Hua Xia cardholders in Hubei Province and some other regions were exempt from ATM inter-bank cash withdrawal fees, helping customers combat the pandemic. During the reporting period, the Company issued 2,827,600 debit cards (including plastic cards and electronic cards).

New modes of acquiring and payment services were created to help merchants resume business. The Company continued to build the Hua Xia cashier brand, provided standard online-offline integrated payment services for merchants in retailers, property management service providers and restaurants and launched the Hua Xia E Cashier products. Going beyond the "traditional acquiring" model, innovative acquiring and payment settlement methods were introduced to pursue scenario-based service patterns in such fields as education/training, wholesale market, tourism, cigarette sales and port logistics. The facial recognition and OCR technologies were used to comprehensively improve the merchant service features. The ability to serve merchants has been enhanced significantly.

Credit card

The Company enhanced the quality and efficiency of risk management across the board, sped up digital operation and product innovation, continuously enhanced customer experience and deepened the diverse marketing to activate existing customers, thereby fulfilling the corporate social responsibility and achieving solid and sustainable business development.

The digital operation was further deepened with diversified consumer scenarios. The Company actively explored digital innovation in products, launching one of the first UnionPay boundless digital credit cards. It partnered with China UnionPay in issuing the Quick Pass Payment credit card that carries forward the striving spirit of the era. It carried out marketing cooperation with a number of top-traffic platforms in high-frequency consumer scenarios, including restaurants, hotels, transportation, tourism, shopping and entertainment, thus accelerating the shaping of a consumer scenario mix.

Dedicated to FinTech innovation, the precision marketing capability was enhanced using the data modeling and AI technologies. A customer lifecycle management system was established to provide customer-level differentiated services and continuously boost the capability of lean operations driven by digital technology. The version iteration of the "Splendid Life" APP was accelerated to optimize customer service features comprehensively, speed up the integration of financial services and consumer scenarios and enhance user experience. As of the end of the reporting period, 6,814,200 users were registered for the credit card "Splendid Life" APP, up 30.07% from the end of the previous year.

The Company maintained a prudent and stable risk appetite, tackled the COVID-19 impact effectively in a proactive manner, continued to improve the risk acceptance strategy, strengthened access control over high-risk customer groups and structurally rationalized the customer groups. The Company effectively implemented regulatory requirements and ensured compliance of the credit card business as consumption-oriented service. The risk methodologies were continuously improved. The Company used new technologies and methods and accelerated data importing and process optimization in an ongoing effort to develop a 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 control.

In fulfilling its corporate social responsibility, the Company issued the Health Workers' Hua Xia Credit Card to provide repayment deferral for those affected by the pandemic, cash advance fee reduction and online free diagnosis services.

As at the end of the reporting period, the Company had issued a cumulative number of 27,015,100 credit cards, an increase of 10.90% over the end of the previous year, and recorded RMB169.283 billion balance of credit card loans, a growth of 0.61% over the end of the previous year. The number of effective credit cards was 18,661,900, up 4.78% over the end of the previous year. The number of valid credit card holders[7] was 15,950,900, up 4.29% year-on-year. During the reporting period, value of credit card-based transactions totaled RMB1,050,486 million, representing a decrease of 3.09% year-on-year. The Company realized RMB16.194 billion income from credit card business, a growth of 1.55% over the previous year.

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

Transformation of retail business towards digital operation

The Company promoted the agile organization management, deepened the technology embedding mechanism and used technology to empower retail business development. It realized agile management featuring "clear facts, accurate data and quick response" by setting up a comprehensive statistical analysis system for retail indicators based on coordination between business segments, tiering of customers, collaboration between service channels and connection between Head Office and branches. The development mechanism for integration and embedding of retail FinTech was deepened. A work team featuring business-technology integration was built, and mechanisms for iterative operation of retail products, customer experience, technological innovation and fault tolerance sandbox were created to further enhance the FinTech support for business development.

A digital customer relationship management platform was built to enhance the marketing service capability. The Company started to build an enterprise-level digital customer management platform encompassing all customers, products, channels, scenarios and services and promoted "customer sharing, product integration, process connectivity, data integration and look-through assessment" across business lines, in a bid to eventually enable integration operation of G, B and C ends.

A digital ecosphere was built to pursue online, scenario-based and intelligent retail finance and promote the launch of 23 offline-to-online migration projects, including differentiated pricing. The Company entered into headquarters-level cooperation with top institutions, created "G-B-C" link in coordination with digital industrial internet, promoted online bulk customer onboarding and enhancement of the existing customer base in the retail segment, built consumer scenarios and growing the financial assets of retail customers by expanding MAUs. The Company sought to integrate Hua Xia e Community into mobile banking to create smart life scenarios in mobile banking. During the COVID-19 pandemic, the fresh food, health care and education segments were developed in partnership with WeDoctor and Dmall platforms to increase the activity of mobile banking users. Contactless marketing was promoted to establish the "Cloud Studio" data-based marketing service window.

4.10.3 Financial market business

During the reporting period, the Company actively served the real economy while ensuring compliance and pursued coordinated advancement of financial markets, assets management and asset custody, and other business lines. The business system was continuously improved, operation management refined and ESG investment philosophy imported. Explorations were made in leveraging FinTech to enhance the capability of investment research, trading and investment management and ultimately increase the profitability of financial markets business. Taking the opportunity of establishing the wealth management subsidiary, interbank channel development was intensified to establish a customer base for interbank cooperation, improve the open market business qualifications, enhance the customer acquiring and market influence and sharpen the edge in wealth management and custody services among joint-stock commercial banks. The Company made solid moves to implement the diversification strategy, striving to become an "integrator of financial services" and boost the ability to serve the real economy and customers through diversification.

Financial market business

In response to the changes in external macro environment, including the global COVID-19 spreads and economic de-globalization, and domestic market changes including the new development pattern that takes the domestic market as the mainstay while letting domestic and foreign markets boost each other, the Company actively strengthened research and judgment on domestic and foreign macro-economic trends. We responded actively to bigger volatility of interest rate and exchange rate in the financial markets, adjusted investment and trading strategies promptly in line with market developments, managed risks well and kept improving the investment management capabilities. The bond duration and position structure were adjusted as appropriate for market conditions. While scaling up stably overall, the bond investment and trading became increasingly profitable. The Company actively fulfilled the responsibilities due to dealers in the interbank market and the foreign exchange market, prudently conducted the proprietary and agency fund transactions, strengthened foreign exchange risk control, effectively prevented trading risks and increased the profit margin of trading. The Company deepened its participation in the financial market by currency trading, bond trading, foreign exchange trading and commodity trading, becoming increasingly influential in the market. During the reporting period, the Company conducted 49,733 unsecured inter-bank lending and pledge-style repurchase transactions totaling RMB69,103.259 billion, down 1.41% from the previous year due to the impact of the COVID-19 pandemic. The RMB and foreign-currency treasury transactions (full scale) totaled RMB75,053.536 billion, down 4.91% from the previous year. Specifically, the Company's derivatives trading volume reached RMB4,340.51 billion cumulatively. In 2020, the Company was awarded the "Core Institutional Investor", "Excellent Money Market Institutional Investor", "Excellent Issuer of Interbank Certificates of Deposit" and "Trading Mechanism Innovation Award – X-Repo" and "Top 100 Settlement Companies – Excellent Dealers"[8].

8 According to the 2020 annual assessment results of China Central Depository & Clearing Co., Ltd.

The Second China Asset Management Industry ESG Investment Summit Forum was held.

Asset management services

Huaxia Wealth Management Co., Ltd. was formally opened during the reporting period. It promoted NAV-based transformation of wealth management products and carried out the rectification and disposal work for existing business in an orderly manner in accordance with regulatory requirements. It strengthened product R&D innovation and investment capacity building, boosted FinTech support and optimized customer mix in pursuit of the steady development of the Company's assets management business. During the reporting period, a total of 1,963 wealth management products were issued with total sales of RMB2,249.131 billion, up 7.10% over the previous year. At the end of the reporting period, there were 677 existing wealth management products with a balance of RMB588.508 billion, down 10.07% from the end of the previous year. Among the existing wealth management products of the Company, the balance of personal wealth management products fell by 2.09% over the end of the previous year, and the balance of corporate wealth management products rose by 17.00% over the end of the previous year. The Company realized RMB2.81 billion of fee-based income from wealth management, a growth of 37.54% over the end of the previous year.

Asset custody services

Collaborative marketing was deepened based on internal and external resources for the financial market business line. The custody services were strengthened and the marketing of key products was carried out with vigor. The service efficiency and quality were enhanced by optimizing the system functions and operations service. The ability to prevent and control risks was strengthened by carrying out continuous institutionalization, streamlining management processes and strengthening compliance training. During the reporting period, the Company endeavored to strengthen weaker areas of business, optimized the mix of products and made major breakthroughs in securities investment funds and insurance fund custody. The securities investment funds under custody totaled RMB155.037 billion, up 40.64% from the end of the previous year. The insurance funds under custody totaled RMB95.682 billion, up 83.57% from the end of the previous year. During the reporting period, the Company had 9,925 products under custody, up 37.98% year-on-year, 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 RMB5,201.475 billion, up 39.12% from the end of the previous year. The total fee-based business income from custody amounted to RMB1.191 billion accumulatively, up 9.78% year on year.

4.10.4 FinTech

During the reporting period, the Company adhered to the basic tone of seeking progress while maintaining stability, took "making the Bank stronger with technology" as strategic guidance, deepened the FinTech development results and kick-started the digital transformation process. It created an enterprise-level agile organization system, reengineered the underlying core system, upgraded service channels and deployed industrial digital finance. The digital financial services were leveraged to help enterprises resume business, support the real economy development and overcome difficulties together with customers and sought to break new ground amid seismic changes.

The Company endeavored to strengthen the top-level drive for digital transformation and chart the course. The Company got integrated into the new development pattern of the 14th Five-Year Plan, adhered to the innovation-driven development philosophy and strived for digital transformation. It was one of the first member organizations of the Digital Transformation Partnership Action Plan of the National Development and Reform Commission. The Company set up the Digital Transformation Promotion Office to coordinate the effort on key work, including planning and governance of bank-wide digital transformation, digital business innovation and data governance and application. The Company started the planning for digital technology transformation, designed the enterprise-level agile organization system, built a supporting digital business innovation system, comprehensively coordinated the basic work on data governance, consolidated the foundation of digital transformation, made new progress and broker new ground.

The Company continued to increase FinTech investment and upgraded the "accelerator" for innovation and empowerment. More technological resources were inputted to expand agile development achievements. The underlying foundation of systems was fortified to bolster key customer services, deepen the key FinTech projects and empower faster transformation of all business segments. During the reporting period, the IT investment reached RMB2.92 billion, representing a year-on-year increase of 9.94%. The number of development and launch requirements doubled, and the project implementation cycle was greatly shortened year-on-year. The enterprise-level architecture was reengineered, a new-generation cloud native application development platform was developed in-house, and important systems were transformed for active-active deployment. The whole-process and lifecycle management project for financial transactions was carried out and the 111 systems and 11,070 transactions were transformed. The core system restructuring was completed in support of flexible expansion, with the performance expanded by dozens of times. The cloud platform for branch-specific businesses was continuously improved to develop FinTech product supermarket, a FinTech product supermarket was built, with support provided for the launch of over 10 business scenarios and 63 branch-specific business items. The Company served the public wellbeing in the capital, participated actively in the issuance of third-generation social security card and cooperated with the Beijing Municipal Medical Insurance Bureau in developing a long-term care insurance system and became the commercial bank that acted as the sole agent for it. During the COVID-19 pandemic, the online appointment, intelligent customer service and remote interaction provided crucial support. During the reporting period, the Company's intelligent customer service received 3,359,400 calls, representing a service level of over 78% and an accuracy ratio of close to 88%.

The internet finance's ability to create value was enhanced under multiple dimensions to cement its "bridgehead" position for online services. The internet finance services remained oriented to building a value center and helped all business lines move onto the "fast lane" by pursuing proactive integration, facing challenges head on, eliminating barriers and accelerating innovation. Under the principle of being "fast, user friendly, interesting, preferential and fun", the Company improved the personal mobile banking APP service at an iterative speed of once every 1 to 2 weeks. 153 product features were enriched, 78 experience design results were formed and more than 60 regular online operations and theme events were carried out, which greatly enhanced the customer experience. The corporate mobile banking services were launched, with 273 features optimized and the "Business Circle" service upgraded to cover 17 million enterprises, helping MSEs to conveniently manage business partners on the mobile terminals, broaden the business circle and prevent business risks. The "Qiyue Treasury Manager" cash management platform was continuously optimized to innovate business modes and refine industry solutions, helping the court to implement the bank-government and public wellbeing policies such as "Case-specific Account" and fund earmarked for migrant workers' payroll services, migrant workers' wages, effectively serving the supply-side reform and the coordinated development of Beijing-Tianjin-Hebei integration. During the reporting period, personal mobile banking was fully integrated with the direct banking APP, with a net increase of 6,910,200 customers and a cumulative number of 20,520,400 customers on a consolidated basis. The balance of customers increased by 50.77% compared with the end of last year, and the monthly active users reached 2,688,600, an increase of 64.10% compared with the end of last year. Since the corporate mobile banking was officially launched in June 2020, the number of customers has reached 105,700. The "Qiyue Treasury Manager" cash management platform provided services for 526 corporate customers from more than ten industries such as transportation, wholesale, retail and foreign trade and assisted customers in managing RMB32.611 billion of funds. Main electronic channels reached a substitution ratio of 98.21%.

The Company theme of financially serving the real economy through front-loading of industrial digital finance. In line with the national strategic plan for "developing digital economy, developing digital industry and transforming traditional industries with digital technologies", the Bank built the competitive advantage of industrial digital finance, consolidated the theoretical foundation, innovated the business model and made breakthroughs in digital core technologies. Pilot projects with the five elements of "industry, digital, finance, technology and internet" were selected nationwide to provide digital and intelligent industrial financial service solutions for industries and ecosphere scenarios, helping enterprises pursue digital transformation and upgrading with enterprise-specific policies and classified empowerment. An industrial digital finance platform integrating digitalization, intelligence, ecosphere and openness was set up to support the upgrading of supply chain finance services.

Solid progress was made in data governance to cement the stabilizer of Digital Hua Xia. Under the "comprehensive review, coordinated development", the Company improved the service systems for data governance, application and security management, improved the integration platform of big data foundation, set up professional analysis teams built a diversified data analysis environment and promoted development of the enterprise-level customer information. With a focus on data governance of source systems, the Company endeavored to enrich the data assets and systematically promote the comprehensive application of data in customer marketing, risk prevention and control and operation management to form a data driver. The Company enhanced the capability of in-house development and control of data models, built a big data laboratory, set up a data cloud mart for business themes and branches, and provided support for personalized data applications such as marketing, risk control and operation.

The line of defense for IT risk was fortified in response to the call for self-reliance and self-improvement in technology. Based on the homemade chip architecture, the Company built a full-stack proprietary cloud platform from the underlying chip to the application ecosystem, so as to enhance the control over technology. The IT infrastructure information management system went live. Based on the intelligent operation and maintenance platform, the Company carried out platform-based integration, migration and transformation of operation and maintenance tools and scenarios, including monitoring, automation, job scheduling, log retrieval and self-healing, created the first IT digital map in the industry and improved the intelligent level of system operation and maintenance. The Company proceeded with building the active-active cloud data center and improved the level of basic operation and business continuity, keeping the overall availability rate of important systems at 100%. According to the active-active architecture plan, the local active-active redundancy has been realized for 45 systems, including mobile phone, online banking and wealth management, in a bid to better meet the emergency access demand on the internet.

4.11 RISKS AND RISK MANAGEMENT

During the reporting period, the Company implemented the financial regulatory requirements with resolve amid the multi-faceted pressure, including the sudden COVID-19 pandemic and difficult economic recovery. The Company met challenges head on, effectively made the bank-wide risk management more comprehensive, systematic and effective and pursued healthy business development on all fronts towards its strategic objectives.

4.11.1 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.

4.11.1.1 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.

4.11.1.2 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.

4.11.1.3 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 RMB3,984.294 billion, including on-balance-sheet business exposure of RMB3,265.997 billion, 81.97% of the total, and off-balance-sheet business exposure of RMB718.297 billion, 18.03% of the total.

Large-value risk exposure management. The Company actively carried out the large risk exposure management in accordance with regulatory requirements and reported large risk exposures quarterly to regulatory authorities. 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 large-value risk exposure.

For further details of credit risk management of the Company, please refer to "4.12.1 Loan quality management" in this report.

4.11.2 Liquidity risk status

Liquidity risk is the risk that the Company may be potentially unable to meet the asset growth and debt obligations when due at a reasonable cost. To strengthen liquidity risk management, the Company has established a well-functioning liquidity risk governance framework, made clear the responsibilities of the Board of Directors, Board of Supervisors, senior management, and specialized management departments. It set up the Asset and Liability Management Committee in charge of liquidity risk management, put in place a fairly complete set of liquidity risk appetite, strategy, procedures, and measures, and introduced specific management responsibilities, flows and methods. It also set a system of day-to-day 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.

In 2020, the Central Bank stepped up counter-cyclical adjustment efforts, released long-term funds through reserve ratio requirement (RRR) reduction and lending facilities and mitigated market liquidity fluctuations through open market operations. The liquidity remained reasonably abundant in the banking system, with money market rates trending downwards in general. In adherence to a stable liquidity risk appetite, the Company broadened the sources of long-term funds, promoted the effective growth of deposits, improved the ability of stable funds to support business development, and improved the structure of assets and liabilities. It strengthened front-end management, maintained stringent limit management, improved the liquidity risk management measures for new institutions and new businesses, conducted real-world stress tests and refined management measures. The fund deployment management was strengthened during the COVID-19 epidemic to maintain a reasonable level of cash reserves and ensure payment security. During the reporting period, the Company's asset-liability structure and liquidity remained stable without any payment difficulties, default or deferred payment. All regulatory indicators relating to liquidity reached the prescribed standards. At the end of 2020, the Group's liquidity coverage ratio was 113.07% and net stable funding ratio was 105.10%, showing an improvement compared with the beginning of the year.

In the next step, the Company will strictly safeguard liquidity by strengthening the prevention and control of liquidity risks, adjusting the structure of assets and liabilities from time to time, improving management methods and enhancing the resilience to liquidity risks.

Liquidity coverage ratio

(Unit: RMB1 million)

Item	31 December 2020
Stock of high-quality liquid assets	381,930
Net cash outflows over a 30-day time period	287,009
Liquidity coverage ratio (%)	133.07

Note: The above are consolidated data calculated according to the **Notice of CBIRC on 2020 Offsite Regulatory Statements Preparation and Reporting** (Y.B.J.F. [2019] No. 47) 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 2020	30 September 2020
Available stable funding	1,874,945	1,791,303
Required stable funding	1,783,993	1,763,988
Net stable funding ratio (%)	105.10	101.55

Note: The above are consolidated data calculated according to the **Notice of CBIRC on 2020 Offsite Regulatory Statements Preparation and Reporting** (Y.B.J.F. [2019] No. 47) and the **Liquidity Risk Management Measures of Commercial Banks** (CBIRC No. 3 Decree in 2018).

4.11.3 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.

In 2020, the COVID-19 outbreak sent the global financial markets into the worst turmoil since the 2008 financial crisis in 2008. The US stock market halted trading many times after severe plunges. The settlement price of crude oil futures turned negative for the first time in history. Central bank generally adopted expansionary monetary policies to bolster the market. The domestic market saw a steep V-shaped bond yield curve, and the RMB/USD middle rate fell slightly amid fluctuations before trending upwards to kick-start an appreciation run. In view of the macro-economic and financial complexities, the Company kept improving the market risk management mechanism, and revised the market risk policies in terms of limit management, market risk identification and emergency planning to incorporate regulatory requirements and internal management enhancement requirements. A moderately conservative market risk appetite was created. The impact of significant events on market risks of relevant business was tracked and analyzed to give early warnings and timely alerts. The market risk management-related systems were continuously optimized to improve risk measurement and monitoring capabilities. Risk analysis was strengthened for key business areas and links, such as bonds, foreign exchange settlement and sales on behalf of customers and derivatives, with control measures formulated and implemented on an ongoing basis. 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.

4.11.3.1 Interest rate risk management

4.11.3.1.1 Trading book

The market risk limit management was enhanced. The Company set annual 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 to ensure all business activities remained within the market risk appetite and limit range.

The trading portfolio risk was effectively controlled. With regard to the bond business, based on its judgment on external situation, the Company took advantage of the interest rate declines in the bond market to conduct swing trade, flexibly adjusted the portfolio exposure and duration, controlled the overall VaR level and increased the return on bond trading within risk appetite and limit. In terms of interest rate derivatives, the Company dynamically adjusted the exposure structure of trading portfolios according to trends of market factors including interest rate swap price curves for various maturities and swap points, so as to effectively control the interest rate risk of interest rate swap, foreign exchange swap and currency swap.

Stress tests in the trading book were conducted actively. The Company conducted stress tests for many times to assess the COVID-19 impact on macro-economy and financial market, and provided strong support for market risk management through risk transmission analysis in stress tests. Overall, stress scenarios such as steep rise in interest rate and widening credit spread had less impact on the Bank's capital adequacy ratio, indicating controllable risks.

4.11.3.1.2 Banking book

In the first half of 2020, the Central Bank guided the interest rate downwards to partially offset the severe economic shock from the coronavirus pandemic. In the second half of 2020, the economic staged a continuous recovery and the monetary policy turned back to normal, with the market rates moving around the policy rates. Based on strengthened interest rate forecasts, the Company measured risks through sensitivity analysis of net interest income, sensitivity analysis of economic value, repricing gap and stress testing. It reasonably adjusted the maturity structure of assets and liabilities, actively managed interest rate risk and kept the impact of interest rate changes on the Company's earnings and value under control.

Management mechanisms were refined to enhance the risk control capacity. The Company improved the interest rate risk system, revised the management measures, implementing rules for risk identification and measurement, implementing rules for risk limits and emergency plan, further clarified responsibilities, refined split of duties, standardized model management and formed a multi-tier management system ranging from top-level design to implementation. The risk monitoring system was optimized by continuously monitoring and analyzing the risk profile at the levels of the Group, subsidiaries and overseas institutions with risk appetite and limit as the core and strengthening the risk appetite conformity and limit control. The internal control system was improved and the data governance were advanced with vigor to effectively boost the management capability.

The management toolkit was diversified to increase the granularity of measurement. Persistent efforts were made to improve the measurement function of the management system, optimize the configuration of customer behavior model parameters, increase the depth and breadth of system-based measurement and enhance the system support for risk management. The interest rate sensitivity analysis, stress testing and other measurement tools were employed to dynamic analyze the bank-wide interest rate risk and the stress level of limit indicators, providing quantitative support for fine-grained risk management.

The Company dynamically adjusted the management requirements and strengthened the quality and efficiency of strategy implementation. It strengthened the analysis of macro policies and interest rate trends to enhance expectations management formulated interest rate risk appetite and strategy reasonably. Business lines were coordinated to strengthen the maturity structure and volume-price management of key businesses, promote the structural optimization of branches and ensure the effectiveness of strategy implementation.

At the end of 2020, 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.

4.11.3.2 Exchange rate risk management

In the banking book, the Company reasonably matched assets and liabilities in RMB and foreign currencies and controlled the currency mismatches using exposure analysis, scenario analysis, stress testing and other measurement methods. In addition, it kept improving the position-closing management process for proprietary foreign exchange settlement and sales, promoted system building and strengthened the management of proprietary exposures of foreign exchange settlement and sales.

In the trading book, involved businesses mainly include foreign exchange settlement and sales on behalf of customers, foreign exchange trading on behalf of customers and proprietary foreign exchange trading. Exchange rate risk is actively managed with such risk limit indicators as exposure, stop-loss and market VaR, with the exchange rate risk controlled at an acceptable level. In terms of foreign exchange settlement and sales on behalf of customers, the Company continued to improve the management procedures, advanced system development, increased the frequency of position closing, strengthened the exposure management of foreign exchange settlement and sales and effectively controlled exchange rate risk. In terms of proprietary trading, the Company dynamically adjusted the direction and size of exposure based on in-depth research of exchange rate trends and closely monitored the exposure, sensitivity, stop-loss and other limits to effectively keep relevant risks under control.

In 2021, there is still a major uncertainty in the COVID-19 impact on economies of the world. Countries may see their monetary and fiscal policies going divergent and their interests rates and exchange rates becoming more volatile. The Company will actively respond to the complicated market environment, strengthen market situation analysis and forecast, maintain a moderately conservative market risk appetite and strengthen risk identification, strategy management, limit management, monitoring and early warning to ensure that the Bank's business is conducted within the market risk appetite and limit.

4.11.4 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. Discipline enforcement, 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, organized each major business line and subsidiary to streamline procedures and conduct self-assessment of operational risk, deepen the verification mechanism, emphasize ongoing improvements for problems found in self-assessment and control and prevented and controlled operational risk at the source. It strengthened the monitoring and follow-up evaluation of key risk indicators, optimized key risk indicators, 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 and enhanced the analysis and control of typical incidents. Second, the Company strengthened risk prevention and control in key fields, released timely risk information, issued risk alerts and risk cases and took remedial actions for problems found in inspection of key matters concerning operational risk. Third, the Company strengthened the development of operational risk culture, studied and implemented the professional ethics and code of conduct of the China Banking Association, organized training on management of operational risk and employee behaviors, conducted bank-wide self-assessment of employee behavior management and promoted the operational compliance employees throughout the Bank. Fourth, the Company kept abreast of the latest regulatory developments in operational risk capital measurement, actively promoted the implementation of the consulting project for the revised Standardized Approach to operational risk management and carried out data cleaning and measurement. Fifth, the Company optimized the operational risk management system, upgraded the functions of such as capital measurement, loss data acquisition and accounting data modules and improved the operator manual for systems. During the reporting period, the operational risk management system of the Company enjoyed stable operation, placing operational risk under control in the overall sense.

4.11.5 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 Company's failure to comply with laws, rules and standards.

The Company has established an effective compliance risk governance structure with well-defined duties of the Board of Directors, the Board of Supervisors, the Senior Management, specialized management departments and departments of the Head Office and branches. The Board of Directors is ultimately responsible for the compliance of the Bank's business activities. The Board of Supervisors supervises the performance of compliance management duties by the Board of Directors and the Senior Management. The Senior Management is responsible for effectively managing the compliance risk of the commercial bank. The Legal & Compliance Department of the Head Office is responsible for assisting the Senior Management in managing the bank-wide compliance risk. The legal & compliance departments of branches are responsible for assisting the branch management in managing branch-wide compliance risk. Other departments of the Head Office and branches are responsible for managing compliance risk of the corresponding business line.

During the reporting period, the Company operated in accordance with laws and regulations to ensure full regulatory compliance. It carried out the "Look Back" campaign on market irregularities crackdown. It conducted mobilization and deployment meetings, formulated and issued work plans, strengthened the responsibility system for principal officers, carried out the self-examination and self-correction campaign across the board, focused on key areas, key businesses, key industries and key posts, highlighted the problem- and risk-oriented approach, discovered and eliminated all potential risks in time, strengthened rectification and enforced accountability strictly and ensure effective "look-back" on market irregularities crackdown. The Company implemented Beijing SASAC's self-examination and self-correction campaign against major risks, summarized its achievements in internal control during the 13th Five-Year Plan period, organized bank-wide self-examination and self-correction of major risks, plugged management loopholes and improved the internal control management system. Adhering to the principle of "giving priority to internal control, putting policy first", the *List of Proposed Business Policies of the Head Office of Hua Xia Bank in 2020* was formulated to enhance the management of business policy proposals. The Company conducted online inspection of business policies to boost the compliance and effectiveness of business policies. The business policies associated with the *Civil Code* were self-examined and updated to effectively implement the national laws and regulations and ensure that the compliance of business activity. The *Code of Professional Conduct of Hua Xia Bank* was formulated to bring discipline to employee conduct. The Company strengthened swindle risk prevention and control, defined the scope of the "Four Focus Points" of swindle prevention and control and conducted swindle risk screening. The administrative measures for swindles involving criminal liability were issued to regulate the bank-wide work on swindle reporting and handling. The compliance inspection policies were established and improved. The *Administrative Measures of Hua Xia Bank for Onsite Examination of Legal Compliance* was formulated, the *Administrative Measures of Hua Xia Bank for Overall Planning for Specialized Inspections* was revised to standardize the management of compliance inspection and specialized inspection. Compliance examination was conducted over risk areas of key branches and key businesses, unleashing the supervisory and inspection role of the "second line of defense". The Company Intensified the supervision of rectification, formulated evaluation standards for rectification of repeat non-compliances and internal and external inspection findings and carried out ongoing crackdown on repeat violations. The money laundering risk management framework was improved. The self-assessment of institutional money laundering risk was conducted. The risk assessment mechanism and model for products and customers were refined. The prevention of money laundering risk in key areas was strengthened. The anti-money laundering performance management of subsidiaries was enhanced. The money laundering crackdown was carried out on an ongoing basis, with the quality of basic data enhanced effectively. The compliance culture development was further strengthened. Based on the legal compliance lecture series, the compliance education and training were carried out in a multi-level, multi-dimensional fashion and in various forms such as on-site class, micro-class, livestreaming and video, thereby reminding all employees to hold discipline in awe and respect and not to cross the line and effectively raise all employees' awareness of compliance.

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 management of the three lines of defense against IT risk. The 7*24 operation mechanism of the core systems was reengineered to further enhance the capability of around-the-clock transaction assurance. The Company strengthened the management of production data downloading and circulation, carried out password security reinforcement, security risk screening and risk analysis of key systems, strengthened security check and vulnerability scanning of internet systems, further improved the security protection system and further enhanced the cybersecurity defense capability. During the fight against COVID-19, remote development and testing were supported at controlled cybersecurity risks to ensure the implementation of emergency projects and launch of versions. 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 the brand value, adversely affecting normal operation and even affecting the market stability and social stability. During the reporting period, the Company attached great importance to reputational risk management, improved its reputational risk management system, considered risk assessment and business decision-making simultaneously, set reputational risk assessment indicators and fulfilled the responsibility for reputational risk management and handling. It also laid close attention to the fallout from COVID-19 and macroeconomic trends, continuously strengthened the monitoring of public opinions and enhanced analysis and judgment. The preventive reputation risk management was carried out by conducting risk screening and giving alerts to public relations alert, thereby enhancing the internal compliance management and services of the Company. A cooperative reputational risk handling mechanism was established to coordinate various parties to defuse reputational risk actively and effectively. The Company enhanced positive publicity, responded to public concerns in a timely manner and maintained proactive communication with stakeholders and the general public. It organized the training and inspection of reputation risk management, popularized the knowledge of reputational risk management, boosted the media literacy of employees, deepened the philosophy of reputational risk management throughout the Bank and actively established and maintained a good public image of the Company.

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 paid timely and due attention to the sovereign credit ratings of relevant countries and regions published by external rating agencies that factored in the commodity price movements and COVID-19 impact, kept a close eye on the risk of related countries and regions, by monitoring the assets exposed to country risk monthly, rating country risk and setting aside reserve quarterly, and reported country risk exposure and provision statements to regulatory authorities on a quarterly basis. The Company's country risk exposure was mainly to Hong Kong and the US. The business exposure accounted for a low proportion of the on-balance-sheet assets. So the country risk remained under control on the whole.

4.12 KEY CONCERNS IN OPERATION

4.12.1 Loan quality management

At the end of the reporting period, the Group recorded 3.43%, 1.80% and 1.96% in ratio of special mention loans, NPLs and overdue loans respectively, down 0.13, 0.03 and 0.24 percentage points from the end of the previous year. The Group's loans overdue for more than 90 days and NPLs accounted for 81.69% of total overdue loans, down 4.62 percentage points year-on-year.

In 2020, the Company took active and strong actions in response to the COVID-19 epidemic, resolutely implemented the national and regulatory policies and always put serving the real economy and forestalling and defusing financial risks at the heart of its work. It responded to changes in the external macro environment actively, met the prudential supervision requirements, further reformed the risk management system and mechanism and intensified the collection and disposal of non-performing loans, seeing its asset quality improving steadily and continuously.

First, the Company made quick and strong response to the COVID-19 impact. It actively supported the pandemic relief efforts to ensure the normal operation of credit business during the pandemic. Policy measures were introduced to provide credit support for troubled enterprises in various ways in an all-out effort to alleviate operating pressure in the real sector and tide over difficult times together. Meanwhile, risk monitoring and screening were stepped up to ensure adequate risk prevention and control in areas hit hard by the coronavirus.

Second, the risk management system and mechanism were further reformed to comprehensively reinforce the asset quality control mechanism. The authorization mechanism was improved to ensure stringent management of re-delegations, optimize the authorization assessment and adjust branch authorizations. The approval mechanism was reformed to make new breakthroughs in approval methods and efficiency. The approval management was deepened to effectively cover operations taking material risks. The risk manager mechanism was established to extend the risk manager pilot program progressively. The customer risk classification and was strengthened to boost the efficiency of targeted management. The reform of the special asset operation mechanism was advanced, with a plan formulated to set up the Special Asset Operation Department.

Third, the quality and efficiency of risk control were continuously enhanced through closed-loop management encompassing "policy making – monitoring and assessment – performance announcement". The annual risk appetite, risk management strategy and risk limits were formulated to incorporate the annual objectives of risk management. The risk monitoring and notification mechanism was refined and targeted measures were taken in a timely manner. The multi-tier risk assessment was improved to continuously strengthen the closed-loop management of risk monitoring and intervention.

Fourth, the adaptability of credit policies and effectiveness of their execution were enhanced to rationalize the credit structure. The structural adjustments were strengthened for credit, investment and financing businesses. Policy standards were further refined for key regions, industries and products to step up support for manufacturers and MSEs in key regions. The credit approval guidance was refined to build a multi-tier policy guidance system consisting of credit approval guidance and regional credit policy. The application of internal ratings in EVA assessment was deepened to boost the internal driver of customer mix optimization. New lending showed marked improvements in business structure, indicating remarkable results of structural adjustments.

Fifth, efforts were focused on preventing major risk exposures. The concentration risk management system was improved, with multi-dimensional and differentiated limits set in terms of industry, customer, geography and product to effectively guard against large exposures. The total quality control and central approval mechanism were well maintained for real estate and local government financing vehicles. Non-local credit management was strengthened to ensure stringent control over non-local credit access. The business policies and procedures were improved in a timely manner by further standardizing the online loan risk control process and revising the risk management policy comprehensively.

Sixth, the striving for smart risk control was advanced to continuously enhance the fine-grained management capacity. The Company made steady progress in the development and optimization of the big data-based risk identification and warning system, the cross-business line financing system for the same customer and other systems, leveraging on technologies to identify, prevent and control risks. A preliminary plan was formulated for developing a new-generation credit system. Taking the opportunity of Basel III implementation, the credit risk measurement model optimization entered the implementation stage.

Seventh, the Company exerted every effort to collect and dispose of non-performing assets, showing notable improvements in the quality and efficiency of disposal. The Company developed customer-specific disposal plans under the overall principle of putting efficiency first and making policy by classification. The cash recovery ratio of non-performing assets was increased substantially by innovating collection and disposal methods and expanding disposal channels, with the independent collection ability enhanced significantly. In the year, RMB47.444 billion of non-performing assets were recovered or disposed of, including RMB9.417 billion of cash collection, RMB5.1 billion of debt transfer, RMB29.939 billion of write-offs and RMB2.988 billion of repossessed assets.

In 2021, the Company will adhere to the principles of "clearing the old and controlling the new" and "tackling both the symptoms and the root causes", accelerate the disposal of existing risky assets, strengthened the management of performing assets and optimized the allocation of incremental assets, thus continuously improving asset quality. The long-term mechanism for risk management was further developed to systematically improve the risk management capability and pursue high-quality business development.

First, strong efforts will be made on orderly de-risking of existing assets and strict control over the deterioration of performing assets. On the one hand, the Company will endeavor to resolve existing risky assets, strengthen differentiated and specialized management on a coordinated basis, accelerate the reform of the special assets management mechanism and further improve the quality and efficiency of disposal. On the other hand, while keeping the existing assets in a performing status, the Company will refine the risk monitoring and early warning, establish differentiated eligibility criteria for credit renewal and intensify credit renewal management.

Second, new assets will be allocated reasonably and effectively. The capability of trend judgment and overall planning will be further improved. The new lending structure will be properly adjusted. The quality of new transactions and new customers will be enhanced. The credit, investment and financing policies will be further fine-grained to keep rationalizing the customer mix and business structure. The credit approval will be further specialized to establish specialized approval teams for the three strategic development areas.

Third, the long-term mechanism for risk governance will be further developed. The "risk-adjusted return" objective management mechanism will be refined to establish a more reasonable operation management system. The risk evaluation mechanism will be improved to intensify the application of evaluation results and assessment accountability. The credit approval mechanism will be further reformed to reinforce the risk manager mechanism and ensure a strict approval process. The professional risk management team will be continuously strengthened.

Fourth, a more professional and systematic system of risk policy transmission and constraint system will be established. The Company will improve the risk policy transmission system with four hierarchical four levels, namely "risk preference appetite, credit and investment/financing policies, credit approval guidelines and marketing guidelines" from top down. The risk operation monitoring and trend management will be strengthened, the early risk management, intervention and correction will be intensified to enhance the quality and efficiency of the entire risk management process. The working mechanism for joint risk prevention and control with "three lines of defense" will be improved to strengthen information sharing and coordinated efforts.

Fifth, the risk management of technological empowerment will be sped up. The Company will accelerate the development of key risk management systems, import external risk data and realize in-depth integration, analysis and application of internal and external data. The application of big data and intelligent risk control technologies in the credit process will be deepened to boost the intelligent level of risk management and efficiency of risk control. The proprietorship in core risk control technologies will be enhanced to ensure risk management effectively serves digital transformation and business transformation.

Sixth, the risk management sub-plans will be developed scientifically. The risk management sub-plans for the next five years will be formulated scientifically to define a clear and feasible roadmap of risk management. The philosophy of risk-return balance will be strengthened to enhance the risk governance capability. The capital plan, business objectives and development strategy will match with each other to build a risk management system featuring excellent asset quality, sound management capability and effective management methods. A risk culture of performing duties with due diligence will be fostered to embed the awareness of rule and compliance deeply into the day-to-day management process.

4.12.2 Net interest margin

During the reporting period, the Group's net interest margin was 2.59%, an increase of 8 bps from the previous year. In response to macro-economic changes, the Company strengthened its support for the real economy, persisted in structural adjustments, devoted itself to business transformation and strengthened forward-looking management of assets and liabilities. The interest margin showed stable overall performance.

During the reporting period, the Group steadily boosted net interest margin. First, the Company intensified structural adjustments and active management while keeping the main business landscape unchanged to stabilize the asset-side return. It implemented the requirements on ensuring the stability on six fronts and security in six areas, served the national strategies for regional development, focused on major national projects and the shift from old to new growth drivers, grasp the services of private small and micro enterprises, effectively served private enterprises and MSE businesses and optimized the asset allocation. With a focus on core customers, strategic customers and basic customers, the Company continued with the transformation of retail finance and the service system of "commercial banking + investment banking" service system and brand building and comprehensively enhanced value contribution. Second, across-the-board liability management was implemented effectively, with the pace of financing reasonably controlled and the liability costs effectively reduced. The Company seized the opportunity of structured deposit reduction policy, continuously improved the customer marketing service mechanism and promoted the effective growth of general deposits. 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. Third, the Company sped up digital transformation and digital capacity building, leveraging on FinTech to improve the efficiency of customer acquisition and operation.

At present, the macro environment remains highly uncertain. The return on assets is still under pressure as it is necessary to continuously reduce the financing costs of the real economy and take into account the deferral in interest rate cuts. The Company will maintain its strategic resolve, continuously strengthen macroeconomic, industry and policy research and seize the development opportunities brought about by the industrial structure upgrading, accelerated development of emerging industries and full release of consumer potential under the new development pattern of "dual circulation". It will firmly push for business transformation, optimize the business layout, continuously rationalize the regional, business, industry and customer mix of asset and liability allocations, comprehensively promote quality development and keep the net interest margin of the Company at a reasonable level.

4.12.3 Inclusive finance

The Company followed the policy guidance from the central government and regulatory authorities, heighten the political stance, further implemented the major strategy of "SME financial service provider" and endeavored to improve distinctive operating mechanisms, build a distinctive product system, develop FinTech-based innovative and distinctive financial services and improve distinctive risk control models, so that all at the Company worked together to advance the financial services for micro and small businesses.

4.12.3.1 Business developments

First, the Company continued to focus on MSE financial services while remaining oriented to serving national macro policies and serving the real economy. As at the end of the reporting period, the bank-wide outstanding loans to MSEs amounted to RMB456.412 billion, an increase of RMB60.024 billion or 15.14% compared with the beginning of the year. The number of borrowers was 309,384, representing an increase of 212,976 or 220.91% year-on-year. The balance of MSE loans within the scope of "two no-less-than" stood at RMB126.828 billion, up RMB26.688 billion or 26.65% over the end of the previous year, 14.61 percentage points above the growth rate of total domestic loans. 302,138 customers had outstanding loans with the Company, an increase of 212,003 over the end of the previous year. In addition, the Company implemented the regulatory requirement of "pushing for lower financing costs and encouraging interest concessions to micro and small businesses". The "two no-less-than" MSE loan rate was 4.98%, down 128 bps from the end of the previous year, and the NPL ratio was 1.49%, down 98 bps from the end of last year, both kept at a reasonable level. Regulatory authorities have approved the Company's continued entitlement to preferential policies, including VAT reduction for interest income from eligible MSE loans.

Second, the allocation of resources was strengthened to continuously improve the "Head Office – branches – sub-branches" MSE service system. The internal drivers of MSE financial services were strengthened by improving the MSE assessment policies, separate credit plans for MSEs 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 MSE Customer Department at 142 sub-branches. The two sub-branches in Shaoxing and Changzhou played a prominent demonstration role in serving small businesses. In addition, a reasonable number of MSE customer managers were appointed in line with the development of the MSE credit business volume.

Third, the Company strengthened support for business reopening of MSEs to better fulfill its political responsibility. The Company launched a variety of customized products, loan repayment deferral, 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. The Company won the "2020 Special Contribution Award for the COVID-19 Fight in China's Financial Industry" from China Financial Innovation Development Forum.

4.12.3.2 Innovation in products and FinTech

First, it launched the "Hu Xia Bank Inclusive Private Enterprise Express WeChat Official Account" to realize online application, online assessment, online contract signing, online drawdown, online repayment and automatic post-lending management of products such as Mortgage Link and POS Loan, so as to improve the intelligent service level and business handling efficiency.

Second, the "Logistics Loan" was launched to provide financing solutions for payment of logistics expenses and shipping fees and other business scenarios for upstream and downstream customers in the logistics industry chain (e.g. shippers, receivers, logistics firms and self-employed truck drivers), covering six major business modes such as branching and franchising.

Third, the "Sharing Loan" was rolled out to provide refinancing services for high-quality borrowers of outstanding mortgage loans, thus enhancing the stickiness of existing customers.

4.12.3.3 Risk prevention and control

The Company maintained the continuity of its risk control strategy, closely followed the national strategic plans and the requirements regarding the tough battle to forestall and defuse risks and strengthened the requirements on risk management and policy rigidity. Under the risk control strategy of "following the direction of industrial adjustments, mainstream economic trends and industry development", the Company valued the guide to classified management of industries and customers and established a differentiated authorization mechanism for aggregate control, cascaded classification and dynamic adjustments.

4.12.4 The 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. A coordination body was set up for the Three Regions development in line with the principle of concentrating resources in development of key regions. The Company formulated and issued the financial service plan, 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 from branches in the Three Regions amounted to RMB1,311.8 billion, up 14.73% year-on-year, with a balance of deposits of RMB1,150.402 billion, up 13.12% year-on-year. Their profit for the year totaled RMB20.193 billion, down 7.81% year-on-year.

Coordinated management was strengthened for the Beijing-Tianjin-Hebei Region to further improve the coordinated development mechanism. The Company actively served the construction of Beijing Municipal Administrative Center and Xiongan New Area, continuously stepped up financial support for the coordinated development of the Beijing-Tianjin-Hebei Region and strengthened the business collaboration and coordination of local branches in key fields such as transportation integration, infrastructure construction, environmental protection and industrial transfer and upgrading, so that they could jointly provide financial services for coordinated development of the Beijing-Tianjin-Hebei Region. At the end of the reporting period, the Company's outstanding loans to the Beijing-Tianjin-Hebei Region amounted to RMB537.563 billion, up 2.65% year-on-year, and the balance of deposits was RMB379.986 billion, up 10.74% year-on-year. The regional profit for the year totaled RMB7.42 billion, down 10.07% year-on-year.

In the Yangtze River Delta region, systems and mechanisms were strengthened to promote integrated and coordinated development across the board. With the goal of "leading Hua Xia with breakthroughs and strong rise" and under the principle of "ability first, elite first, team first, collaboration first and business first", the Company kept promoting the integrated development of branches in the Yangtze River Delta in terms of organization promotion, business promotion, innovative development and supporting policies. The Company established a work facilitation mechanism, set up working groups and created a coordination mechanism for working groups. It took the opportunity of economic reopening and lost no time in competing for projects and securing preferential policies and strengthened organizational facilitation. Attaching great importance to the ability to transform traditional industries with digital technologies, the Company enhanced the digitalization capacity of branches in the Yangtze River Delta and kicked off a pilot program on industrial digital finance. At the end of the reporting period, the Company's outstanding loans to the Yangtze River Delta amounted to RMB580.053 billion, up 23.87% year-on-year, with a balance of deposits of RMB533.652 billion, up 12.09% year-on-year. The regional profit for the year totaled RMB9.6 billion, down 6.83% year-on-year.

In the Guangdong-Hong Kong-Macao Greater Bay Area, the Company accelerated the development of a cross-border financial service system for local branches, giving a boost to the business development in the region. A special product system in the Greater Bay Area was built with vigor by creating an exclusive product plan for wealth in Guangdong, Hong Kong and Macao and launching the Hong Kong and Macao Home Loan to meet the

Party Committee Secretary and Chairman Li Minji presided over the meeting for promoting the integrated development of branches in the Yangtze River Delta.

diverse local demand for financial services. With a focus on the "new infrastructure, new urbanization initiatives and major projects" in the Greater Bay Area, the Company sped up the city renewal loan and actively served the infrastructure and public wellbeing projects in the region. Hong Kong Branch successfully issued the first cross-border RMB interbank loan and the first cross-border RMB certificate of deposit. At the end of the reporting period, the Company's outstanding loans to the Guangdong-Hong Kong-Macau Greater Bay Area amounted to RMB194.184 billion, up 28.19% year-on-year, with a balance of deposits of RMB236.764 billion, up 19.72% year-on-year. The regional profit for the year totaled RMB3.173 billion, down 5.23% year-on-year.

4.13 OUTLOOK FOR DEVELOPMENT IN 2021

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

The global economy will recover slowly in 2021 with many uncertainties. China has started a new journey to fully build a modern socialist China in pursuit of the second centenary goal, facing an increasingly complicated environment of development. At the heart of the modern financial services, the banking industry sees development and challenges coexisting amid profound macro changes.

On the one hand, the banking industry faces challenges. The global recovery may be a long, bumpy road ahead with national or regional disparities in paces. It is difficult to meet the shortage in global outputs. The global economy will still feel the impact of the COVID-19 pandemic in the first half of 2021. Many countries are tightening their lockdown measures, putting the industry chains and supply chains at a growing risk of disruption. The world's major economies introduced an expansionary monetary policy in early days of the pandemic, pushing the debt level to a record high. The global liquidity abnormalities will send turbulence to financial markets. The accommodative monetary policy will be phased out in the second half of the year in the light of economic recovery. Liquidity may face a marginal tightening trend. The risks that have built up will erupt, corporates will show divergent credit standings and the inclusive MSE loans put on forbearance may create a risk exposure, becoming a drag on the asset quality of commercial banks. Meanwhile, the banking industry is expected to provide stronger support for the real economy to ensure policy continuity, making capital replenishments a bigger pressure on banks.

On the other hand, the banking sector has opportunities. The world economy will gradually shrug off the fallout from COVID-19 and return to a relatively normal status. China will still boast the best performance of the world's major economies, expected to show marked pick-up in growth and improvements in macro indicators. The US-China trade conflict is likely to get subdued in the near term after the Biden administration took office. As the 14th Five-Year Plan gets implemented, China is stepping up efforts to build a new development pattern featuring "dual circulation", which takes the domestic market as the mainstay while letting domestic and foreign markets boost each other. A series of economic policies will drive China into a new stage of economic development. The fiscal policy will, with a focus on better quality, efficiency and sustainability, keep the public spending moderately strong to enhance the fiscal support for major strategic tasks of the State. The monetary policy will be more flexible, targeted, reasonable and appropriate to keep the increases in money supply and aggregate financing generally in step with economic growth in nominal terms and keep the macro leverage ratio basically stable. Industrial policies will pursue innovation-driven development, upgrade the industrial base, modernize industrial chains, develop digital industry and transform traditional industries with digital technologies, promote the development of green industries and accelerate modernization of the industrial system. The regional development policies will focus on optimizing regional economic structures, promoting coordinated regional development and creating regional economic structures and a territorial space system that will sustain high-quality development. Meanwhile, the rural revitalization strategy will be implemented across the board. A long-term mechanism for consolidating and expanding the achievements in poverty alleviation will be established and improved. The strategy of new, people-centered urbanization will be further implemented to boost the quality of urbanization. Driven by such preferential policies, China's banking industry will usher in new opportunities and additional room for long-term development.

The Company will fully understand the opportunities and challenges in the new stage of development, ride on the social and economic development trends during the 14th Five-Year Plan period, implement the new development philosophy in a deep-going manner and contribute to the shaping of a new development pattern. It will adhere to a clear-cut stand in Party building while fully dedicated to pursuing development. Efforts will be made to adjust structure, enhance quality, increase profitability and stabilize scale by taking deepening structural adjustments and promoting business transformation as main tasks, taking differentiated development and fine-grained management as the starting point, placing focus on the development opportunities of the "Three Regions, Two Lines and Multiple Points" areas, so as to strengthen the internal drivers of development, improve the quality of operations on all front and promote high-quality development in every respect. With persistence in seeking to deliver positive results of operation and management, the Company will make a good start for the new plan period and celebrate the 100th anniversary of the founding of the Communist Party of China will outstanding development results.

4.13.2 Operating plan and measures

In 2021, the Company will further implement the core messages conveyed at the 19th CPC National Congress and the Central Economic Work Conference, adhere to the general principle of "pursuing progress while ensuring stability" and the new development philosophy and actively integrate itself into the new development pattern. Centered on value creation and oriented to asset-light, differentiated, digital and integrated development, the Company will unswervingly follow path toward innovation-driven and capital-efficient development, accelerate the business transformation and structural optimization and promote high-quality development across the board.

4.13.2.1 Unswervingly pursuing business transformation

The transformation to a combination of commercial banking and investment banking will gain pace. The Company will cement its strengths in commercial banking while pursuing excellence in investment banking, focus on customer demand in key areas and industries, fortify the customer base and improve the scale and yield. The integration of resources will be strengthened to implement a coordinated development strategy for commercial banking, investment banking, financial market business and transaction banking and build a comprehensive service system. Persistent efforts will be made to innovate, optimize and upgrade product offerings and diversify the product line and service channels. The credit, risk control, assessment and resource allocation mechanisms will be set up in line with the "commercial banking + investment banking" model. A fault tolerance and correction mechanism will be researched and developed to strengthen risk control. The Company will seize the opportunity of the national drive for ecological conservation, deepen international cooperation, pursue innovation in financial products and build the green finance brand.

Retail finance transformation will be sped up. Efforts will be made to enhance the top-level design of retail finance, strengthen the transformation mechanism and improve the professional promotion architecture. Safeguard measures will be taken to set up integrated assessment and other relevant mechanisms. The Company will vigorously develop consumer finance, wealth management and pension finance to break new ground in retail finance. It will endeavor to improve the online and scenario-based customer acquisition capabilities and create more card use scenarios. In an ongoing effort to develop inclusive finance as its signature product, the Company will focus on industrial transformation and ensure the regulatory evaluation tasks for MSE financial services will be accomplished.

The capital-light transformation of the financial market business will be accelerated. The Company will actively expand the trading business and stabilize investing and financing activities. The product innovation will be accelerated to increase the scale and yield of custody services. The wealth investment and research system will be refined at a faster pace to foster an industry brand.

Digital transformation will be sped up. Taking serving the modern industrial system as a breakthrough point, the Company will implement industrial digital finance across the board, make breakthroughs in the core technologies of digital credit and digital/smart risk control and build an industrial digital finance ecology. Taking demand-side reform under the "dual circulation" pattern as a breakthrough point, the Company will accelerate the development of consumer digital finance and promote the creation of products and setup of consumption scenarios.

4.13.2.2 Unswervingly pursuing differentiated development

Development in the Three Regions will be sped up. The Company will improve the region-specific development strategy for the three regions, so that they will fully play a leading role to become important growth poles. The Company will further implement its campaign of building "a lead bank serving the coordinated development of the Beijing-Tianjin-Hebei Region financially" and strengthen support for key regions and projects. Positioned as a "Beijing-based bank", it will deliver a higher service level for the "Four Centers" drive of Beijing. In the Yangtze River Delta, the Company will strengthen professional capacity building while keeping the key words of "integration" and "high quality" in mind and insist on innovation-driven development. In the Guangdong-Hong Kong-Macao Greater Bay Area, the Bank will actively carry out the pilot program on trade finance facilitation and build itself into an important base for financial innovation and a strategic highland for opening-up. The inter-regional coordinated development mechanism will be improved to break down traditional institutional barriers and improve the mechanism supporting cross-regional development of business, cross-regional management of customers and cross-regional allocation of resources.

The development of branches with unique features will be sped up. Staying true to the idea of "stable operation, higher quality and efficiency and transformation of development model with unique characteristics", the Company will insist on asset-light development, tap deep into the opportunities in regional economic development and industrial structure adjustment and pursue differentiated, featured and quality development.

4.13.2.3 Unswervingly pursuing asset-light operation

The customer service capability will be enhanced. The customer base will be fortified with a better structure. A customer service model featuring "tiered management, tiered services and tiered maintenance" will be created. A cross-departmental, cross-line joint marketing mechanism will be refined to meet customer needs comprehensively. The customer rating system will be improved to create an overall value assessment system. The outlets and staffing level will be reduced to expand customer on-boarding channels, refine customer acquisition methods and improve service models.

The quality and efficiency of operations will be boosted. The Company will adhere to structural adjustments, reinforce the customer base, enrich service scenarios, provide customer group-specific services and pursue high-quality growth of deposits. The deposit base will be further bolstered by striking a balance between structure, cost and scale. Taking value creation as the core, the Company will strengthen pricing management, maintain the strengths in interest margin and ensure stability of operation. The monitoring and management of inefficient or idle assets will be enhanced to speed up turnover of assets. The capital management system will be improved to step up the pursuit of asset-light operation.

The organizational capability for income diversification will be enhanced. The income structure will be optimized to develop the asset-light business vigorously. The personal banking product system will be enriched and the investment banking will be expanded to foster drivers of profit growth. Innovation will be strengthened to comprehensive enhance professional skills and the ability to seize market opportunities.

4.13.2.4 Unswervingly fighting the tough battle for asset quality

First, the comprehensive risk management system reform and mechanism will be continuously deepened. The Company will strengthen the risk governance system, and create an effective policy guidance, transmission and implementation mechanism based on risk appetite, asset and liability strategies, credit, investment and financing decisions, credit approval guidance and marketing guidance. The risk management system development will be accelerated to boost IT support.

The management of existing assets will be strengthened. Post-lending management will be implemented to ensure proper risk prevention and control for customers and businesses deserving extra attention. Supervision management will be deepened to strengthen supervisory review of key fields, weaker links of the post-investing and post-lending process and key institutions. Credit management will be enhanced and the post-lending inspection and evaluation for renewal customers will be refined to boost early warning. The collection and disposal of non-performing assets will be accelerated in a coordinated manner. The disposal capacity will be enhanced with classification-based policy and diversified disposal methods.

The risk of incremental business will be strictly controlled. The quality and efficiency of new business approval and new customer entry will be improved, thereby ensuring reasonable and effective allocation of incremental assets. The market, policy and industry researches will be strengthened, and a complete set of product entry criteria will be formulated. The credit policy system will be set up to strengthen behavior management and intensify the genuineness check in pre-lending investigation. The professional approval capability will be enhanced by continuously refining the approval mechanism and setting up a professional approval team.

Compliance will be ensured in operation. The swindle risk will be effectively curbed through persistent screening for swindles. Compliance will be put first and the internal control system will be refined. The supervision and inspection mechanism will be improved to effectively prevent and control risks in key fields.

SECTION V SIGNIFICANT EVENTS

5.1 PROFIT DISTRIBUTION PLAN FOR ORDINARY SHARES/ PLAN ON STRENGTHENING OF CAPITAL BASE WITH CAPITAL RESERVE FOR 2020

5.1.1 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 2019 was reviewed and approved at the Annual General Meeting for 2019 and took effect on 19 June 2020. 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.

5.1.2 Profit distribution plan and plan on strengthening of capital base with capital reserve in the recent three years (including the reporting period)

(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 (%)
2020	–	3.01	–	4,632	18,495	25.04
2019	–	2.49	–	3,831	19,125	20.03
2018	–	1.74	–	2,677	20,014	13.38

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 2020, 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 2020 is set forth below:

1. RMB1,991 million or 10% of the audited net profit attributable to shareholders of the parent company of 2020 (RMB19,914 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. RMB4,680 million is to be set aside as general reserve for 2020.

3. 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 above dividend distribution plan was considered and adopted at the 6th Meeting of the Eighth Board of Directors on 29 October 2020.

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, with the interest rate being 4.85% in the second interest interval and interest payable standing at RMB1.94 billion.

5. With 15,387,223,983 ordinary shares outstanding of the Company at the end of 2020 as the base number, cash dividends will be distributed to all of the shareholders at RMB3.01 (before tax) per 10 shares, and the cash dividends are to be distributed in an amount of RMB4,632 million.

The above-mentioned profit distribution plan shall be implemented within two months after the Annual General Meeting for 2020 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 2020, the cash dividend ratio remained stable overall and edged up slightly. Furthermore, the ratio has maintained an upward trend in recent three years, striking a balance among return to shareholders, regulatory and CAR compliance and sustainability of corporate development.

5.2 PERFORMANCE OF COMMITMENTS

5.2.1 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.

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

5.2.2 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 Depositary 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

5.3 FUND OCCUPANCY AND RECOVERY DURING THE REPORTING PERIOD

During the reporting period, as audited and assured by Deloitte Touche Tohmatsu Certified Public Accountants LLP, no funds of the Company were occupied for non-operating purposes by controlling shareholder or other related parties.

5.4 EXPLANATION ON THE NONSTANDARD AUDITOR'S REPORT

Not applicable.

5.5 CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND CHANGES IN CONSOLIDATION SCOPE OF FINANCIAL STATEMENTS DURING THE REPORTING PERIOD

As from 1 January 2020, the Group started to implement the revised *Accounting Standard for Business Enterprises No. 14 – Revenue* issued by MOF in 2017. According to the transitional arrangements, an enterprise needs to restate the comparative data in previous periods. The difference arising from the adoption of the new standards on the first day shall be adjusted and booked into the opening retained income and other relevant items in the financial statements. The Company began to disclose financial statements in accordance with the new standard for revenue as from 1 January 2020. The change will not result in any material change in the revenue recognition method of the Company have no material impact on its financial statements.

In September 2020, the Company formally opened its wholly-owned subsidiary Huaxia Wealth Management Co., Ltd. The Company prepared the Group's and Company's financial statements in accordance with the *Accounting Standard for Business Enterprises*.

The Company had no significant accounting errors corrected during the reporting period.

5.6 ENGAGEMENT AND REMOVAL OF INTERMEDIARIES

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

The Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the external auditor of the 2020 financial statements with an audit fee of RMB5.18 million. Deloitte Touche Tohmatsu Certified Public Accountants LLP has provided audit service for the Company for eight years.

In accordance with the *Administrative Measures for Engagement of Accounting Firm by State-owned Financial Enterprises* (C.J. [2020] No. 6), a state-owned financial enterprise shall retain an accounting firm for a consecutive period of no more than eight years. In October 2020, the Eighth Board of Directors of the Company reviewed and approved at its sixth meeting the *Proposal on Engagement of the Accounting Firm for 2021*. The Company planned to engage Ernst & Young Hua Ming LLP as the auditor of its financial statements for 2021. The proposal is pending review and approval by the Shareholders' General Meeting of the Company.

5.6.2 Engagement of the accounting firm for internal audit auditing

It engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the auditor of the 2020 internal control with an audit fee of RMB1.28 million. Deloitte Touche Tohmatsu Certified Public Accountants LLP has provided audit service for the Company for eight years.

In accordance with the *Administrative Measures for Engagement of Accounting Firm by State-owned Financial Enterprises* (C.J. [2020] No. 6), a state-owned financial enterprise shall retain an accounting firm for a consecutive period of no more than eight years. In October 2020, the Eighth Board of Directors of the Company reviewed and approved at its sixth meeting the *Proposal on Engagement of the Accounting Firm for 2021*. The Company planned to engage Ernst & Young Hua Ming LLP as the auditor of its internal control for 2021. The proposal is pending review and approval by the Shareholders' General Meeting of the Company.

5.6.3 Engagement of financial advisor

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

5.6.4 Engagement of sponsor

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

5.7 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 173 outstanding litigation cases lodged against it involving a total value of RMB2.483 billion. Therefore, the Company believes that they won't have significant impact on its financial position or business results.

5.8 PENALTY IMPOSED ON THE COMPANY, AS WELL AS ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS

As far as the Company knows, during the reporting period, the Company and none of its directors, supervisors, or senior management members was subject to any investigation by competent authorities, coercive measures taken by judicial authorities or disciplinary inspection departments, transfer to judicial authorities or investigation for criminal responsibility, investigation or administrative penalty by CSRC, restricted access to market, identification as unqualified, material penalty by other administrative authorities, or public denouncement by the stock exchanges.

During the reporting period, the Company was not subject to any administrative supervision measures by CSRC or its agencies or request for rectification within the prescribed time limit.

5.9 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.

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

Not applicable.

5.11 MATERIAL RELATED PARTY TRANSACTIONS

5.11.1 Management, pricing principle and basis of related party transactions

During the reporting period, the Company strictly implemented the regulations of the CBIRC, CSRC, Shanghai Stock Exchange and other regulatory authorities and the internal management rules of the Company, continuously strengthened the risk management and control of related party transactions, controlled the annual quota for related party transactions, and further improved the mechanism for related party transaction management. All related party transactions were conducted in compliance with laws and regulations, and examined, approved and disclosed in strict accordance with regulatory rules and the Articles of Association of the Company. All related party transactions were conducted in accordance with commercial principles and priced pursuant to the market price principle, under no more favorable terms than those available to non-related parties and without impairing the interests of the Company and minority shareholders.

5.11.2 Related party transactions concerning daily operation

5.11.2.1 The 52nd Meeting of the Seventh Board of Directors and the Annual General Meeting for 2019 were convened on 30 March 2020 and 15 May 2020 respectively, considering and adopting the *Proposal on the Quota for the Related Party Transactions with Related Parties in 2020*. According to the proposal, the Company agreed to approve the credit line worth RMB39.750 billion granted for the related party transactions between Shougang Group and its related enterprises. Specifically, the quota for credit related party transactions was RMB24 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 RMB15.75 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 1 April 2020. As at the end of the reporting period, 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 RMB14.702 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 2020	Amount from May to December 2020
Financial advisory services	Service fee receipts/expenditures	45.00	39.36
Treasury operations and investment services	Gain/loss on transactions (cumulative)	205.00	0
	Balance at time of investment	2,500.00	0
Wealth management service	Amount of transactions (cumulative)	3,000.00	0
Supply chain finance services	Cooperation quota	10,000.00	0

5.11.2.2 The 52nd Meeting of the Seventh Board of Directors and the Annual General Meeting for 2019 were convened on 30 March 2020 and 15 May 2020 respectively, considering and adopting the *Proposal on the Quota for the Related Party Transactions with Related Parties in 2020*. According to the proposal, the Company agreed to approve the credit line worth RMB61.258 billion granted for the related party transactions between State Grid Yingda International Holdings Group Ltd. and its related enterprises. Specifically, the quota for credit related party transactions was RMB24 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 RMB37.258 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 1 April 2020. As at the end of the reporting period, 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 RMB4.962 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 2020	Amount from May to December 2020
Asset custody services	Service fee receipts	3.00	0
Financial advisory services	Service fee receipts/expenditures	80.00	18.83
Integrated services	Service fee expenditures/receipts	10.00	0
Treasury operations and investment services	Gain/loss on transactions (cumulative)	1,160.00	5.48
	Balance at time of investment	16,000.00	14,971.95
Wealth management service	Amount of transactions (cumulative)	15,000.00	3.33
Supply chain finance services	Service fee expenditures	5.00	0
	Cooperation quota	5,000.00	0

5.11.2.3 The 52nd Meeting of the Seventh Board of Directors and the Annual General Meeting for 2019 were convened on 30 March 2020 and 15 May 2020 respectively, considering and adopting the *Proposal on the Quota for the Related Party Transactions with Related Parties in 2020*. According to the proposal, the Company agreed to approve the credit line worth RMB49 billion granted for the related party transactions between PICC Property and Casualty Company Limited and its related enterprises. Specifically, the quota for credit related party transactions was RMB24 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 RMB25 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 1 April 2020. As at the end of the reporting period, 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 RMB6,220 million. 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 2020	Amount from May to December 2020
Asset custody services	Service fee receipts	37.00	10.36
Financial advisory services	Service fee receipts/expenditures	33.00	12.12
Integrated services	Service fee expenditures/receipts	260.00	81.64
Treasury operations and investment services	Gain/loss on transactions (cumulative)	670.00	14.05
	Balance at time of investment	9,000.00	2,000.00
Wealth management service	Amount of transactions (cumulative)	15,000.00	16.15

5.11.2.4 The 52nd Meeting of the Seventh Board of Directors and the Annual General Meeting for 2019 were convened on 30 March 2020 and 15 May 2020 respectively, considering and adopting the *Proposal on the Quota for the Related Party Transactions with Related Parties in 2020*. According to the proposal, the Company agreed to approve the credit line worth RMB17.705 billion granted for the related party transactions between Beijing Infrastructure Investment Co., Ltd. and its related enterprises. 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 RMB5.705 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 1 April 2020. As at the end of the reporting period, 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 RMB1.213 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 2020	Amount from May to December 2020
Treasury operations and investment services	Gain/loss on transactions (cumulative)	205.00	0
	Balance at time of investment	2,500.00	0
Wealth management service	Amount of transactions (cumulative)	3,000.00	1.30

5.11.2.5 The 52nd Meeting of the Seventh Board of Directors was convened on 30 March 2020, considering and adopting the *Proposal on the Quota for the Related Party Transactions with Related Parties in 2020*. According to the proposal, the Company agreed to approve the credit line worth RMB4.013 billion granted for the related party transactions between Yunnan Hehe (Group) Co., Ltd. and its related enterprises. Specifically, the quota for credit related party transactions was RMB3 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 RMB1.013 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 1 April 2020. As at the end of the reporting period, 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 RMB170 million. 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 2020	Amount from March to December 2020
Financial advisory services	Service fee receipts/expenditures	5.00	0
Integrated services	Service fee expenditures/receipts	3.00	1.29
Treasury operations and investment services	Gain/loss on transactions (cumulative)	5.00	0
	Balance at time of investment	500.00	0
Wealth management service	Amount of transactions (cumulative)	500.00	0

5.11.2.6 The 52nd Meeting of the Seventh Board of Directors and the Annual General Meeting for 2019 were convened on 30 March 2020 and 15 May 2020 respectively, considering and adopting the *Proposal on the Quota for the Related Party Transactions with Related Parties in 2020*. According to the proposal, the Company agreed to approve the credit line worth RMB20.514 billion granted for the related party transactions of Huaxia Financial Leasing Co., Ltd. Specifically, the quota for credit related party transactions was RMB19 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 RMB1.514 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 1 April 2020. As at the end of the reporting period, 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 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 2020	Amount from May to December 2020
Financial advisory services	Service fee receipts/expenditures	5.00	0
Integrated services	Service fee receipts	4.00	2.73
Treasury operations and investment services	Gain/loss on transactions (cumulative)	5.00	0
	Balance at time of investment	500.00	0
Wealth management service	Amount of transactions (cumulative)	1,000.00	0

5.11.3 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.

5.11.4 Related party transactions arising from the external investments made by the Company and its related parties jointly

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

5.11.5 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.

5.11.6 Other material related party transactions

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

5.11.7 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.

5.12 MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

5.12.1 Material custody, contract and lease

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

5.12.2 Material guarantee

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.

5.12.3 Other material contracts

During the reporting period, the Company had no material dispute over contracts.

5.13 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 2020 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 RMB27.742 billion, down RMB1.442 billion 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 guarantee risks. During the reporting period, external guarantee service of the Company was run normally without any non-compliance.

5.14 FULFILLMENT OF SOCIAL RESPONSIBILITIES

5.14.1 Poverty alleviation efforts of the listed company

5.14.1.1 Plan on precision poverty alleviation

Guided by General Secretary Xi Jinping's important instructions on poverty alleviation, the Company implemented the poverty alleviation decisions and plans of the CPC Central Committee, the State Council, regulatory authorities and the Party committees and governments at all levels, the Company upheld the Party leadership, focused on the designated poverty-stricken areas for Beijing under the east-west cooperation in poverty alleviation, created its unique characteristics of poverty alleviation through financial services, helped boost the quality and efficiency of poverty alleviation through pragmatic work and laid a solid foundation for financial services-based precision poverty alleviation.

5.14.1.2 Summary of precision poverty alleviation efforts in 2020

During the reporting period, the Company continued to provide stronger support for precision poverty alleviation through financial services and made comprehensive contributions to poverty alleviation through industrial development, employment, consumption, public assistance and education. During the reporting period, it provided precision poverty alleviation funds of RMB840,222,200 (including credit support, cash donations and poverty alleviation through consumption). In-kind donations amounted to RMB278,600. Financing services were provided for 21,582 registered poor people.

The precision poverty alleviation system and mechanism was strengthened. The Company continuously improved its in-house system and mechanism for poverty alleviation, set up the leading group on poverty alleviation headed by the Party Secretary. The action plan for poverty alleviation was formulated. The Company managed to build a poverty alleviation work system characterized by the leadership of the Party Committee, facilitation by lead departments, implementation by specialized departments and collaboration among branches.

Extend more credits to support precision poverty alleviation. Giving ongoing play to the guiding role of credit policy, the Company increased credit support for agriculture and forestry of poverty-stricken areas, supported the funding demand of local characteristic and advantageous industries like characteristic agriculture and agricultural product processing industry and used assorted financial products and services including corporate/personal credit to support industrial development in poverty-stricken areas and boost these areas' capability of self-sustaining development.

Resources were concentrated on key poverty alleviation projects. Focusing on the east-west poverty alleviation cooperation and support program of Beijing as well as poor areas placed high on the priority list for poverty alleviation, such as Xinjiang, Inner Mongolia, Qinghai and Hebei, the Company allocated RMB36 million of cash donations to key poverty alleviation projects in support of local industrial development.

Party Committee Secretary and Chairman Li Minji led a team to Xinwangzhuang Village in Miyun District, Beijing for field survey.

5.14.1.3 Achievements of precision poverty alleviation efforts made by the Company in 2020

(Unit: RMB10,000)

Indicator		Quantity & implementation
I. Overview		
Of which: 1. In cash		84,022.22
2. In kind		27.86
II. Itemized contributions (by sector)		
1. Poverty elimination through industrial development		
Of which: 1.1 Project types	√ Agriculture and forestry	
	√ Tourism	
	√ E-commerce	
	√ Return on assets	
	√ Technology	
	√ Others	
1.2 Project number		28
1.3 Project inputs		48,828.32
2. Poverty elimination through education progress		
Of which: 2.1 Funding for poor students		20.67
2.2 Number of poor students funded		225
2.3 Inputs into improving education resources in poverty-stricken areas		458.89
3. Poverty alleviation through healthcare		
Of which: 3.1 Inputs into medical and health care resources in poverty-stricken areas		217.67
4. Poverty alleviation through social assistance		
Of which: 4.1 Inputs into east-west cooperation in poverty alleviation (including inputs into poverty alleviation through education and healthcare in regions covered by east-west cooperation in poverty alleviation)		3,609
4.2 Amount of targeted poverty relief input		493.93
4.3 Poverty alleviation charity fund		27
III. Awards and honors		
The Company won the "Vanguard Entity Award for Precision Poverty Alleviation" at the 2020 Financial Poverty Alleviation Vanguard Awards sponsored by China.com.cn. Urumqi Branch was honored as an excellent organizer of the "*fanghuiju*" (an acronym that stands for "Visit the People, Benefit the People, and Get Together the Hearts of the People") program in the Xinjiang Autonomous Region in 2019. Shijiazhuang Branch's resident work team on poverty alleviation was named an "Outstanding Resident Work Team" in the provincial poverty alleviation work in 2019 by the Organization Department of CPC Hebei Provincial Party Committee and the Hebei Provincial Office of Poverty Alleviation and Development. Chengdu Branch was named an outstanding organization in financial poverty alleviation in 2019 by the Sichuan Office of China Banking and Insurance Regulatory Commission. Two employees of the Company won provincial-level personal honors for contribution to poverty alleviation.		

5.14.1.4 Subsequent plan on precision poverty alleviation

In accordance with the State's decisions and plans regarding the financial support for poverty alleviation and rural vitalization, the Company will focus on key areas, key areas and key projects, keep the organizational leadership, support policies, work requirements and assessment standards as strong or high as they were before and continuously strengthen financial support policies and measures. It will provide continuing credit support for specified regions, industries and entities, help grow number of industries with local characteristics, enhance their local growth drivers and strive to align the effort to cement and enhance poverty alleviation achievements with the support for rural vitalization.

5.14.2 Fulfillment of social responsibilities

With a firm footing on the new stage of development, the Company implemented the five-pronged development philosophy, namely "Innovative, Coordinated, Green, Open and Shared", continuously improved the corporate social responsibility management, performed its corporate social responsibility in a deep-going manner and contributed with resolve to the three critical battles in serving the economic and social development. It continued to create bigger value for stakeholders such as shareholders, government, customers, employees and communities and pursued its own sustainable development in harmony with the economy, society and environment.

In terms of economic responsibility, facing the extreme challenges from the COVID-19 pandemic, the Company did its best to ensure the stability on six fronts and security in six areas, provided financial services to facilitate COVID-19 containment and economic reopening and braved the hardship together with MSEs and other sectors of the society. It deeply implemented the strategy of building itself into "a lead bank serving the coordinated development of the Beijing-Tianjin-Hebei Region financially", actively served the "Four Centers" drive of Beijing, helped relieve Beijing of functions non-essential to its role as the capital and promoted the coordinated development of the Beijing-Tianjin-Hebei Region. The Company also aligned its activity with the national strategies for regional development, including integrated development of the Yangtze River Delta, construction of the Guangdong-Hong Kong-Macao Greater Bay Area and development of the Yangtze River Economic Belt. More and more resources were inputted into key sectors of the real economy, including the industrial structure transformation and upgrading, national opening-up and development of private enterprises, thereby fostering the momentum for high-quality development of the real economy.

In terms of social responsibility, the Company stepped up efforts on precision poverty alleviation, developed its own characteristics of financial poverty alleviation, explored the mechanism for keeping those who have been lifted out of poverty from returning to poverty, connected precision poverty alleviation with rural vitalization and contributed to China's battle against poverty and strive for a moderately prosperous society in all respects. It accelerated the pace of digital transformation, leveraged FinTech to empower business, kept expanding service channels, enhancing service quality and efficiency and improving service experience and provided customers with a wide spectrum of efficient, convenient and high-quality financial services. In respecting and protecting consumers, the Company organized financial knowledge popularization events, created a good atmosphere for financial consumer protection and helped build a harmonious financial environment. Being people-oriented, the Company provided employees with strong protection, abundant learning opportunities and broad spectrum for career development, pursuing the organic unity of employee growth and enterprise development. The Company devoted itself to charitable causes, carried out voluntary service activities, conveyed benevolence and promoted social harmony.

In terms of environmental responsibility, the Company tapped deep into green finance, strengthened international cooperation and put the ESG investment philosophy into action. With innovative business management and service models, more financial resources were channeled into green, low-carbon and sustainable business activities in a bid to build a green finance brand. The Company paid due attention to the environmental impact of its own operations, promoted green transactions, endeavored to reduce resource consumption, increased the efficiency of energy use, reduced the discharge of harmful substances and implemented green office and low-carbon operation in all respects.

For details, please refer to the *2020 Corporate Social Responsibility Report of Hua Xia Bank Co., Limited* disclosed by the Company on the SSE website (www.sse.com.cn).

5.14.3 Consumer protection

The Company attaches great importance to consumer protection and comprehensively standardizes the regulatory requirements, incorporating it into corporate governance, corporate culture and business development in line with regulatory requirements. During the reporting period, the Company further refined the consumer protection policies and procedures, improved the system and mechanism for consumer protection, strengthened organizational management, launched financial education and publicity, strengthened staff training, strictly implemented regulatory requirements and improved the quality and efficiency of consumer protection work across the board.

First, the management stance was heightened to strengthen top-level design. The Strategy Management and Consumer Protection Committee of the Board of Directors and the Board of Directors reviewed and approved the *Report on the Consumer Protection Arrangements of Huaxia Bank for 2020*. Special meetings such as the (enlarged) meeting of the Consumer Protection Committee, were held in the year to promote the accurate transmission and implementation of the Bank's work requirements and objectives for consumer protection.

Second, the organizational framework for consumer protection was established. The Company has in place a bank-wide management hierarchy composed of the Board of Directors and its specialized committees, the consumer protection committees of the Head Office and branches and the consumer protection departments of the Head Office and branches, effectively ensuring the authority and professionalism of the consumer protection work of the Head Office and branches.

Third, the consumer protection policies and procedures were refined. All relevant policies and procedures were reviewed and further improved in terms of complaint and emergency management, financial knowledge popularization and consumer education and information disclosure regarding financial products and services.

Fourth, the consumer protection review, supervision and inspection mechanisms were established for consumer protection. The management of the consumer protection review system was strengthened, and risk control was moved forward to earlier stages to fully implement the whole-process control for consumer protection.

Fifth, the customer complaint handling mechanism was optimized. The compliant channels were further unblocked to further diversify the resolution of financial disputes and continuously boost the quality and efficiency of compliant handling. Upholding the "people-centered" philosophy, the Company always attaches great importance to complaint handling. It has endeavored to improve the quality and capability of complaint handling by unclogging complaint channels, refining the complaint mechanism and analyzing complaints. During the reporting period, the Company received 29,771 complaints, with a closure rate of 100% and a satisfaction rate of 93.48%. In active response to the fallout from COVID-19, with a focus on regions (e.g. Beijing, Jiangsu, Tianjin and Hubei) and business areas (e.g. credit card repayment) where complaints were concentrated, the Company effectively protected the legitimate rights and interests of financial consumers by further standardizing services, optimizing business processes, diversifying the resolution of complaints and disputes, reducing the number of complaints and improving customer satisfaction.

Sixth, a long-term mechanism for consumer protection education and publicity was established. The Company strengthened the planning, implementation and quality of consumer education and publicity work and carried out the work in a systematic, continuous and in-depth manner.

Seventh, consumer protection training was carried out to enhance the awareness of consumer protection service. The training and examination on consumer protection were organized bank-wide to convey the concept and work requirements of consumer protection to staff at all levels and enhance employees' ability to protect consumer rights and interests.

5.15 ACTIVELY COMBATING THE COVID-19 PANDEMIC

Actively responding to the call from the CPC Central Committee and the Central Government, the Company exerted every effort to tackle the COVID-19 impact. It allocated credit lines earmarked for the financing of medical institutions, health and epidemic prevention, production and procurement of pharmaceutical products, services for health workers and daily necessities of the general public, providing customer-specific preferential loan policies. At the end of the reporting period, a total of RMB20.705 billion of credit funds were issued to 288 enterprises participating in the fight against COVID-19. Eight COVID-19 bonds were issued, with the underwritings totaling RMB5.45 billion.

Wuhan Branch donated supplies for COVID-19 prevention and control.

The Company attaches great importance to the work related to ensuring the stability on six fronts and security in six areas as required by government agencies and regulatory authorities, the Company took relief measures for customers with temporary difficulties in debt service amid the pandemic, including credit renewal, extension, rollover, rescheduling and interest reduction, and avoided any withdrawal, suspension or reduction of lending to these borrowers, thus helping them through the difficulties and providing stable credit support for their resumption of business. As of the end of the reporting period, forbearance and interest rate cuts were granted to a total of 11,077 enterprises (including small business owners and self-employed individuals) involving a total business volume of RMB204.155 billion.

The Company strengthened online financial services. Leveraging on online channels such as mobile banking and online banking and online business platforms such as Longshang Dai and Longhui Dai, it provided 7*24 contactless online financial services to meet customers' financial service needs from the ease of home. Online expedited channels were opened up for key areas, with the emergency response mechanism activated 43 times in total to assist in timely transfer of RMB3.24 billion of cash donations to the front line of the battle against COVID-19. The "contactless" online service level was enhanced by launching the corporate mobile banking urgently and providing online financial services and office features. Inclusive services were strengthened to reduce fund transfer charges for corporate online banking, corporate mobile banking and bank-enterprise direct connect services, benefiting 160,000 corporate customers with a cumulative fee reduction of RMB35 million.

5.16 OTHER SIGNIFICANT EVENTS

With the approval of CBIRC and PBOC, the Company issued the Hua Xia Bank Co., Ltd. 2020 Green Financial Bond (Series 1) in the national inter-bank bond market on 15 April 2020. It was three-year fixed rate bond with an issue volume of RMB10 billion and a coupon rate of 2.08%. On August 6, the Company issued the Hua Xia Bank Co., Ltd. 2020 MSE Special Financial Bond (Series 1). It was a three-year fixed rate bond with an issue volume of RMB20 billion and a coupon rate of 3.19%. On December 16, the Company issued the Hua Xia Bank Co., Ltd. 2020 Financial Bond. It was a three-year fixed rate bond with an issue volume of RMB33 billion and a coupon rate of 3.54%.

5.17 SIGNIFICANT EVENTS OF SUBSIDIARIES

During the reporting period, no subsidiaries underwent any significant event.

5.18 INDEX OF INFORMATION DISCLOSURES

Matter	Published in journals	Date of publication	Published on website
Announcement of Hua Xia Bank on Approval of CBIRC for Qualification of Vice Chairman of the Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily	3 January 2020	http://www.sse.com.cn

Matter	Published in journals	Date of publication	Published on website
Announcement of Hua Xia Bank on Issuance of Green Financial Bonds Approved by CBIRC	Ditto	5 February 2020	Ditto
Announcement on Resignation of Independent Director of Hua Xia Bank	Ditto	29 February 2020	Ditto
Announcement on 2019 Earnings Guidance of Hua Xia Bank	Ditto	11 March 2020	Ditto
Announcement on Resignation of External Supervisor of Hua Xia Bank	Ditto	12 March 2020	Ditto
Announcement on Resolutions of the 51st Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	14 March 2020	Ditto
Announcement on Resolutions of the 31st Meeting of the Seventh Board of Supervisors of Hua Xia Bank	Ditto	14 March 2020	Ditto
Announcement of Hua Xia Bank on Distribution of Dividends for Preference Shares	Ditto	19 March 2020	Ditto
Announcement of Hua Xia Bank on Change of Head of Asset Custody Department	Ditto	24 March 2020	Ditto
Announcement on Resolutions of the 52nd Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	1 April 2020	Ditto
Announcement on Related Party Transaction of Hua Xia Bank	Ditto	1 April 2020	Ditto
Notice of Hua Xia Bank on Holding the First Extraordinary General Meeting for 2020	Ditto	1 April 2020	Ditto
Announcement of Hua Xia Bank on Issuance of Green Financial Bonds Approved by PBOC	Ditto	9 April 2020	Ditto
Announcement on Annual Report of Hua Xia Bank in 2019	Ditto	17 April 2020	Ditto
Announcement on Resolutions of the 53rd Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	17 April 2020	Ditto
Announcement on Resolutions of the 32nd Meeting of the Seventh Board of Supervisors of Hua Xia Bank	Ditto	17 April 2020	Ditto
Announcement on 2019 Profit Distribution Plan of Hua Xia Bank	Ditto	17 April 2020	Ditto
Announcement of Hua Xia Bank on Reengagement of Accounting Firm	Ditto	17 April 2020	Ditto
Notice of Hua Xia Bank on Holding the Annual General Meeting for 2019	Ditto	17 April 2020	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of 2020 Green Financial Bond Series 1	Ditto	21 April 2020	Ditto
Announcement on Resolutions of the First Extraordinary General Meeting for 2020 of Hua Xia Bank	Ditto	22 April 2020	Ditto
Announcement of Hua Xia Bank on Appointment of Employee Supervisors on the Eighth Board of Supervisors	Ditto	22 April 2020	Ditto
Announcement on Resolutions of the First Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	22 April 2020	Ditto
Announcement on Resolutions of the First Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	22 April 2020	Ditto
Announcement on Advance Notice about the Explanation Session of Results and Cash Dividend Distribution of Hua Xia Bank	Ditto	27 April 2020	Ditto
Announcement of Hua Xia Bank on Approval for Establishment of Huaxia Wealth Management Co., Ltd.	Ditto	28 April 2020	Ditto

Matter	Published in journals	Date of publication	Published on website
Announcement on First Quarterly Report of Hua Xia Bank in 2020	Ditto	30 April 2020	Ditto
Announcement on Resolutions of the Second Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	30 April 2020	Ditto
Announcement on Resolutions of the Annual General Meeting for 2019 of Hua Xia Bank	Ditto	16 May 2020	Ditto
Announcement on Resolutions of the Third Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	20 May 2020	Ditto
Announcement of Hua Xia Bank on Regulatory Approval for Issuance of MSE Loan Special Financial Bonds	Ditto	6 June 2020	Ditto
Announcement on Annual Equity Distribution for 2019 of Hua Xia Bank	Ditto	12 June 2020	Ditto
Announcement of Hua Xia Bank on Approval of CBIRC for Qualification of Vice Chairman of the Board of Directors	Ditto	21 July 2020	Ditto
Announcement on Resolutions of the 4th Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	30 July 2020	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of 2020 MSE Loan Special Financial Bond Series 1	Ditto	13 August 2020	Ditto
Announcement on Interim Report of Hua Xia Bank in 2020	Ditto	31 August 2020	Ditto
Announcement on Resolutions of the Fifth Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	31 August 2020	Ditto
Announcement on Resolutions of the Fourth Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	31 August 2020	Ditto
Announcement of Hua Xia Bank on Changes in Accounting Policies	Ditto	31 August 2020	Ditto
Announcement of Hua Xia Bank on Attending the Investors Open Day for Listed Companies based in Beijing	Ditto	7 September 2020	Ditto
Announcement of Hua Xia Bank on Approval for Opening of Huaxia Wealth Management Co., Ltd.	Ditto	16 September 2020	Ditto
Announcement of Hua Xia Bank on Approval of CBIRC for Qualification of Directors	Ditto	19 September 2020	Ditto
Announcement on Third Quarterly Report of Hua Xia Bank in 2020	Ditto	31 October 2020	Ditto
Announcement on Resolutions of the Sixth Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	31 October 2020	Ditto
Announcement of Hua Xia Bank on Change of Accounting Firm	Ditto	31 October 2020	Ditto
Announcement on Resolutions of the Seventh Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	27 November 2020	Ditto
Announcement of Hua Xia Bank on Regulatory Approval for Issuance of Financial Bonds	Ditto	9 December 2020	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of 2020 Financial Bonds	Ditto	22 December 2020	Ditto
Announcement on Resolutions of the Sixth Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	31 December 2020	Ditto
Announcement on Resignation of Employee Supervisor of Hua Xia Bank	Ditto	31 December 2020	Ditto

SECTION VI DETAILS OF CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

6.1 CHANGES IN ORDINARY SHARES

6.1.1 Changes in ordinary shares

(Unit: share)

	31 December 2019		Increase/ decrease	31 December 2020	
	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

6.1.2 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 reporting period	Number of shares released from restrictions on sales during the reporting period	Increase of shares subject to restrictions on sales in the reporting period	Number of shares subject to restrictions on sales at the end of the reporting period	Reason for restrictions on sales	Date on which shares become tradable
Shougang Group	519,985,882	0	0	519,985,882	(Refer to notes for details)	8 January 2024
State Grid Yingda International Holdings Group Ltd.	737,353,332	0	0	737,353,332		
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 Depositary 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.

6.2 SECURITIES ISSUE AND OFFERING

6.2.1 Securities issue during the reporting period

Not applicable.

6.2.2 Changes in the total number of ordinary shares and shareholder structure

Not applicable.

6.2.3 Individual employee stock ownership

The Company had no individual employee stock during the reporting period.

6.3 ORDINARY SHAREHOLDERS

6.3.1 Number of ordinary shareholders and shareholdings

(Unit: share)

Total number of ordinary shareholders as at the end of the reporting period		117,336	Total number of ordinary shareholders at the end of the month immediately before disclosing date of this Annual Report			117,300	
Shareholdings of the top 10 shareholders							
						Number of pledged or frozen shares	
Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Number of shares held by shareholders	Changes during the reporting period	Number of shares subject to restrictions on sales that were held	Shares Status	Number
Shougang Group	State-owned legal person	20.28	3,119,915,294	0	519,985,882	None	
State Grid Yingda International Holdings Group Ltd.	State-owned legal person	19.99	3,075,906,074	0	737,353,332	None	
PICC Property and Casualty Company Limited	State-owned legal person	16.66	2,563,255,062	0	0	None	
Beijing Infrastructure Investment Co., Ltd.	State-owned legal person	8.50	1,307,198,116	0	1,307,198,116	None	
Yunnan Hehe (Group) Co., Ltd.	State-owned legal person	3.64	560,851,200	0	0	None	
China Securities Finance Corporation Limited	State-owned legal person	2.50	384,598,542	0	0	None	
Runhua Group Co., Ltd.	Domestic non-state-owned legal person	1.78	273,312,100	0	0	Pledged	269,312,004
Hong Kong Securities Clearing Company Limited	Foreign legal person	1.56	240,678,795	59,023,132	0	None	
Huaxia Life Insurance Company Limited – Universal Insurance Product	Other	1.24	191,178,550	-34,579,789	0	None	
Central Huijin Asset Management Co., Ltd.	State-owned legal person	1.08	166,916,760	0	0	None	

(Unit: share)

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
China Securities Finance Corporation Limited	384,598,542	RMB-denominated ordinary shares
Runhua Group Co., Ltd.	273,312,100	RMB-denominated ordinary shares
Hong Kong Securities Clearing Company Limited	240,678,795	RMB-denominated ordinary shares
Huaxia Life Insurance Company Limited – Universal Insurance Product	191,178,550	RMB-denominated ordinary shares
Central Huijin Asset Management Co., Ltd.	166,916,760	RMB-denominated ordinary shares
Shanghai Giant Lifetech Co., Ltd.	137,971,900	RMB-denominated ordinary shares
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.	

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).

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.

6.3.2 Number of ordinary 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	2024 8 January	519,985,882	The Company issued 2,564,537,330 ordinary shares (A shares) in a nonpublic offering in 2018, and these shares got registration and sale restriction procedures done with Shanghai Branch of China Securities Depositary 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		737,353,332	
Beijing Infrastructure Investment Co., Ltd.	1,307,198,116		1,307,198,116	

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

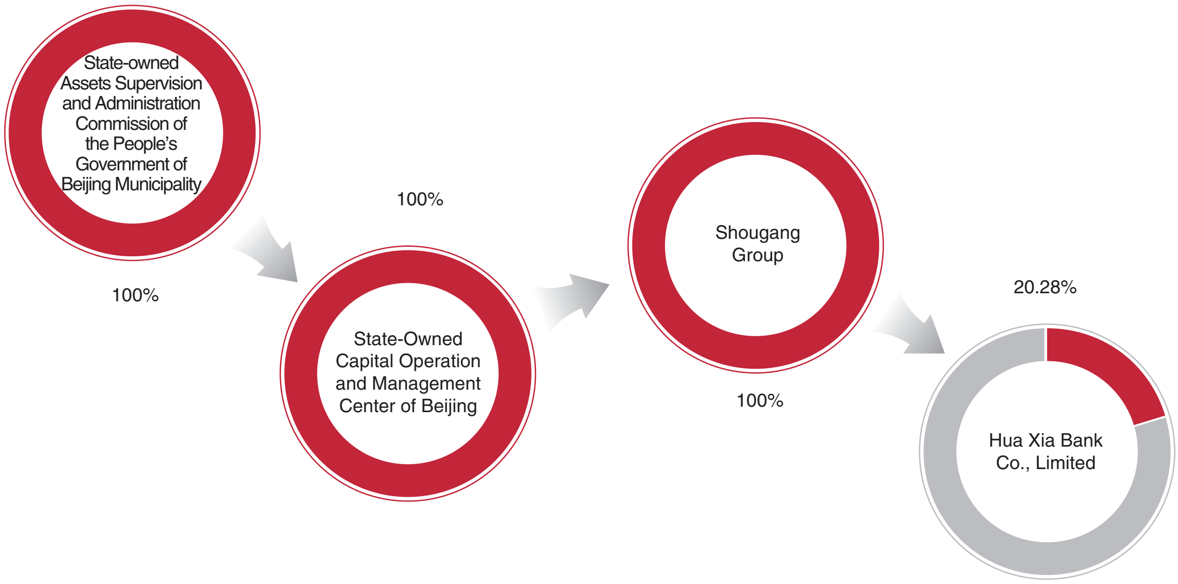
The Company has no controlling shareholder or de facto controller. Shougang Group is the largest shareholder of the Company.

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. (8.50%).

6.3.3.1 Shougang Group

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:



6.3.3.2 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 Yang Dongwei as its legal representative. Its unified social credit code is 91110000710935089N. 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

6.3.3.3 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.

6.3.3.4 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. With unified social credit code as 911100001011241849, its 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.

6.3.4 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 51.68% shares of Runhua Group Co., Ltd. and serves as its controlling shareholder and de facto controller.

6.3.5 Special explanation on the Company without controlling shareholder

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

6.3.6 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.

SECTION VII PREFERENCE SHARES

7.1 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	4.20	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.

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.

7.2 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	16	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	19,000,000	29.30	Other	None	Preference shares
Ping An Life Insurance Company of China, Ltd. – Universal – Universal personal insurance product	39,100,000	0	19.55	Other	None	Preference shares
Ping An Life Insurance Company of China, Ltd. – Participating – Participating personal insurance product	39,100,000	0	19.55	Other	None	Preference shares
BOCOM Schroder AMC – BOCOM – BOCOM Schroder AMC Zhuoyuan. No. 2 Collective Asset Management Plan	11,180,000	11,180,000	5.59	Other	None	Preference shares
BOCOM Schroder Fund – China Minsheng Bank – China Minsheng Banking Corp., Ltd.	8,600,000	0	4.30	Other	None	Preference shares
Bank of Beijing Scotiabank Asset Management – Bank of Hangzhou – Hua Xia Bank Co., Limited	8,400,000	0	4.20	Other	None	Preference shares
China Resources SZITIC Trust Co., Ltd. – Investment No. 1 Stand-alone Money Trust	7,300,000	0	3.65	Other	None	Preference shares
Bosera Fund – ICBC – Bosera – ICBC – Flexible Allocation No. 5 Specific Multi-customer Assets Management Plan	5,600,000	0	2.80	Other	None	Preference shares
AXA SPDB Assets Management – SPDB – Beijing Branch of Shanghai Pudong Development Bank Co., Ltd.	5,600,000	0	2.80	Other	None	Preference shares
CITIC Securities – CITIC Bank – CITIC Securities VIP Tailor-made No. 86 Collective Asset Management Plan	4,000,000	0	2.00	Other	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. BOCOM Schroder Asset Management Co., Ltd. is a wholly-owned subsidiary of BOCOM Schroder Fund Management Co., Ltd. "BOCOM Schroder AMC – BOCOM – BOCOM Schroder AMC Zhuoyuan. No. 2 Collective Asset Management Plan" and "BOCOM Schroder Fund – China Minsheng Bank – China Minsheng Banking Corp., Ltd." are connected.					

7.3 PAYOUT OF DIVIDENDS ON PREFERENCE SHARES

7.3.1 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 29 March 2021, 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 26 March 2021. A cash dividend of RMB4.2 (before tax) was paid per preference share at the coupon rate of 4.20% and the dividends distributed this time totaled to RMB840 million.

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.

7.3.2 Amount and proportion of dividends distributed on preference shares in the latest three years

(Unit: RMB1 million)

Year	Amount distributed	Distribution proportion
2020	840	100%
2019	840	100%
2018	840	100%

Note: Distribution proportion = (Dividend amount distributed/agreed-upon dividend amount paid of the year) × 100%

7.4 REDEMPTION OR CONVERSION OF PREFERENCE SHARES DURING THE REPORTING PERIOD

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

7.5 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.

7.6 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 shall be calculated as equity instruments.

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Company classifies the financial instruments it has issued into equity instruments when all of the following conditions are met: (1) The financial instrument shall 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) and the Company's own equity instruments should be or can be used for settlement of such financial instruments in the future. In case of a non-derivative instrument, it shall not include any contractual obligation of settlement with the delivery of variable number of the Company's own equity instruments; in case of a derivative instrument, it can only be settled with the fixed number of the Company's own equity instruments exchanging for cash or other financial assets with the fixed amount.

On 23 March 2016, the Company issued non-cumulative preference shares to domestic investors in an aggregate amount of RMB20 billion, all of which after deducting issuing cost was recognized into other tier-1 capital. During the existence of the preference shares, the Company has the right to exercise the right to redeem them all or in part on the interest calculation day of each year if being approved by CBIRC and meeting relevant requirements five years after the end of the issuance (i.e. 28 March 2016). Preference shareholders have no right to ask the Company to redeem the preference shares and should not have the expectation on the preference shares being redeemed. The coupon rate of the preference shares is adjusted by stages, i.e. the dividends are distributed in cash at a fixed dividend rate once a year within the five-year dividend rate adjustment period. Upon approval of the Shareholders' General Meeting, the Company has the right to cancel all or part of the dividends distributed on the preference shares, which is not deemed a default event.

Upon the approval of CBIRC, all or part of the preference shares issued by the Company this time and still in existence will be converted into ordinary shares of the Company upon the occurrence of the following events that will trigger mandatory conversion of shares to the Company: (1) when core tier-1 capital adequacy ratio of the Company falls to 5.125% or below, the Company shall have the right to convert all or part of the preference shares that have been issued and are still in existence into ordinary shares as per the total par value without the prior consent of preference shareholders, in order to restore the core tier-1 capital adequacy ratio of the Company to above 5.125%; (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.

When the triggers for compulsory share conversion are met, the preference shares that are still in existence will be wholly or partially converted into ordinary shares at a price of RMB14.00 per share subject to the approval of regulatory authority. As approved by CSRC, the Company privately issued 2,564,537,330 ordinary shares in a non-public offering on 28 December 2018. Calculated by the mandatory conversion price adjustment formula as set out in the related articles of the Prospectus for Non-public Issuance of Preference Shares by Hua Xia Bank Co., Limited, the mandatory conversion price of shares was adjusted into RMB10.58/share upon the completion of the non-public offering of ordinary shares. From the day when the Board of Directors of the Company approved the preference share issuing plan, the Company will change the price of mandatory share conversion and disclose relevant information according to pertinent provisions whenever shares of the Company change due to distribution of stock dividend, share conversion to strengthen capital base and additional issuance (excluding share capital increase due to conversion of financing instruments issued by the Company and with articles allowing conversion into ordinary shares, e.g. preference share and convertible corporate bond) and rights issue.

In accordance with applicable laws and regulations and 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), funds raised from the preference share issuance are used to replenish other tier-1 capital of the Company. When the Company liquidates, preference shareholders of the Company take precedence over ordinary shareholders to be distributed the residual properties of the Company. That is, when the Company liquidates, dividends that have not been canceled nor distributed but have been announced to distributed but not been paid for the period yet as well as the total carrying amount of preference shares held shall be paid from the residual properties after liquidation firstly to preference shareholders; if the residual properties are not sufficient to pay, such dividends and carrying amount will be paid on the basis of the shareholding ratio of preference shareholders.

In conclusion, the Company recognizes the preference shares into other equity instruments according to the articles of the contract on the issuance of preference shares and the economic substance.

SECTION VIII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS, OTHER EMPLOYEES AND BRANCHES

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

8.1.1 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) (before tax) 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	65.05	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 Qianyi	Non-executive Director, Vice Chairman of the Board of Directors	Male	1965	10 July 2020 to expiration of the Eighth Board of Directors	0	0	0	0	None	Yes
Zhang Jianhua	Executive Directors President	Male	1965	14 April 2017 to expiration of the Eighth Board of Directors Since 14 April 2017	0	0	0	65.09	None	No
Guan Wenjie	Executive Directors 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	59.72	None	No
Wang Yiping	Executive Directors Vice President	Male	1963	8 September 2020 to expiration of the Eighth Board of Directors Since 24 January 2017	0	0	0	59.68	None	No
Song Jiqing	Executive Directors Secretary to the Board	Male	1965	8 September 2020 to expiration of the Eighth Board of Directors Since 2 November 2019	0	0	0	252.19	None	No
Ma Xiaoyan	Non-executive Directors	Female	1969	18 September 2019 to expiration of the Eighth Board of Directors	0	0	0	0	None	Yes
Zou Libin	Non-executive Directors	Male	1967	27 February 2014 to expiration of the Eighth Board of Directors	0	0	0	0	None	Yes
Chen Yonghong	Independent Director	Male	1962	27 February 2014 to the new independent director taking office upon regulatory approval	0	0	0	40.45	None	No
Wang Huacheng	Independent Director	Male	1963	27 February 2014 to the new independent director taking office upon regulatory approval	0	0	0	35.46	None	No
Ding Yi	Independent Director	Female	1964	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	11.28	None	No
Zhao Hong	Independent Director	Female	1963	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	11.28	None	No
Guo Qingwang	Independent Director	Male	1964	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	11.28	None	No
Gong Zhiqiang	Independent Director	Male	1972	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	11.28	None	No
Lv Wendong	Independent Director	Male	1967	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	11.28	None	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	0	None	No
Hua Shiguo	Supervisor Representing Shareholder	Male	1971	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	0	None	Yes
Ding Zhaohua	Supervisor Representing Shareholder	Male	1973	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	13.30	None	Yes
Lin Xin	External Supervisor	Male	1966	12 May 2015 to 12 May 2021	0	0	0	30.79	None	No
Wu Changqi	External Supervisor	Male	1955	12 May 2015 to 12 May 2021	0	0	0	28.39	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) (before tax) 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)
Ma Yuanju	External Supervisor	Male	1957	12 May 2015 to 12 May 2021	0	0	0	30.79	None	No
Zhu Xiaofang	External Supervisor	Female	1963	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	22.20	None	No
Zhao Xijun	External Supervisor	Male	1963	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	23.40	None	No
Sun Tongjun	Employee Supervisor	Male	1961	12 May 2015 to expiration of the Eighth Board of Supervisors	0	0	0	213.81	None	No
Zhu Jiang	Employee Supervisor	Male	1968	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	191.55	None	No
Xu Xinming	Employee Supervisor	Male	1969	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	169.15	None	No
Yang Wei	Vice President	Male	1966	Since 12 February 2019	0	0	0	59.68	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
Li Min	Former Vice President	Male	1976	14 February 2019 to 9 February 2021	0	0	0	59.72	None	No
Li Jianbo	Former Non-Executive Director	Male	1965	27 February 2014 to 21 April 2020	0	0	0	0	None	Yes
Liu Chunhua	Former Executive Director CAO	Female	1970	27 February 2014 to 21 April 2020 Since 18 December 2013	0	0	0	252.19	None	No
Ren Yongguang	Former Executive Director Former Vice President	Male	1959	30 October 2010 to 21 April 2020 14 October 2010 to 21 April 2020	0	0	0	0.09	None	No
Zeng Xiangquan	Former Independent Director	Male	1955	30 October 2010 to 21 April 2020	0	0	0	7.06	None	No
Yu Changchun	Former Independent Director	Male	1952	30 October 2010 to 21 April 2020	0	0	0	7.06	None	No
Xiao Wei	Former Independent Director	Male	1960	27 February 2014 to 9 September 2020	0	0	0	24.18	None	No
Yang Delin	Former Independent Director	Male	1962	27 February 2014 to 9 September 2020	0	0	0	24.18	None	No
Li Liangang	Former Supervisor Representing Shareholder	Male	1968	30 October 2010 to 21 April 2020	0	0	0	1.93	None	No
Tian Ying	Former Supervisor Representing Shareholder	Female	1965	28 September 2007 to 21 April 2020	0	0	0	1.93	None	Yes
Zhu Wei	Former External Supervisor	Male	1965	27 February 2014 to 10 March 2020	0	0	0	2.07	None	No
Cheng Yanhong	Former Employee Supervisor	Female	1958	29 June 2004 to 21 April 2020	0	0	0	40.67	None	No
Li Qi	Former Employee Supervisor	Male	1958	19 July 2001 to 21 April 2020	0	0	0	0.09	None	No
Wang Liying	Former Employee Supervisor	Female	1962	27 February 2014 to 21 April 2020	0	0	0	0.09	None	No
Song Xieli	Former Employee Supervisor	Female	1969	21 April 2020 to 29 December 2020	0	0	0	186.27	None	No
Total	/	/	/	/	0	0	0	2,024.63	/	/

Notes:

1. 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 Supervisors, 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.*

2. Mr. Wang Hongjun, Mr. Luo Qianyi, Ms. Ma Xiaoyan, Mr. Zou Libin, Mr. Zhang Wei, Ms. Zou Xiulian and Mr. Li Jianbo voluntarily gave up receiving allowance from the Company.

3. 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.

4. Pre-tax remunerations of the Chairman of the Board of Directors, President, employee supervisors and other senior management members serving the Company in 2020 include the contribution by the Company to social insurance, enterprise annuity, additional medical insurance and housing provident fund.

5. 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 rest-part remuneration of company officers in 2019 approved and verified by the competent authorities is disclosed as below:

Name	The rest part of pre-tax remunerations for 2019 (RMB10,000)
Li Minji	39.03
Zhang Jianhua	39.03
Guan Wenjie	31.71
Wang Yiping	31.70
Yang Wei	80.32
Li Min	34.91
Cheng Yanhong	4.39
Liu Chunhua	74.06
Ren Yongguang	108.06

Note: The remaining part of the pre-tax remuneration of Ms. Liu Chunhua, Mr. Ren Yongguang, Mr. Yang Wei and Mr. Li Min in 2019 included the pre-tax remuneration during the period when they did not serve as company officers in the charge of Beijing municipality. Bonus accrued during the period when they did not serve as company officers in the charge of Beijing municipality shall be delayed in payment. The total bonus subject to delayed payment in 2019 is RMB902,600 and is not paid to those individuals yet.

The rest-part remuneration for other personnel in 2019:

Name	The rest part of pre-tax remunerations for 2019 (RMB10,000)
Song Jiqing	96.66
Sun Tongjun	59.90

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 2019, and the rest part of pre-tax remunerations for such personnel in 2019 is hereby disclosed. Bonus to the above-mentioned persons shall be delayed in payment. The total bonus subject to delayed payment in 2019 is RMB1,893,600 and is not paid to those individuals yet.

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

On 27 February 2020, the Board of Directors of the Company received written resignation reports from Mr. Xiao Wei, Mr. Chen Yonghong, Mr. Yang Delin and Mr. Wang Huacheng. Mr. Xiao Wei, Mr. Chen Yonghong, Mr. Yang Delin and Mr. Wang Huacheng applied for resignation from independent directors according to regulatory rules for the term of service of independent directors. Since the resignation of Mr. Xiao Wei, Mr. Chen Yonghong, Mr. Yang Delin and Mr. Wang Huacheng caused the number of independent directors on the Board of Directors of the Company to become less than the quorum, Mr. Xiao Wei, Mr. Chen Yonghong, Mr. Yang Delin 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 elected by the Shareholders' General Meeting took office upon approval by regulators.

On 10 March 2020, the Board of Supervisors of the Company received a written resignation report from Mr. Zhu Wei. Mr. Zhu Wei resigned from the posts of the Company's external supervisor and member of relevant committees of the Board of Supervisors due to expiration of term of office.

On 16 April 2020, the Company held the First Workers' Congress. Mr. Zhu Jiang, Mr. Xu Xinming and Ms. Song Xieli were elected employee supervisors of the Eighth Board of Supervisors. Their tenure started on 21 April 2020 and will end upon expiration of the Eighth Board of Supervisors. Ms. Cheng Yanhong, Mr. Li Qi and Ms. Wang Liying ceased to serve as employee supervisors.

On 21 April 2020, the Board of Directors of the Company held the First Extraordinary General Meeting for 2020. Mr. Luo Qianyi, Mr. Xie Yiqun and Ms. Zou Xiulian were elected non-executive directors of the Eighth Board of Directors. Mr. Guan Wenjie, Mr. Wang Yiping and Mr. Song Jiqing was elected executive directors of the Eighth Board of Directors. Ms. Ding Yi, Ms. Zhao Hong, Mr. Guo Qingwang, Mr. Gong Zhiqiang and Mr. Lv Wendong were elected independent directors of the Eighth Board of Directors. Mr. Li Jianbo ceased to serve as non-executive director. Ms. Liu Chunhua and Mr. Ren Yongguang ceased to serve as executive directors. Mr. Zeng Xiangquan, Mr. Yu Changchun, Mr. Xiao Wei and Mr. Yang Delin ceased to serve as independent directors. Mr. Hua Shiguo and Mr. Ding Zhaohua were elected supervisors representing shareholders of the Eighth Board of Supervisors. Ms. Zhu Xiaofang and Mr. Zhao Xijun were elected external supervisors of the Eighth Board of Supervisors. Their tenure started on 21 April 2020 and will end upon expiration of the Eighth Board of Supervisors. Mr. Li Liangang and Ms. Tian Ying ceased to serve as supervisors representing shareholders.

On 21 April 2020, the Eighth Board of Directors of the Company held the first meeting and elected Mr. Luo Qianyi Vice Chairmen of the Board of Directors of the Company.

As approved by regulatory authorities, Mr. Luo Qianyi's tenure as non-executive director and Vice Chairman of the Board of Directors started on 10 July 2020 and will end upon expiration of the Eighth Board of Directors. Ms. Zou Xiulian's tenure as non-executive director started on 9 September 2020 and will end upon expiration of the Eighth Board of Directors. The tenure of Mr. Guan Wenjie, Mr. Wang Yiping and Mr. Song Jiqing as executive directors started on 8 September 2020 and will upon expiration of the Eighth Board of Directors. The tenure of Ms. Ding Yi, Ms. Zhao Hong, Mr. Guo Qingwang, Mr. Gong Zhiqiang and Mr. Lv Wendong as independent directors started on 9 September 2020 and will end upon expiration of the Eighth Board of Directors. The qualification of Mr. Xie Yiqun for serving as non-executive director is pending submission to the regulatory authority for approval. Mr. Chen Yonghong and Mr. Wang Huacheng continued to carry out the functions and powers of independent directors before the two new directors elected by the Shareholders' General Meeting took office upon approval by regulators.

On 29 December 2020, the Board of Supervisors of the Company received a written resignation report from Ms. Song Xieli. Ms. Song resigned from the posts of the Company's employee supervisor and member of relevant committees of the Board of Supervisors due to work engagement.

On 31 December 2020, the Company held the Second Workers' Congress. Ms. Wang Minglan was elected employee supervisor of the Company. Her tenure started on 31 December 2020 and will end upon expiration of the Eighth Board of 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. Her tenure started on 5 January 2021 and will end upon expiration of the Eighth Board of Supervisors.

On 9 February 2021, the Board of Directors of the Company received a written resignation report from Vice President Mr. Li Min. Mr. Li Min resigned from the post of the Company's Vice President due to work engagement.

On 7 April 2021, the Board of Directors of the Company received a written resignation report from Mr. Zhang Wei. Mr. Zhang resigned from the posts of the Company's director and member of relevant committees of the Board of Directors due to work engagement.

On 15 April 2021, the Board of Directors of the Company received a written resignation report from director Ms. Zou Xiulian. Ms. Zou resigned from the posts of the Company's director and member of relevant committees of the Board of Directors as she reached the retiring age.

8.1.3 Main work experiences 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.

Luo Qianyi, Vice Chairman of the Board of Directors, Non-executive Director, male, was born in September 1965. He is a PhD, Researcher-level Senior Accountant and Expert with State Council Special Allowance. He previously was Deputy Divisional Head of Finance and Accounting Bureau of China North Industries Group Corp. Ltd., Deputy General Manager and Chief Accountant of China Yanxing National Corporation, Head of Financial and Audit Department of China North Industries Group Corporation, Chief Accountant of China North Industries Group Corporation & Vice Chairman of North Industries Group Finance Co., Ltd., and Chief Accountant of China North Industries Group Corporation & Chairman of North Industries Group Finance Co., Ltd. Now, he is Chief Accountant and Member of Leading Party Group of State Grid Corporation of China.

Zhang Jianhua, Executive Director and President, male, was born in March 1965. He is a PhD in Management and a research fellow. The positions he ever held are: Deputy Chief and Chief of Regulatory Division for Financial Leasing Company, Regulatory Department for Non-banking Financial Institutions, PBOC; Chief of Regulatory Division III, Regulatory Department for Non-banking Financial Institutions, PBOC; Chief of Fiscal Taxation Research Division, PBOC Research Bureau; Deputy Head of PBOC Financial Stability Bureau; Head of PBOC Research Bureau; Party Committee Secretary and General Manager of PBOC Hangzhou Central Sub-branch and Head of State Administration of Foreign Exchange (SAFE) Zhejiang Branch concurrently; and Deputy Party Committee Secretary, Director and President of Beijing Rural Commercial Bank Co., Ltd. He currently serves as Deputy Party Committee Secretary, Executive Director and President of Hua Xia Bank.

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.

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.

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 the Graduate School of Chinese Academy of Social 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 Editor-in-Chief of the *Economic Theory and Economic Management* 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.

Hua Shiguo, Supervisor Representing Shareholder, male, was born in October 1971. He holds a master's degree and is an engineer. He previously was Deputy General Manager, Deputy Party Secretary and Secretary of Party Discipline Committee of Yunnan Hongta Dianxi Cement Co., Ltd., Deputy General Manager and General Manager of Kunming Hongta Timber Co., Ltd., Deputy Head of the Property Management Section and Deputy Head of the Electromechanical and Building Materials Section at Yunnan Hongta Group Co., Ltd., and Assistant to Head and Deputy Head of the Financial Assets Department at Yunnan Hehe (Group) Co., Ltd. Now, he serves as Head of Primary Industries Department at 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 and Chief Financial Officer of Runhua Group Co., Ltd. He currently serves as Director of Runhua Group Co., Ltd.

Lin Xin, External Supervisor, male, was born in October 1966. He is a PhD. He previously was a lawyer at China Legal Affairs Center and Partner of Beijing Zhongming Law Firm. Now, he is a lawyer of Beijing Zhongming Law Firm.

Wu Changqi, External Supervisor, male, was born in June 1955. He holds a PhD degree and is a professor. He was Director of the Center of Executive Master of Business Administration (EMBA) Degree Program and Vice Dean of the Guanghua School of Management of Peking University and a part-time professor of HKUST Business School, Director of National Hi-tech Industrial Development Zone Development Strategy Research Institute of Peking University and Director of Guanghua Leadership Research Center of Peking University, Now, he is a professor teaching strategic management at the Guanghua School of Management of Peking University, Executive Vice Director of International Operation & Management Research Institute of Peking University and Dean and Chair Professor of the School of Management, Shandong University.

Ma Yuanju, External Supervisor, male, was born in March 1957. He is a PhD and professor. He taught accounting and did scientific research at Zhuhai Radio & TV University. Now, he is a professor at the Accounting School of Capital University of Economics and Business.

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.

Sun Tongjun, Employee Supervisor, male, was born in November 1961. He holds a master's degree and is a senior economist. He served as Party Committee Secretary and Head of Agricultural Bank of China Penglai Sub-branch and Party Committee Member and Vice Head of Agricultural Bank of China Yantai Branch. When he joined Hua Xia Bank, he was successively Party Committee Secretary and Head and Yantai Sub-branch, Party Committee Secretary and Head of Shenyang Branch, Party Committee Secretary and Head and Ji'nan Branch and Internal Control & Compliance Director and General Manager of Internal Control & Compliance Department of Hua Xia Bank. Now, he is Employee Supervisor and Internal Control & Compliance Director of Hua Xia Bank.

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. She 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.

8.1.4 Positions or concurrent jobs of directors, supervisors and senior management members in shareholder entities or other 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
Hua Shiguo	Yunnan Hehe (Group) Co., Ltd.	Head of Primary Industries Department	Since November 2020
Ding Zhaohua	Runhua Group Co., Ltd.	Director	Since May 2015

Name	Position or concurrent position in other entities excluding shareholder entities
Luo Qianyi	Chief Accountant and Member of Leading Party Group of State Grid Corporation of China
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., Outside Director of Beijing Science Park Development (Group) Co., Ltd., Director of ZheJiang Yihuo Tech. Co. Ltd. and Director of Beijing Future Wellness Management 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 China Railway Construction Corporation Corp. 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. 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 Editor-in-Chief of the Economic Theory and Economic Management of Renmin University of China
Gong Zhiqiang	Director and senior partner of S&P Law Firm
Lv Wendong	Independent Director of Founder Securities Co., Ltd., Independent Director of Henan Yuguang Gold & Lead Co. Ltd. and professor at the Business School of University of International Business and Economics
Lin Xin	Now, he is a lawyer of Beijing Zhongming Law Firm and Independent Director of Tangshan Caofeidian Wood Industry Co., Ltd.
Wu Changqi	Professor teaching strategic management at the Guanghua School of Management of Peking University; Executive Vice Director of International Operation & Management Research Institute of Peking University; Dean and Chair Professor of the School of Management, Shandong University; Non-executive Director of Haier Smart Home Co., Ltd.; Independent Director of Tianneng Battery Group Co Ltd.; Independent Director of Yijiahe Technology Co., Ltd.; Independent Director of Aixin Life Insurance Co., Ltd.; and Independent Non-executive Director of Beijing Media Co., Ltd.
Ma Yuanju	Professor at the Accounting School of Capital University of Economics and Business; Non-executive Independent Director of Sound Global Limited; Independent Director of Qinghai Huading Industrial Co., Ltd.; and Independent Director of Beijing Hanjian Heshan Pipeline Co., Ltd.
Zhao Xijun	Co-president of China Capital Market Research Institute at Renmin University of China, Member/Secretory General of the National Supervisory Committee for Professional Degrees in Finance, Independent Director of China National Foreign Trade Financial & Leasing Co., Ltd., Independent Director of FAW Capital Holding 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.
Yang Wei	Supervisor of China UnionPay Co., Ltd.

8.1.5 Remunerations of directors, supervisors and senior management members during the reporting period

8.1.5.1 Basis for the assessment and incentive mechanism of directors, supervisors and senior management members

All directors, supervisors and senior management members of the Company can faithfully and diligently perform their duties in good faith and with diligence in accordance with the requirements of laws, regulations and relevant normative documents. According to relevant performance assessment policies and procedures, the Board of Directors assigned a "Competent" result for all directors and gave an "A" rating for all senior management members in the 2020 performance assessment. The Board of Supervisors assigned a Competent" result for all directors and supervisors in the 2020 performance evaluation. The Board of Supervisors' performance evaluation of all senior management members for the year 2020 is underway and will announce the evaluation results no later than the end of June 2021.

The total remuneration received by the directors and supervisors except for executive directors and employee supervisors from the Company was determined according to the *Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and Supervisors*, 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. The remunerations of directors, supervisors and senior management members shall be disclosed after being considered and adopted by the Board of Directors and the Board of Supervisors.

Remunerations (salaries) payable to directors, supervisors and senior management members are related to their annual duty performance. The annual duty performance of directors and supervisors shall be supervised and assessed by the Board of Supervisors according to the Duty Performance Evaluation Measures for Directors of Hua Xia Bank Co., Limited (Provisional) and the Duty Performance Evaluation Measures for Supervisors of Hua Xia Bank Co., Limited (Provisional). The annual duty performance assessment for directors consists of the following steps: self-assessment by directors, peer assessment among directors, assessment by the Board of Directors, and assessment by the Board Supervisors. The annual duty performance assessment for supervisors consists of the following steps: self-assessment by supervisors, peer assessment among supervisors, and assessment by the Board Supervisors. The aspects of assessment cover attendance and speaking at related meetings, inspections, surveys and trainings, compliance with applicable policies, and years of working at the Company, among others. The assessment results shall be approved by the Board of Supervisors and submitted to the Shareholders' General Meeting and CBIRC. The annual duty performance of senior management members shall be preliminarily assessed by the Remuneration and Assessment Committee of the Board of Directors as per the *Annual Performance Assessment Measures for Senior Management Members of Hua Xia Bank*. The assessment results shall be disclosed publicly after being considered and adopted by the Board of Directors. Given the annual assessment results issued by the Board of Directors and the daily supervision information gathered by the Board of Supervisors, the Board of Supervisors shall produce the annual duty performance assessment opinions on senior management members, disclose the opinions and submit them to CBIRC for filing purpose.

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 2020 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 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.

8.1.5.2 Remunerations actually paid to directors, supervisors and senior management members

During the reporting period, RMB20,246,300 (before tax) was actually paid to all of the directors, supervisors and senior management members.

8.1.6 Penalties imposed on directors, supervisors and senior management members of the Company 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 by securities regulatory authorities in the recent three years.

8.2 EMPLOYEES

At the end of the reporting period, the Group had 39,748 service employees, including 39,284 ones working in the Company and 464 ones working in the major subsidiaries. The Group paid for 1,017 retired employees.

8.2.1 The Company's employees by professional field

Of the in-service employees of the Company, 29,774 or 75.79% were business personnel, 7,709 or 19.62% were management personnel and 1,801 or 4.59% were supporting personnel.

8.2.2 The Company's employees by educational background

Of the in-service employees of the Company, 5,396 persons or 13.74% held a master's or higher degree, 25,268 or 64.32% held a bachelor's degree, and 8,620 or 21.94% held an associate's or lower degree.

8.2.3 Remuneration policy and training plan of the Company

The Company kept improving its incentives and constraints mechanism in line with the development strategy and business objectives, continued to improve the performance assessment system, focused on business transformation and structural adjustments, strengthened risk control and operational compliance and promoted bank-wide quality development.

The Company continuously improved the training system, carried out hierarchical and specialized training in line with the bank-wide strategic development plan, strengthened the development of training resources and case-based teaching and kept building a convenient and efficient mobile learning platform rich in content, thereby making the training more systematic and targeted and enhancing the professionalism and versatility.

8.3 TIERED MANAGEMENT AND NUMBER AND REGIONAL DISTRIBUTION OF INSTITUTIONS

8.3.1 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 1,022 outlets in 122 Chinese cities at prefecture level and above. During the reporting period, two tier-one branches were added in Hong Kong and Beijing Municipal Administrative Center, and six tier-two branches were added in Xingtai, Yan'an, Huizhou, Xiong'an, Sanya and Xiangtan.

8.3.2 Branches

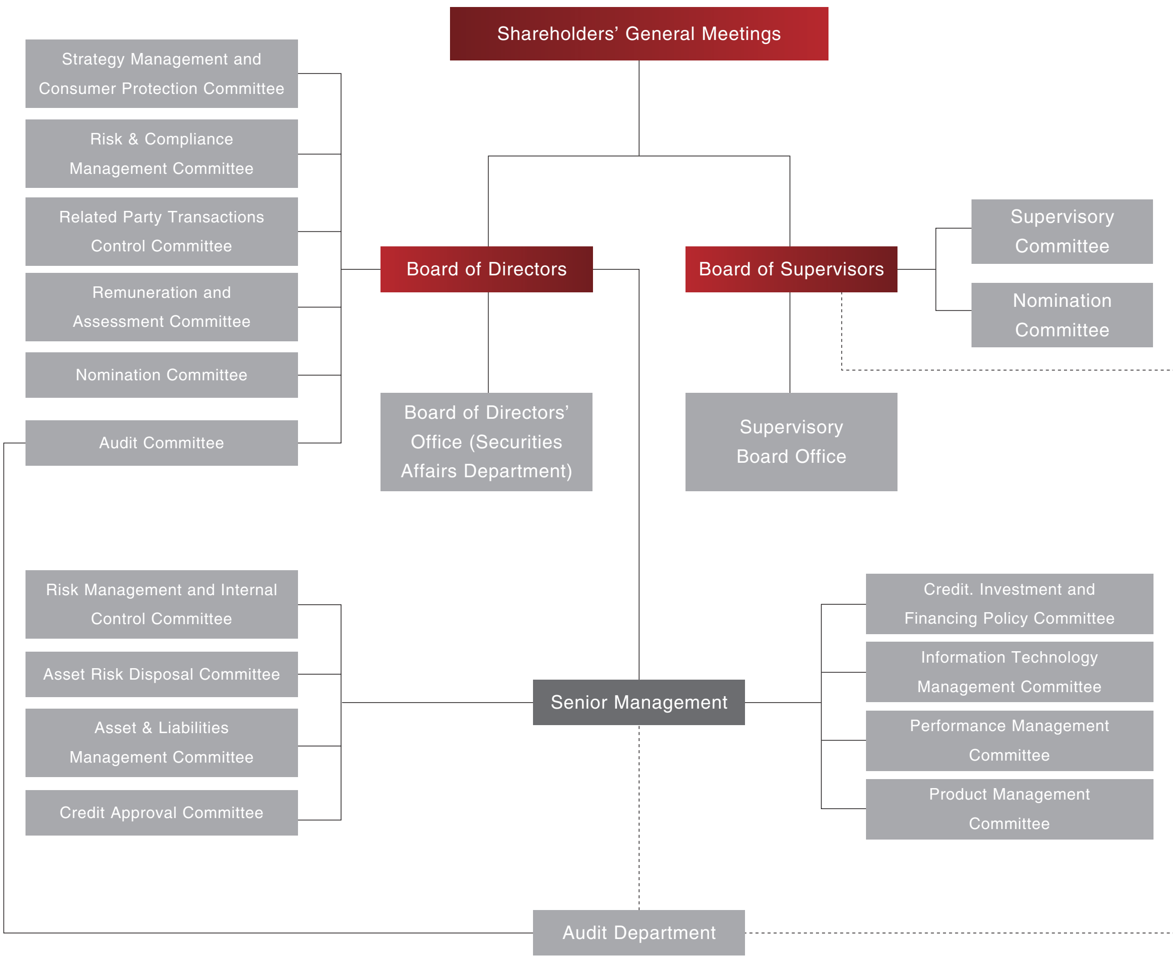
Region	Institution name	Business address	Number of branches	Headcount	Asset size (RMB1 million)
Beijing-Tianjin-Hebei Region Regions	Head Office	22 Jianguomennei Street, Dongcheng District, Beijing	–	4,338	2,218,608
	Beijing Branch	11 Financial Street, Xicheng District, Beijing	65	2,104	331,464
	Tianjin Branch	Tower E, Huanbohai Development Center, Zeng 9 Binshui Road, Hexi District, Tianjin	17	571	55,817
	Shijiazhuang Branch	48 Zhongshan West Road, Qiaoxi District, Shijiazhuang	63	1,803	86,828
	Tianjin FTZ Branch	Railway Construction Building, 32 Central Ring West Road, Tianjin Free Trade Zone (Airport Economic Zone)	9	140	2,247
	Beijing Municipal Administrative Center Branch	Building 2, Block 11, Xinhua East Street, Tongzhou District, Beijing	6	131	21,863
Yangtze River Delta Regions	Nanjing Branch	333 and 329-2 (Jin'ao International Center) Jiangdong Middle Road, Jianye District, Nanjing	67	2,502	207,060
	Hangzhou Branch	No. 2 Building, Oceanwide International Center, 2 Xiangzhang Street, Sijiqing Subdistrict, Jianggan District, Hangzhou	61	1,908	189,237
	Shanghai Branch	256 Pudong South Road, China (Shanghai) Pilot Free Trade Zone	31	858	112,355
	Wenzhou Branch	Southeast of No.17-05 Plot, Riverside CBD, Wenzhou	15	547	34,710
	Ningbo Branch	366 Heyuan Road, Yinzhou District, Ningbo	11	430	23,675
	Shaoxing Branch	354 Zhongxing South Road, Yuecheng District, Shaoxing	13	413	37,820
	Changzhou Branch	No. 9 Building, Fuxi Garden, 1598 Longjin Road, Xinbei District, Changzhou	15	458	41,128
	Suzhou Branch	188 Xinghai Street, Suzhou Industrial Park, Suzhou	19	706	81,616
	Wuxi Branch	3 Finance No.1 Street, Binhu District, Wuxi	23	584	69,825
	Hefei Branch	Building C, Wealth Plaza, 278 Suixi Road, Luyang District, Hefei	15	621	44,204
	Shanghai FTZ Branch	2 Taizhong South Road, China (Shanghai) Pilot Free Trade Zone	1	38	3,357
Guangdong – Hong Kong-Macao Greater Bay Area	Shenzhen Branch	Zhongzhou Plaza, 3088 Jintian Road, Futian Sub-district, Futian District, Shenzhen	38	1,291	157,552
	Guangzhou Branch	Nanyue Mansion, 13 Huaxia Road, Tianhe District, Guangzhou	45	1,739	138,550
	Hong Kong Branch	F18, International Finance Center (Phase II), 8 Finance St., Central Hong Kong	1	71	15,046

Region	Institution name	Business address	Number of branches	Headcount	Asset size (RMB1 million)
Central and Eastern China Regions	Ji'nan Branch	138 Wei'er Road, Shizhong District, Ji'nan	54	1,745	91,850
	Wuhan Branch	786 Minzhu Road, Wuchang District, Wuhan	61	1,627	104,974
	Qingdao Branch	5 Donghai West Road, Shinan District, Qingdao	38	1,022	60,338
	Taiyuan Branch	113 Yingze Street, Yingze District, Taiyuan	30	1,013	73,348
	Fuzhou Branch	Huaxia Mansion, 1 Gutian Zhilu, Gulou District, Fuzhou	20	610	24,833
	Changsha Branch	Huameiou Mansion, 389 Wuyi Road, Furong District, Changsha	12	681	44,471
	Xiamen Branch	10, 11 and 16 Lingshiguan Road, Siming District, Xiamen	6	352	22,878
	Zhengzhou Branch	29 Business Outer Ring Road, Zhengdong New District, Zhengzhou	13	981	69,083
	Nanchang Branch	10 Binjiang Shoufu, Zhongshan West Road, Xihu District, Nanchang	13	469	24,421
	Haikou Branch	61 Guoxing Avenue, Meilan District, Haikou	4	221	5,643
Western China	Kunming Branch	Hua Xia Bank Tower, 98 Weiyuan Road, Kunming	29	1,140	95,338
	Chongqing Branch	Annex 1, Annex 2, Annex 3-2-1, 27 Jiangbeichengxi Street, Jiangbei District, Chongqing	32	1,040	84,582
	Chengdu Branch	2 Building, Jinjiang Zhichun, 229 Yong'an Road, Jinjiang District, Chengdu City	31	1,054	76,872
	Xi'an Branch	111 Chang'an North Road, Beilin District, Xi'an	29	774	58,992
	Urumqi Branch	15 Dongfeng Road, Tianshan District, Urumqi	14	498	27,677
	Hohhot Branch	57 Airport Expressway, Hohhot	18	879	26,896
	Nanning Branch	Tower B, Huarun Mansion, 136-2 Minzu Avenue, Qingxiu District, Nanning	11	548	45,370
	Yinchuan Branch	168 Xinchang East Road, Jinfeng District, Yinchuan	7	226	11,163
	Guiyang Branch	55 Changling North Road, Guanshanhu District, Guiyang	3	326	19,125
	Xining Branch	Hua Xia Bank Mansion, 79 Haiyan Road, Chengxi District, Xining	1	105	3,615
	Lanzhou Branch	Zhihui Plaza, 333 Tianshui North Road, Chengguan District, Lanzhou	3	271	9,015
Northeastern China	Shenyang Branch	51 Qingnian Street, Shenhe District, Shenyang	27	959	32,821
	Dalian Branch	50 and 52 Renmin East Road, Zhongshan District, Dalian	26	585	23,307
	Changchun Branch	4888 Renmin Street, Nanguan District, Changchun	19	633	25,883
	Harbin Branch	Tower A, Headquarters of Huizhi Finance Enterprise, Intersection of Qunli No. 5 Avenue and Lijiang Road, Daoli District, Harbin	6	272	10,643
Regional summarization adjustment					-1,654,663
Total			1,022	39,284	3,291,437

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

SECTION IX CORPORATE GOVERNANCE

9.1 CORPORATE GOVERNANCE FRAMEWORK



9.2 CORPORATE GOVERNANCE STRATEGY

The Company remains guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, earnestly implementing the guiding principles of relevant meetings of the 19th National Congress of the CPC, the National Conference on Party Building of State-owned Enterprises, the National Financial Work Conference and the Central Economic Work Conference and strictly abiding by laws, regulations and regulatory rules and guidelines. With a firm footing on the new stage of development, the Company implements the new development philosophy and serves the new development pattern. It integrates strengthening Party leadership with improving corporate governance and pursues a better corporate governance mechanism with proper split of duties, coordinated operation and effective checks and balances. The corporate governance structure including the Party Committee and the Board of Directors, the Board of Supervisors and the Senior Management has been strengthened. The Party Committee charts the course, crafts overall plans and ensures their implementation. The Board of Directors sets strategies, makes decisions and prevents risks. The Senior Management plans operation, works hard on implementation and strengthens management. All governance bodies perform their duties within the defined scope while cooperating with each other in continuously improving corporate governance and building the Company into a colossal, competitive, outstanding modern financial group with stable operations.

The Shareholders' General Meeting, which holds the ultimate power, decides on the Company's business policies, election and replacement of directors and relevant supervisors and their remuneration, financial budget and final accounts, profit distribution, issuance of bonds, revision of the Articles of Association, engagement and disengagement of the accounting firm and other significant events. The Company has a clear and stable shareholding structure, with the conduct of shareholders increasingly improved. Substantial shareholders actively supports the Company's equity structure and regulatory compliance. 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 as a strategic guide and decision maker is responsible for: formulating the Company's medium and long-term development plans, strengthening the implementation of evaluation supervision and ensuring the expectations and goals are achieved; deepening the reform and development, strengthening the rational allocation of resources, and ensuring the effectiveness of business transformation; always assuming the ultimate responsibility for risk management, guiding and deepening the development of internal control and internal audit and effectively forestalling and defusing financial risks; firmly practicing the national strategies, actively integrating into the mainstream economy and fully supporting the development of the real economy; actively making self-improvements, attaching importance to strengthening communication with the Company's Party Committee and other corporate governance entities, paying due attention to the legitimate rights and interests of stakeholders and striving to take the lead in creating a sound, efficient and harmonious governance environment. The special committees of the Board of Directors fully leverage their specialized strengths to work within the scope of mandate in a well-organized manner. All types of directors work with loyalty and diligence and give independent and objective opinions, providing strong support for the Board of Directors to make scientific decisions.

The Board of Supervisors fully performs its supervisory function, conducts supervisory inspections focused on duty performance of the Board of Directors, the senior management and their members, financial activities, risk management and risk control in line with regulatory orientation and the Company's work priorities. It strengthens risk warnings and alerts, urges the Company to operate compliantly and defends the risk bottom line. The Board of Supervisors also strengthens its self-development, innovates or improves the ways and methods of work and continuously increases the effectiveness of supervision. The special committees of the Board of Supervisors work efficiently pursuant to their respective work rules. All types of supervisors fulfill their duties and contribute to effective supervision by the Board of Supervisors as expected.

The Senior Management has worked hard and carried out various management activities efficiently in line with the three major tasks of financial work and the goals and missions set forth in the Company's development plan and reports relevant information to the Board of Directors and the Board of Supervisors in a timely manner. It adheres to the new development philosophy, promptly studies, launches and implements a series of practical work measures to cushion the impact of the downward economic pressure, legacy burdens on asset quality and COVID-19 pandemic, unite and lead all people across the Company to accomplish annual business and development tasks. During the reporting period, the senior management members worked in a solid and well-organized manner within their authorizations and well accomplished tasks assigned to them.

9.3 CORPORATE GOVERNANCE PRACTICE

The Company earnestly implements regulatory requirements on corporate governance, continuously improves corporate governance framework, brings more disciplines to the operation of the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the Senior Management in accordance with the *Company Law*, the *Commercial Bank Law*, the *Securities Law*, the *Code of Corporate Governance for Listed Companies*, the *Guidelines on Corporate Governance of Commercial Banks*, the *Guidelines on the Work of the Board of Supervisors of Commercial Banks* and other relevant laws and regulations. The core objective is to maximize shareholders' long-term value on the premise of respecting and protecting the interests of depositors. The actual condition of corporate governance has no material discrepancies with the normative documents on governance of listed companies released by CSRC.

During the reporting period, the Company revised the *Articles of Association of Hua Xia Bank Co., Limited* in line with the newly revised *Company Law*, the *Securities Law*, the *Code of Corporate Governance for Listed Companies* and the *Guidance on the Articles of Association of Listed Companies*. These revisions have been formally implemented upon approval by the Board of Directors. The *Measures for Equity Management of Hua Xia Bank Co., Limited* and the *Directors' Allowances Policy of Hua Xia Bank Co., Limited* and the *Supervisors' Allowances Policy of Hua Xia Bank Co., Limited* were formulated and approved by the Board of Directors, the Board of Supervisors and the Shareholders' General Meeting before implementation. The *Insider Registration Policy of Hua Xia Bank Co., Limited* was revised and formally implemented upon approval by the Board of Directors.

During the reporting period, the Company successfully completed the general election of the Board of Directors and the Board of Supervisors and appointed the new senior management. In the face of the COVID-19 epidemic and a complicated, severe business environment, the Company has always upheld and strengthened the overall leadership of the Party, gave full play to all governance bodies and the officers and employees at all levels, coordinated the epidemic containment with business development with focus on work priorities of the Company, and managed to accomplish the preset tasks and objectives.

During the reporting period, the Company successfully completed the general election of the Board of Directors and the Board of Supervisors and appointed the new senior management.

9.4 BRIEFING OF THE SHAREHOLDERS' GENERAL MEETING

During the reporting period, the Company called and held two Shareholders' General Meetings and considered and adopted 17 proposals in strict accordance with the *Rules on the Shareholders' General Meetings of Listed Companies*, the Articles of Association and the procedural rules on the Shareholders' General Meeting. The Company established and improved effective channels of communication with shareholders, increased representation of public shareholders at the Shareholders' General Meetings through online voting and ensured equality of shareholders and their full exercise of rights, including the rights to be informed of, participate in and vote on significant matters of the Company.

General Meeting	Date	Website designated for publishing resolution	Disclosure date
First Extraordinary General Meeting for 2020	21 April 2020	http://www.sse.com.cn	22 April 2020
Annual General Meeting for 2019	15 May 2020	http://www.sse.com.cn	16 May 2020

9.5 DUTY PERFORMANCE OF THE DIRECTORS

9.5.1 Attendance of directors at Board meetings and General Meeting

		Attendance at Board Meeting						Attendance at Shareholders' General Meetings
Director	Independent Director (Yes/no)	Board meetings to be attended this year	Meetings attended in person	Meetings attended by correspondence	Meetings attended by proxy	Absence	Absent from two consecutive meetings (Yes/no)	Shareholders' General Meetings attended
Li Minji	No	10	10	4	0	0	No	2
Wang Hongjun	No	10	9	4	1	0	No	0
Luo Qianyi	No	4	4	2	0	0	No	0
Zhang Jianhua	No	10	9	4	1	0	No	2
Guan Wenjie	No	2	2	1	0	0	No	0
Wang Yiping	No	2	2	1	0	0	No	0
Song Jiqing	No	2	2	1	0	0	No	0
Ma Xiaoyan	No	10	10	4	0	0	No	0
Zou Libin	No	10	9	4	1	0	No	0
Zhang Wei	No	10	9	4	1	0	No	0

Director	Independent Director (Yes/no)	Attendance at Board Meeting: Board meetings to be attended this year	Meetings attended in person	Meetings attended by correspondence	Meetings attended by proxy	Absence	Absent from two consecutive meetings (Yes/no)	Attendance at Shareholders' General Meetings: Shareholders' General Meetings attended
Zou Xiulian	No	2	2	1	0	0	No	0
Chen Yonghong	Yes	10	10	4	0	0	No	1
Wang Huacheng	Yes	10	10	4	0	0	No	0
Ding Yi	Yes	2	2	1	0	0	No	0
Zhao Hong	Yes	2	2	1	0	0	No	0
Guo Qingwang	Yes	2	2	1	0	0	No	0
Gong Zhiqiang	Yes	2	2	1	0	0	No	0
Lv Wendong	Yes	2	2	1	0	0	No	0
Li Jianbo	No	3	3	1	0	0	No	0
Liu Chunhua	No	3	3	1	0	0	No	1
Ren Yongguang	No	3	1	1	2	0	No	0
Zeng Xiangquan	Yes	3	3	1	0	0	No	0
Yu Changchun	Yes	3	3	1	0	0	No	1
Xiao Wei	Yes	8	8	3	0	0	No	0
Yang Delin	Yes	8	8	3	0	0	No	0

Number of Board meetings held this year	10
Of which: Number of onsite meetings	6
Number of meetings held by correspondence	4

9.5.2 Dissents of independent directors on relevant issues of the Company

During the reporting period, independent directors did not raise any dissents on relevant issues of the Company.

During the reporting period, the Board of Directors of the Company kept the number of independent directors more than one third of its members. All independent directors earnestly attended meetings and reviewed proposals, performed the role of conveners for the Related Party Transactions Control Committee, the Nomination Committee, the Remuneration and Assessment Committee and the Audit Committee and gave independent opinions on cash dividends, external guarantee, related party transactions, appointment of accounting firm, election of directors, appointment of senior management members and other major issues, and voiced the prior approval opinions on related party transactions, appointment of accounting firm and related issues throughout the year in the interest of depositors and minority shareholders pursuant to laws, regulations and the Articles of Association.

9.6 DUTY PERFORMANCE OF SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS DURING THE REPORTING PERIOD

During the reporting period, all special committees of the Board of Directors operated in a well-disciplined manner, made good use of their respective advantages in line with their working rules, issued professional opinions and suggestions, and performed their duties diligently.

The Strategy Management and Consumer Protection Committee held one meeting and reviewed and approved the proposals relating to the Committee's annual work plan for 2020, action plan for inclusive finance development in 2020, report on internal capital adequacy assessment process for 2019, annual report on capital adequacy ratio for 2019, report on green finance implementation in 2019, annual assessment report on 2017-2020 Development Program, report on the work of consumer protection in 2019 and work arrangements for 2020.

The Risk & Compliance Management Committee held three meetings and reviewed and approved the proposals relating to the Committee's annual work plan for 2020, report on risk management in 2019, risk management strategy for 2020, risk appetite assessment results for 2019 and adjustment opinion for 2020, report on liquidity risk management in H1 2020, report on interest rate risk in the banking book (IRRBB) management in H1 2020, report on market risk management in H1 2020, report on credit risk management in H1 2020, IRRBB management policy, formulation of the administrative measures for allowance for impairment losses on credit assets, formulation of the money laundering and terrorist financing risk management policy and formulation of the code of professional conduct.

The Related Party Transactions Control Committee held one meeting. The following proposals were reviewed and approved at the meeting: the work plan for the committee in 2020, the implementation of related party transaction policies and the report on related party transactions in 2019 and the quota for related party transactions in 2020.

The Audit Committee held four meetings and reviewed and approved the proposals relating to the Committee's annual work plan for 2020, report on duty performance in 2019, final accounts report in 2019, profit distribution plan in 2019, financial budget report for 2020, consolidated management report for 2019, annual report for 2019, internal audit report of 2019, internal control evaluation report for 2019, internal audit work plan for 2020, first quarterly report of 2020, interim report of 2020, internal audit work report in H1 2020, internal control assessment plan for 2020, 2020 performance contract of the Audit Department, third quarterly report of 2020, distribution of dividends for preference shares in 2020, engagement of external auditor for 2020 and its compensation, appointment of accounting firm for 2021, changes in accounting policies, revision of internal audit management measures and revision of implementing rules for annual performance assessment of the staff of the Audit Department. It also heard the external audit work report for 2019 presented by Deloitte Touche Tohmatsu Certified Public Accountants LLP.

The Remuneration and Assessment Committee held two meetings and reviewed the proposals relating to the Committee's annual work plan for 2020, 2019 assessment results of senior management members, bonus pool for senior management members not in the charge of Beijing municipality in 2019, plan on bonus distribution to senior management members not in the charge of Beijing municipality in 2019, suggestions on remuneration distribution to senior management members in the charge of Beijing municipality in 2019, disclosure of remuneration of directors, supervisors and senior management in the 2019 annual report, refund of risk security deposits to Head Office-level senior management members in 2020 and the quantitative performance assessment plan for senior management in 2020. It also assessed and appraised the duty performance of senior management members in 2019.

The Nomination Committee held three meetings and reviewed and approved the proposals on qualifications of candidates for directors on the Eighth Board of Directors, qualifications of the candidate for President, qualifications of the candidate for Secretary to the Board and qualifications of candidates for Vice Presidents and Principal of Financial Affairs.

9.7 DUTY PERFORMANCE OF THE BOARD OF SUPERVISORS

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 and risk management and implementation of information disclosure policies having no dissents on those matters under supervision.

During the reporting period, the Board of Supervisors held eight meetings of the Board of Supervisors and six meetings of the Supervisory Committee ad one meeting of the Nomination Committee, and reviewed and adopted 20 resolutions covering the work report of the Board of Supervisors, the Company's regular reports, financial statements, special inspection reports, internal control assessment report and social responsibility report in accordance with the Articles of Association of the Company and the procedural rules on the Board of Supervisors. A total of nine inspections and surveys were conducted, including a survey of the Company's operating conditions in 2019 and its operating plan or 2020, an examination of the duty performance of the Board of Directors and its members and the senior management and its members in 2019, an examination of the rectification work on internal and external inspection findings of the company, an examination of the Company's anti-money laundering management, a field survey of the Company's risk management system reform; a field survey of the Company's FinTech development of and risk management, a survey of the Company's regional strategy of "regional development strategy of "Three Regions, Two Lines and Multiple Points", an onsite examination of the Company's non-performing asset management and a survey of the Company's four-year development plan and the planning for the new phase of development.

9.8 STATEMENT ON INDEPENDENCE FROM THE LARGEST SHAREHOLDER

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.

9.9 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. During the reporting period, the Company's implementing rules for the information disclosure policy and its insider registration policy was revised and the in-house training on information disclosure was strengthened to ensure timely and accurate reporting of major information. 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. The Company prepared and disclosed four regular reports and 46 interim announcements in the year and informed the investors of such significant information as financial data, reelections, related party transactions, profit distribution plan and bond issuance on a timely basis. The Company received the best result (Grade A, Excellent) in the Shanghai Stock Exchange's annual information disclosure evaluation of listed companies.

The Company made interactions and communication with investors by telephone, through internet or otherwise amid the COVID-19 pandemic, as part of its sustained effort to deepen the investor relations management. It held teleconferences with investors and analysts as well as online explanatory session on cash dividend distribution 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 enhanced their understanding of the Company and promoted the positive interaction between the Company and the capital market.

9.10 REPORT ON THE INTERNAL CONTROL SELF-ASSESSMENT

The Board of Directors of the Company assessed the effectiveness of the Company's internal control as at 31 December 2020 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 *2020 Report on Internal Control Evaluation of Hua Xia Bank Co., Limited* disclosed by the Company on the SSE website (www.sse.com.cn).

9.11 EXPLANATION ON AUDITOR'S REPORT ON INTERNAL CONTROL

The Company engaged Deloitte Touche Tohmatsu Certified Public Accountants 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.

SECTION X FINANCIAL STATEMENTS

SECTION XI LIST OF DOCUMENTS FOR INSPECTION

11.1 Accounting Statements Bearing Seals and Signatures of the Legal Representative, President, and Principal of Financial Affairs

11.2 Original of the Auditor's Report Bearing Common Seal of the Accounting Firm and Seals and Signatures of CPAs

11.3 Original of the Annual Report Bearing the Signature of Chairman of the Company

11.4 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

11.5 Articles of Association of Hua Xia Bank Co., Limited.

Chairman: Li Minji

Board of Directors of Hua Xia Bank Co., Limited

28 April 2021

WRITTEN CONFIRMATION OF 2020 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 2017)*, we, as directors, supervisors and senior management members of Hua Xia Bank Co., Limited, have fully read and examined the 2020 Annual Report of the Company and its Summary and hereby confirms that:

1. The Company operated in strict accordance with the *Accounting Standards for Business Enterprises* and the guidelines for its application, and the 2020 Annual Report of the Company and its Summary fairly present the financial position and operating conditions of the Company for the reporting year.

2. The *Auditors' Report on Hua Xia Bank Co., Limited for the Year Ended 31 December 2020* issued by certified public accounts of Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership) are truthful, objective and impartial.

We hereby guarantee that the 2020 Annual Report of the Company and its Summary 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 2021

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	
Luo Qianyi	Vice Chairman of the Board of Directors, Non-executive Director	
Zhang Jianhua	Executive Director, President	
Guan Wenjie	Executive Director, Vice President, Principal of Financial Affairs	
Wang Yiping	Executive Director, Vice President	
Song Jiqing	Executive Director, Secretary to the Board	
Ma Xiaoyan	Non-executive Director	
Zou Libin	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	
Hua Shiguo	Supervisor Representing Shareholder	
Ding Zhaohua	Supervisor Representing Shareholder	
Lin Xin	External Supervisor	
Wu Changqi	External Supervisor	
Ma Yuanju	External Supervisor	
Zhu Xiaofang	External Supervisor	
Zhao Xijun	External Supervisor	
Sun Tongjun	Employee Supervisor	
Zhu Jiang	Employee Supervisor	
Xu Xinming	Employee Supervisor	
Yang Wei	Vice President	

Auditor's Report

AUDITOR'S REPORT

D.SH.B. (SH) Z. (21) No. P03202

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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"), which comprise balance sheet as at 31 December 2020, income statement, statement of cash flows and statement of changes in equity of the Group and the Bank for the year then ended and notes to these Financial Statements.

In our opinion, the attached financial statements 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 2020 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 determine the followings are the key audit issues that merit communication in our auditor's report.

1. Measurement of expected credit losses (ECL) on loans and advances to customers measured at amortized cost:

Issue description

As indicated by Note IX-6 Loans and Advances to Customers to the Financial Statements, the Group's and the Bank's balance of loans and advances to customers measured at amortized cost as at 31 December 2020 stood at RMB1,991,270 million and RMB1,874,894 million respectively, with the balance of relevant allowances for credit losses being RMB55,460 million and RMB50,344 million respectively. As indicated by Note V-3, the Management should make major accounting estimates and judgments on whether the credit risk has increased significantly, grouping of assets with similar credit risk characteristics and assumptions and forward-looking information used by ECL measurement model in measuring ECL. As the balance of loans and advances to customers is of importance and significant estimations and judgments are involved while the senior management measures expected credit losses, we have identified the measurement of expected credit losses on loans and advances to customers measured at amortized cost as a key audit issue.

AUDITOR’S REPORT (CONTINUED)

D.SH.B. (SH) Z. (21) No. P03202

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III. KEY AUDIT ISSUES (CONTINUED)

1. Measurement of expected credit losses (ECL) on loans and advances to customers measured at amortized cost (continued):

Audit countermeasure:

The major audit procedures we have implemented are listed as below:

- Testing and assessing the effectiveness of the design and implementation of internal controls relating to the measurement of credit losses on loans and advances to customers;
- Reviewing the appropriateness and reasonableness of expected credit loss model with the assistance from in-house credit risk model experts and evaluating the reasonableness of stages, probability of default (PD), loss given default (LGD), exposure at default (EAD), forward-looking information and other parameters and assumptions;
- Conducting credit review with selected samples and examining and evaluating the basis of the Management’s major judgments on identification of defaulted and credit-impaired loans and whether credit risk has increased significantly and its reasonableness;
- Executing re-calculation procedures with samples to test the accuracy of calculations related to the expected credit loss model;
- Assessing the adequacy and appropriateness of disclosures made in the financial statements relating to the expected credit losses on loans and advances to customers measured at amortized cost.

2. Consolidated recognition of structured entities:

Issue description

As indicated by Note XIV. Structured Entities, structured entities mainly include asset-backed securities, financial institutions’ asset management plans, fund investments and beneficiary rights of assets the Bank issues, manages or invests in. The Bank enjoys rights and interests in structured entities by initiating establishment, directly holding investments, reserving equity shares, or other means. As indicated by Note V-4, while determining whether the Bank should include the structured entities into the consolidated scope, the senior management needs to consider powers exercised by the Bank over such entities, risks exposed to it due to them and compensation entitled to it through the related activities of the structured entities as well as the ability though which it may wield the related authority to influence its variable returns. The recognition of structured entities requires the senior management to make significant accounting estimation and judgment, and whether these entities can be consolidated will have major bearings on the Bank’s financial statements.

AUDITOR'S REPORT (CONTINUED)

D.SH.B. (SH) Z. (21) No. P03202

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III. KEY AUDIT ISSUES (CONTINUED)

2. Consolidated recognition of structured entities (continued):

Audit countermeasure:

The major audit procedures we have implemented are listed as below:

- examining and testing the internal controls relating to consolidation of structured entities;
- Sampling and checking the related contract documents, and assessing the appropriateness of the conclusion on whether the Bank can control and should consolidate the structured entities in terms of the powers exercised by the Bank over these entities, the variable returns from such entities, and the ability of the Bank to influence such returns by wielding its authority;
- Assessing the adequacy and appropriateness of disclosures made in the financial statements relating to the structured entities.

IV. OTHER INFORMATION

The senior management of the Bank shall be liable for other information. The other information comprises the information included in the 2020 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 of the Bank 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, terminates its operation or has no other feasible choice.

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

AUDITOR'S REPORT (CONTINUED)

D.SH.B. (SH) Z. (21) No. P03202

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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)

D.SH.B. (SH) Z. (21) No. P03202

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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.

Deloitte Touche Tohmatsu Certified Public Accountants LLP Special general partnership	Certified Public Accountants Registered in China	Wen Qisi (Engagement Partner)
	Certified Public Accountants Registered in China	Ma Xiaobo

Shanghai, China

28 April 2021

BALANCE SHEET OF THE GROUP AND THE BANK

31 December 2020 (In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note IX	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Assets					
Cash on hand and balances with central banks	1	204,082	192,911	203,182	192,428
Due from banks	2	18,505	15,938	18,356	15,896
Placements with banks and other financial institutions	3	36,470	23,461	38,380	23,961
Derivative financial assets	4	12,361	926	12,361	926
Financial assets purchased under agreements to resell	5	24,776	24,050	23,582	24,050
Loans and advances to customers	6	2,059,825	1,829,171	1,948,555	1,732,552
Financial investments					
Held-for-trading financial assets	7	123,848	89,783	123,547	89,783
Debt investments	8	702,909	675,286	700,879	673,615
Other debt investments	9	172,926	129,400	172,926	129,400
Other equity instrument investments	10	5,484	4,961	5,472	4,946
Long-term equity investments	11	–	–	8,090	5,090
Fixed assets	12	13,584	13,466	13,553	13,435
Intangible assets		86	80	73	75
Deferred income tax assets	13	10,155	8,574	9,432	7,886
Other assets	14	14,805	12,782	13,049	10,774
Total assets		3,399,816	3,020,789	3,291,437	2,924,817

BALANCE SHEET OF THE GROUP AND THE BANK (CONTINUED)

31 December 2020 (In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note IX	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Liabilities					
Due to central banks	16	131,036	143,617	130,939	143,566
Due to banks and other financial institutions	17	434,992	302,337	440,136	303,561
Placements from banks and other financial institutions	18	109,017	104,064	19,905	26,409
Derivative financial assets	4	12,365	1,802	12,365	1,802
Financial assets sold under agreements to repurchase	19	49,155	93,774	47,975	93,423
Deposits taken	20	1,837,020	1,671,276	1,834,258	1,669,062
Accrued payroll	21	6,961	6,647	6,802	6,526
Taxes and dues payable	22	7,740	5,572	7,257	5,083
Debt obligations payable	23	511,814	403,584	504,702	398,495
Projected liabilities	24	2,309	2,147	2,302	2,135
Other liabilities	25	14,752	16,632	8,283	9,911
Total liabilities		3,117,161	2,751,452	3,014,924	2,659,973
Equity					
Share capital	26	15,387	15,387	15,387	15,387
Other equity instruments	27	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	28	53,292	53,292	53,291	53,291
Other comprehensive income	41	(714)	1,084	(706)	1,087
Surplus reserve	29	17,756	15,662	17,756	15,662
General risk reserve	30	38,683	34,706	37,424	33,753
Retained profit	31	96,238	87,486	93,390	85,693
Total equity attributable to shareholders of the parent company		280,613	267,588	276,513	264,844
Minority entity		2,042	1,749	–	–
Total shareholders' equity		282,655	269,337	276,513	264,844
Total liabilities and equity		3,399,816	3,020,789	3,291,437	2,924,817

The accompanying notes are an integral part of these financial statements

The financial statements on pages 131-265 are signed by:

Legal representative	President	Principal of Financial Affairs	Seal
Li Minji	Zhang Jianhua	Guan Wenjie	

INCOME STATEMENT OF THE GROUP AND THE BANK

1 January to 31 December 2020 (In RMB millions, unless otherwise stated)

	Note IX	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
I. Operating income		**95,309**	**84,734**	**90,622**	**81,401**
Net interest income	32	81,967	72,395	77,363	69,074
Interest income		147,239	136,271	139,767	130,131
Interest expense		(65,272)	(63,876)	(62,404)	(61,057)
Net fee and commission income	33	10,558	10,182	10,512	10,209
Fee and commission income		14,207	13,247	14,215	13,247
Fee and commission expenses		(3,649)	(3,065)	(3,703)	(3,038)
Investment loss/(gain)	34	1,870	1,231	1,870	1,231
Of which: Gains on derecognition of financial assets measured at amortized cost		–	–	–	–
Gains on changes in fair value	35	503	823	503	823
Exchange gains/losses	36	192	(132)	192	(132)
Other operating income		192	192	155	155
Gains on asset disposal		3	15	3	15
Other income		24	28	24	26
II. Operating expenses		**(68,158)**	**(57,237)**	**(65,707)**	**(55,452)**
Tax and surcharges	37	(1,076)	(890)	(1,039)	(856)
General and administrative expenses	38	(26,622)	(25,920)	(26,240)	(25,588)
Impairment losses on credit	39	(40,010)	(30,251)	(37,992)	(28,842)
Other impairment losses on assets		(421)	(154)	(421)	(154)
Other business costs		(29)	(22)	(15)	(12)
III. Operating profit		**27,151**	**27,497**	**24,915**	**25,949**
Plus: Non-operating income		160	168	134	149
Less: Non-operating expenses		(158)	(102)	(156)	(101)
IV. Total profit		**27,153**	**27,563**	**24,893**	**25,997**
Less: Income tax expense	40	(5,585)	(5,448)	(4,979)	(5,055)
V. Net profit		**21,568**	**22,115**	**19,914**	**20,942**
i. Classified by operational continuity					
1. Net profit from continuous operation		21,568	22,115	19,914	20,942
2. Net profit from ceased operation		–	–	–	–
ii. Classified by ownership affiliation					
1. Net profit attributable to shareholders of the parent company		21,275	21,905	19,914	20,942
2. Minority shareholders' gains/losses		293	210	–	–
VI. After-tax other comprehensive income	41	**(1,639)**	**(69)**	**(1,634)**	**(66)**
i. Other comprehensive income not to be classified as profit/loss		(215)	(455)	(210)	(452)
1. Changes in fair value of other equity instrument investments		(215)	(455)	(210)	(452)
ii. Other comprehensive income to be classified as profit/loss		(1,424)	386	(1,424)	386
1. Change in fair value of financial assets measured at fair value through other comprehensive income		(1,341)	95	(1,341)	95
2. Change in fair value of allowances for credit losses on investment in financial assets measured at fair value through other comprehensive income		(83)	291	(83)	291
After-tax other comprehensive income attributable to shareholders of the parent company		(1,639)	(69)	(1,634)	(66)
After-tax other comprehensive income attributable to minority shareholders		–	–	–	–
VII. Total Comprehensive Income		**19,929**	**22,046**	**18,280**	**20,876**
Total comprehensive income attributable to shareholders of the parent company		19,636	21,836	18,280	20,876
Total comprehensive income attributable to minority shareholders		293	210	–	–
VIII. Earnings per share					
Basic earnings per share (RMB yuan)	42	1.20	1.37		

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS OF THE GROUP AND THE BANK

1 January to 31 December 2020 (In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note IX	2020	2019	2020	2019
Cash flows from operating activities					
Net increase in customer deposits and due to banks and other financial institutions		294,341	172,057	297,718	173,079
Net decrease in balances with central banks and due from banks and other financial institutions		2,134	28,528	2,087	28,476
Net increase in placements from banks and other financial institutions and financial assets purchased under agreements to resell		–	105,451	–	85,601
Net decrease in placements with banks and other financial institutions and financial assets purchased under agreements to resell		–	14,752	–	14,252
Net decrease in held-for-trading financial assets		–	1,141	–	1,141
Net increase in business debt obligations payable		65,077	63,140	65,077	63,140
Proceeds from interest and fee & commission		129,721	122,738	122,333	116,633
Other proceeds received related to operating activities		1,796	2,364	1,503	1,605
Sub-total of cash inflows from operating activities		493,069	510,171	488,718	483,927
Net increase in loans and advances to customers		(266,629)	(295,951)	(249,974)	(271,884)
Net decrease in placements from banks and other financial institutions and financial assets purchased under agreements to resell		(39,485)	–	(51,784)	–
Net increase in placements with banks and other financial institutions and financial assets purchased under agreements to resell		(26,069)	–	(25,568)	–
Net decrease in due to central banks		(11,654)	(29,513)	(11,700)	(29,500)
Net increase in held-for-trading financial assets		(9,324)	–	(9,023)	–
Cash paid as interest and fee & commission expenses		(61,653)	(59,515)	(59,047)	(57,143)
Cash paid to and for employees		(14,670)	(15,381)	(14,411)	(15,147)
Taxes and dues paid		(12,296)	(13,346)	(11,607)	(12,961)
Other cash paid related to operating activities		(16,530)	(17,383)	(16,182)	(16,233)
Sub-total of cash outflows from operating activities		(458,310)	(431,089)	(449,296)	(402,868)
Net cash flows from operating activities	44	34,759	79,082	39,422	81,059
Cash flows from investing activities					
Proceeds from disposal of investments		498,658	518,775	498,079	517,900
Investment gains received		36,797	34,851	36,716	34,788
Net gains on disposal of fixed assets, intangible assets and other long-term assets		206	332	204	331
Sub-total of cash inflows from investing activities		535,661	553,958	534,999	553,019
Acquisition of investments		(596,099)	(614,588)	(595,166)	(613,043)
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(1,266)	(1,014)	(1,260)	(1,012)
Cash paid for acquisition of subsidiaries		–	–	(3,000)	–
Sub-total of cash outflows from investing activities		(597,365)	(615,602)	(599,426)	(614,055)
Net cash flows from investing activities		(61,704)	(61,644)	(64,427)	(61,036)

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

1 January to 31 December 2020 (In RMB millions, unless otherwise stated)

	Note IX	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
Cash flows from financing activities					
Proceeds from disposal of investments		–	39,993	–	39,993
Proceeds from issuance of bonds		65,000	2,500	63,000	–
Sub-total of cash inflows from financing activities		65,000	42,493	63,000	39,993
Cash paid for debt repayment		(22,000)	(25,000)	(22,000)	(25,000)
Cash paid for dividends and profit distribution or interest repayment		(10,776)	(8,663)	(10,583)	(8,558)
Sub-total of cash outflows from financing activities		(32,776)	(33,663)	(32,583)	(33,558)
Net cash flows from financing activities		32,224	8,830	30,417	6,435
Effect of exchange rate changes on cash and cash equivalents		(582)	195	(582)	195
Net change of cash and cash equivalents	44	4,697	26,463	4,830	26,653
Plus: Opening balance of cash and cash equivalents		92,667	66,204	92,167	65,514
Closing balance of cash and cash equivalents	43	97,364	92,667	96,997	92,167

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 January to 31 December 2020 (In RMB millions, unless otherwise stated)

		Equity attributable to shareholders of the parent company									
	Note IX	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Sub-total	Minority interests	Total
I. Balance as at 1 January 2020		15,387	59,971	53,292	1,084	15,662	34,706	87,486	267,588	1,749	269,337
II. Changes during the year											
i. Net profit		–	–	–	–	–	–	21,275	21,275	293	21,568
ii. Other comprehensive income	41	–	–	–	(1,639)	–	–	–	(1,639)	–	(1,639)
Subtotal of the above i and ii		–	–	–	(1,639)	–	–	21,275	19,636	293	19,929
iii. Profit distribution											
1. Surplus reserve withdrawn	29	–	–	–	–	2,094	–	(2,094)	–	–	–
2. General risk reserve allocated	30	–	–	–	–	–	3,977	(3,977)	–	–	–
3. Distribution of dividends on ordinary shares	31	–	–	–	–	–	–	(3,831)	(3,831)	–	(3,831)
4. Distribution of dividends on preference shares	31	–	–	–	–	–	–	(840)	(840)	–	(840)
5. Profit distribution to holders of other equity instruments 31		–	–	–	–	–	–	(1,940)	(1,940)	–	(1,940)
iv. Internal transfer of owner's equity											
1. Other comprehensive income transferred to retained earnings	10	–	–	–	(159)	–	–	159	–	–	–
III. Balance as at 31 December 2020		15,387	59,971	53,292	(714)	17,756	38,683	96,238	280,613	2,042	282,655

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

1 January to 31 December 2020

(In RMB millions, unless otherwise stated)

		Equity attributable to shareholders of the parent company									
	Note IX	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Sub-total	Minority interests	Total
I. Balance as at 1 January 2019		15,387	19,978	53,292	1,153	13,635	31,788	74,043	209,276	1,539	210,815
II. Changes during the year											
i. Net profit		–	–	–	–	–	–	21,905	21,905	210	22,115
ii. Other comprehensive income	41	–	–	–	(69)	–	–	–	(69)	–	(69)
Subtotal of the above i and ii		–	–	–	(69)	–	–	21,905	21,836	210	22,046
iii. Capital injection by equity holders											
1. Capital injection by holders of other equity instruments	27	–	39,993	–	–	–	–	–	39,993	–	39,993
iv. Profit distribution											
1. Surplus reserve withdrawn	29	–	–	–	–	2,027	–	(2,027)	–	–	–
2. General risk reserve allocated	30	–	–	–	–	–	2,918	(2,918)	–	–	–
3. Distribution of dividends on ordinary shares	31	–	–	–	–	–	–	(2,677)	(2,677)	–	(2,677)
4. Distribution of dividends on preference shares	31	–	–	–	–	–	–	(840)	(840)	–	(840)
III. Balance as at 31 December 2019		15,387	59,971	53,292	1,084	15,662	34,706	87,486	267,588	1,749	269,337

The accompanying notes are an integral part of these financial statements

BANK STATEMENT OF CHANGES IN EQUITY

1 January to 31 December 2020

(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	41	–	–	–	(1,634)	–	–	–	(1,634)
Subtotal of the above i and ii		–	–	–	(1,634)	–	–	19,914	18,280
iii. Profit distribution									
1. Surplus reserve withdrawn	29	–	–	–	–	2,094	–	(2,094)	–
2. General risk reserve allocated	30	–	–	–	–	–	3,671	(3,671)	–
3. Distribution of dividends on ordinary shares	31	–	–	–	–	–	–	(3,831)	(3,831)
4. Distribution of dividends on preference shares	31	–	–	–	–	–	–	(840)	(840)
5. Profit distribution to holders of other equity instruments	31	–	–	–	–	–	–	(1,940)	(1,940)
iv. Internal transfer of owner' s equity									
1. Other comprehensive income transferred to retained earnings	10	–	–	–	(159)	–	–	159	–
III. Balance as at 31 December 2020		15,387	59,971	53,291	(706)	17,756	37,424	93,390	276,513

BANK STATEMENT OF CHANGES IN EQUITY (CONTINUED)

1 January to 31 December 2020 (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 2019		15,387	19,978	53,291	1,153	13,635	31,019	73,029	207,492
II. Changes during the year									
i. Net profit		–	–	–	–	–	–	20,942	20,942
ii. Other comprehensive income	41	–	–	–	(66)	–	–	–	(66)
Subtotal of the above i and ii		–	–	–	(66)	–	–	20,942	20,876
iii. Capital injection by equity holders									
1. Capital injection by holders of other equity instruments	27	–	39,993	–	–	–	–	–	39,993
iv. Profit distribution									
1. Surplus reserve withdrawn	29	–	–	–	–	2,027	–	(2,027)	–
2. General risk reserve allocated	30	–	–	–	–	–	2,734	(2,734)	–
3. Distribution of dividends on ordinary shares	31	–	–	–	–	–	–	(2,677)	(2,677)
4. Distribution of dividends on preference shares	31	–	–	–	–	–	–	(840)	(840)
III. Balance as at 31 December 2019		15,387	59,971	53,291	1,087	15,662	33,753	85,693	264,844

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 January to 31 December 2020 (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 2020, in addition to the Head Office, the Bank had established 44 tier-1 branches in Chinese mainland, with outlets totaling 1,022.

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 2020, 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 2020, 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 financial asset 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 financial assets 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, financial assets 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 financial assets measured at fair value through other comprehensive income, is recorded into current profit or loss as impairment losses or gains. For a financial asset 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 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 book amount 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 instruments

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 financial asset 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 means 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 cost 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

Repossessed assets are initially recognized at fair value, and subsequently measured at the book value or recoverable amount at the end of the period, whichever is lower. When the recoverable amount of the repossessed asset is lower than its book value, impairment reserve for the asset will be set aside.

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, intangible assets with a fixed service life and assets relating to contract cost 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.

In determining the impairment loss on assets relating to contract cost, the impairment loss will be determined first for other assets relating to contract and recognized pursuant to other relevant accounting standards for business enterprises. Then, if the book value of the assets relating to contract cost is higher than the difference between the following two items, impairment allowance will be allocated for the excess and recognized as asset impairment loss: (1) The remaining consideration expected to be obtained by the Group due to the transfer of goods or services related to the asset; or (2) the costs to be incurred for the transfer of such relevant goods or services.

Except impairment loss of assets relating to contract cost, the above impairment loss of assets will not be reversed in the subsequent accounting periods once it is recognized. If the impairment factors of an asset relating to contract cost in previous periods have changed after allocating impairment allowance, so that the difference between the above two items exceeds the book value of the asset, the allocated impairment allowance will be reversed and included in profit or loss, but the book value of the asset after reversal shall not exceed the book value of the asset it would have been without the impairment allowance.

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-lone 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.

Except that current income tax and deferred income tax relating with transactions or events directly recorded as other comprehensive income are recognized as other comprehensive income, and that book value of the goodwill is adjusted for deferred income tax arising from business combination, all the other expenses or income from current income tax and deferred income tax will be recorded through current profit or loss.

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. Leasing

Financial lease is substantially a type of lease where all risks and compensations relating with the assets are transferred. Operating lease includes all leases other than the financial lease.

The Group records operating lease as the leaser

The rental income from operating lease is recognized through current profit or loss in each period of the lease term based on the straight-line method. The initial direct expenses with larger amount are capitalized at occurrence and recorded through current profit or loss over the whole lease period by phase according to the same basis as rental income recognition; other initial direct expenses with smaller amount are recorded through current profit or loss at occurrence. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

The Group records financial lease as the leaser

On the starting date of the financial lease, the sum of the minimum rental income and the initial direct expense will be posted as the financial lease receivable and recorded into loans and advances to customers in the balance sheet. The unsecured balance will be recorded at the same time. The difference between the sum of minimum rental income, initial direct expense and unsecured balance and the present value thereof will be recognized as unrealized financing income. Within the lease period, the current interest income will be recognized based on the effective interest rate method. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

The Group records operating lease as the leasee

The rental expenses for operating lease are recognized as current profit or loss in each period of the lease term based on the straight-line method. Initial direct expenses are recorded through profit or loss. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

In the case that the leaser offers incentives for the operating lease, all the preferential factors arising from the incentives will be deducted from the rental expenses based on the straight-line method.

23. Debt restructuring

Obligations to record debt restructuring as debtor

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

The Group adopted the *Accounting Standard for Business Enterprises No. 14 – Revenue* revised and published in 2017 on 1 January 2020. This revision unifies the current revenue standards and construction contract standards in one revenue recognition model, replacing the previous “risk reward transfer” with “control transfer” as the criteria for revenue recognition, and at the same time clarifying some specific applications in revenue recognition. The adoption of the above revision has no significant impact on the financial position, operating results or cash flows of the Group.

VII. MAJOR ITEMS

1. Enterprise income tax

The Chinese corporate income tax rate of 25% is applicable to all taxable entities within the Group (2019: 25%). 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, 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 (2019: 25%).

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 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 2020 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	25	Bank
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	2011	Kunming	50	70.00	70.00	20	Bank
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	2011	Jiangyou	75	70.00	70.00	37	Bank
Huaxia Financial Leasing Co., Ltd.	2013	Kunming	6,000	82.00	82.00	1,960	Financial leasing
Huaxia Wealth Management Co., Ltd.	2020	Beijing	3,000	100.00	100.00	–	Asset management

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 2020	31 December 2019	31 December 2020	31 December 2019
Cash on hand		2,062	1,980	2,051	1,971
Statutory reserves with central banks	(1)	154,978	154,079	154,858	153,931
Excess reserves with central banks	(2)	45,777	35,693	45,008	35,367
Other balances with central banks	(3)	1,265	1,159	1,265	1,159
Total		**204,082**	**192,911**	**203,182**	**192,428**

(1) The Group deposits statutory reserves for general deposits with PBOC as required. The percentage of reserves is specified below:

	31 December 2020	31 December 2019
RMB:		
The Bank	9.00%	9.50%
Beijing Daxing Hua Xia Rural Bank Co., Ltd	6.00%	7.50%
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	6.00%	7.50%
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	5.00%	6.50%
Foreign currency:	5.00%	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 2020	31 December 2019	31 December 2020	31 December 2019
Due from domestic banks and other financial institutions	7,833	8,231	7,680	8,188
Due from overseas banks and other financial institutions	10,724	7,691	10,724	7,691
Accrued interest	12	41	16	42
Less: Allowance for impairment losses	(64)	(25)	(64)	(25)
Book value of due from banks and other financial institutions	18,505	15,938	18,356	15,896

In 2020 and 2019, 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 2020	31 December 2019	31 December 2020	31 December 2019
Placements with domestic banks and other financial institutions	1,960	1,045	1,960	1,045
Placements with overseas banks and other financial institutions	327	–	327	–
Placements with other domestic financial institutions	34,232	22,486	36,132	22,986
Accrued interest	42	15	52	15
Less: Allowance for impairment losses	(91)	(85)	(91)	(85)
Book value of placements with banks and other financial institutions	36,470	23,461	38,380	23,961

In 2020 and 2019, 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 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

	The Group and the Bank		
	31 December 2019		
	Contractual/ nominal principal	Fair value	
		Assets	Liabilities
Foreign exchange forwards	7,192	59	41
Foreign exchange swaps	646,602	856	1,749
Interest rate swaps	18,950	5	6
Option contracts	1,060	6	6
Total		926	1,802

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 2020		
	Contractual/ nominal principal	Fair value	
		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 2020 was insignificant (the Group did not conduct the above business in 2019).

5. Financial assets purchased under agreements to resell

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
By collateral type:				
Bonds	14,765	16,867	13,571	16,867
Bills	10,271	7,449	10,271	7,449
Accrued interest	46	40	46	40
Less: Allowance for impairment losses	(306)	(306)	(306)	(306)
Book value of financial assets purchased under agreements to resell	24,776	24,050	23,582	24,050

6. Loans and advances to customers

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Loans and advances to customers measured at amortized cost (1)	1,991,270	1,738,871	1,874,894	1,638,946
Less: Allowance for impairment losses	(55,460)	(47,922)	(50,344)	(44,609)
Sub-total	1,935,810	1,690,949	1,824,550	1,594,337
Loans and advances to customers measured at fair value through other comprehensive income (2)	117,723	133,731	117,723	133,731
Accrued interest	6,292	4,491	6,282	4,484
Total	**2,059,825**	**1,829,171**	**1,948,555**	**1,732,552**

(1) The loans and advances to customers measured at amortized cost are distributed as follows:

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Corporate loans and advances to customers	1,396,759	1,235,868	1,281,360	1,136,816
Of which: Loan	1,352,532	1,201,602	1,237,133	1,102,550
Discounting	44,227	34,266	44,227	34,266
Personal loans and advances to customers	594,511	503,003	593,534	502,130
Of which: Residential mortgages	271,716	215,921	271,675	215,884
Credit Cards	169,283	168,262	169,283	168,262
Other	153,512	118,820	152,576	117,984
Total loans and advances to customers	1,991,270	1,738,871	1,874,894	1,638,946
Less: Allowance for impairment losses on loans and advances to customers	(55,460)	(47,922)	(50,344)	(44,609)
Of which: 12-month ECL	(19,233)	(16,458)	(16,095)	(13,980)
Lifetime ECL	(36,227)	(31,464)	(34,249)	(30,629)
Total	**1,935,810**	**1,690,949**	**1,824,550**	**1,594,337**

(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 2020	31 December 2019	31 December 2020	31 December 2019
Corporate loans and advances to customers				
Of which: Loan	39,548	29,748	39,548	29,748
Discounting	78,175	103,983	78,175	103,983
Total	117,723	133,731	117,723	133,731

(3) The loans and advances to customers are presented as follows by assessment method:

	The Group			
31 December 2020	Stage 1 12 months 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)

	The Group			
31 December 2019	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total loans and advances to customers measured at amortized cost	1,637,051	67,458	34,362	1,738,871
Less: Allowance for impairment losses on loans and advances to customers measured at amortized cost	(16,458)	(8,253)	(23,211)	(47,922)
Net loans and advances measured at amortized cost	1,620,593	59,205	11,151	1,690,949
Loans and advances to customers measured at fair value through other comprehensive income	133,731	–	–	133,731
Allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(668)	–	–	(668)

31 December 2020	The Bank Stage 1 12 months 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)

31 December 2019	The Bank Stage 1 12 months ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	 Total
Total loans and advances to customers measured at amortized cost	1,539,882	64,981	34,083	1,638,946
Less: Allowance for impairment losses on loans and advances to customers measured at amortized cost	(13,980)	(7,636)	(22,993)	(44,609)
Net loans and advances measured at amortized cost	1,525,902	57,345	11,090	1,594,337
Loans and advances to customers measured at fair value through other comprehensive income	133,731	–	–	133,731
Allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(668)	–	–	(668)

(4) Changes in allowance for impairment losses on loans and advances to customer measured at amortized cost:

	The Group			
	Stage 1 12 months 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 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 Group			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2019	15,536	7,078	32,520	55,134
Transfer to Stage 1	77	(62)	(15)	–
Transfer to Stage 2	(152)	552	(400)	–
Transfer to Stage 3	(72)	(1,505)	1,577	–
Charge for the year	1,068	2,190	25,499	28,757
Recovery for the year	–	–	645	645
Transfer-out due to increase of present value	–	–	(831)	(831)
Write-offs for the year	–	–	(35,785)	(35,785)
Change in exchange rate	1	–	1	2
31 December 2019	**16,458**	**8,253**	**23,211**	**47,922**

	The Group			
	Stage 1 12 months 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 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**

	The Group			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2019	13,876	6,685	32,375	52,936
Transfer to Stage 1	71	(56)	(15)	–
Transfer to Stage 2	(142)	542	(400)	–
Transfer to Stage 3	(71)	(1,478)	1,549	–
Charge for the year	245	1,943	25,360	27,548
Recovery for the year	–	–	642	642
Transfer-out due to increase of present value	–	–	(828)	(828)
Write-offs for the year	–	–	(35,691)	(35,691)
Change in exchange rate	1	–	1	2
31 December 2019	**13,980**	**7,636**	**22,993**	**44,609**

7. Held-for-trading financial assets

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Held-for-trading financial assets:				
Government bonds	181	182	181	182
Bonds of public entities and quasi-governments	975	2,449	975	2,449
Bonds of financial institutions	6,589	2,898	6,589	2,898
Corporate bonds	15,610	12,904	15,610	12,904
Certificates of deposit with banks and other financial institutions	1,020	–	1,020	–
Fund investments	6,595	3,735	6,595	3,735
Other investments measured at fair value through profit or loss:				
Asset management plan of financial institutions	20,096	19,752	20,096	19,752
Fund investments	70,517	45,735	70,216	45,735
Beneficiary rights of assets	1,998	2,004	1,998	2,004
Sub-total	123,581	89,659	123,280	89,659
Accrued interest	267	124	267	124
Total	123,848	89,783	123,547	89,783

8. Debt investments

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Government bonds	281,828	274,564	280,560	273,620
Bonds of public entities and quasi-governments	81,389	67,351	81,359	67,351
Bonds of financial institutions	39,248	52,301	39,248	52,301
Corporate bonds	65,319	53,571	64,419	52,671
Asset management plan of financial institutions	133,289	123,052	133,289	123,052
Debt financing plans	95,596	95,761	95,596	95,761
Beneficiary rights of assets	1,564	1,828	1,564	1,828
Standard bill assets	5	–	5	–
Sub-total	698,238	668,428	696,040	666,584
Accrued interest	9,868	9,415	9,856	9,408
Less: Allowance for impairment losses	(5,197)	(2,557)	(5,017)	(2,377)
Of which: 12-month ECL	(2,197)	(1,344)	(2,017)	(1,164)
Lifetime credit loss	(3,000)	(1,213)	(3,000)	(1,213)
Total	**702,909**	**675,286**	**700,879**	**673,615**

Credit risk and expected credit loss of bond investments:

	The Group			
	31 December 2020			
	Stage 1 12 months 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 Group			
	31 December 2019			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total debt investment	659,485	7,579	1,364	668,428
Accrued interest	9,364	51	–	9,415
Less: Allowance for impairment losses	(1,344)	(283)	(930)	(2,557)
Book value of debt investments	667,505	7,347	434	675,286

	The Bank			
	31 December 2020			
	Stage 1 12 months 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

	The Bank			
	31 December 2019			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total debt investment	657,641	7,579	1,364	666,584
Accrued interest	9,357	51	–	9,408
Less: Allowance for impairment losses	(1,164)	(283)	(930)	(2,377)
Book value of debt investments	665,834	7,347	434	673,615

Changes in allowance for impairment losses on debt investments are as follows:

	The Group			
	Stage 1 12 months 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 Group			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2019	1,052	516	877	2,445
Transfer to Stage 1	261	(261)	–	–
Transfer to Stage 2	(2)	2	–	–
Charge for the year	31	26	53	110
Effect of exchange rate	2	–	–	2
31 December 2019	**1,344**	**283**	**930**	**2,557**

Changes in allowance for impairment losses on debt investments are as follows:

	The Bank			
	Stage 1 12 months 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**

	The Bank			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2019	1,034	516	877	2,427
Transfer to Stage 1	261	(261)	–	–
Transfer to Stage 2	(2)	2	–	–
Charge/(reversal) for the year	(131)	26	53	(52)
Effect of exchange rate	2	–	–	2
31 December 2019	**1,164**	**283**	**930**	**2,377**

9. Other debt investments

	The Group and the Bank	
	31 December 2020	31 December 2019
Government bonds	27,182	16,278
Bonds of public entities and quasi-governments	37,617	36,408
Bonds of financial institutions	59,046	44,641
Corporate bonds	33,169	19,364
Certificates of deposit with banks and other financial institutions	13,678	10,917
Sub-total	170,692	127,608
Accrued interest	2,234	1,792
Total	**172,926**	**129,400**

	The Group and the Bank	
	31 December 2020	31 December 2019
Initial investment cost of other debt investments	171,007	126,125
Changes in fair value recorded in other comprehensive income accumulatively	(315)	1,483
Sub-total	170,692	127,608
Accrued interest	2,234	1,792
Cumulative allowance for impairment losses recognized in other comprehensive income	(149)	(40)

Credit risk and expected credit loss of other bond investments:

	The Group and the Bank			
	31 December 2020			
	Stage 1 12 months 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 months 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**

Credit risk and expected credit loss of other bond investments:

	The Group and the Bank			
	31 December 2019			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Other debt investments	127,608	–	–	127,608
Accrued interest	1,792	–	–	1,792
Book value of other debt investments	129,400	–	–	129,400
Allowance for impairment losses on other debt investments recorded into other comprehensive income	(40)	–	–	(40)

Changes in allowance for impairment losses on other debt investments are as follows:

	The Group and the Bank			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2019	38	–	–	38
Charge for the year	2	–	–	2
31 December 2019	**40**	**–**	**–**	**40**

10. Other equity instrument investments

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Equity investment	5,484	4,961	5,472	4,946

Analysis of information on other equity instrument investments is as follows:

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Initial investment cost of other equity instrument investments	6,588	5,567	6,567	5,548
Changes in fair value recorded in other comprehensive income accumulatively	(1,104)	(606)	(1,095)	(602)
Total	5,484	4,961	5,472	4,946

The equity instruments in the disposal of repossessed shares of the Group had a fair value of RMB488 million (2019: none) in 2020, and the cumulative gains on disposal and the amount of transfer from other comprehensive income to retained earnings was RMB159 million (2019: none).

11. Long-term equity investments

	The Bank	
	31 December 2020	31 December 2019
Subsidiaries		
– Huaxia Financial Leasing Co., Ltd.	4,920	4,920
– Huaxia Wealth Management Co., Ltd.	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	5,090

As at 31 December 2020 and 31 December 2019, there was no impairment in the Group's long-term equity investments.

On 11 September 2020, the Company received the *Approval of CBIRC on Opening of Huaxia Wealth Management Co., Ltd.* (Y.B.J.F. [2020] No. 591). CBIRC approved the Bank's wholly-owned subsidiary Huaxia Wealth Management Co., Ltd. to open for business with a registered capital of RMB3 billion.

12. Fixed assets

	The Group				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	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
Transfer-in/(transfer-out) of construction-in-process	–	–	–	–	–
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 Group				
	Houses and buildings	Office supplies and Electronic devices	Transportation facilities	Construction in-process	Total
Original value					
1 January 2019	12,816	7,499	141	1,064	21,520
Acquisition in the year	142	824	7	41	1,014
Transfer-in/(transfer-out) of construction-in-process	1,105	–	–	(1,105)	–
Sale/disposal	(11)	(350)	(6)	–	(367)
31 December 2019	14,052	7,973	142	–	22,167
Accumulative depreciation					
1 January 2019	(2,455)	(5,397)	(86)	–	(7,938)
Charge for the year	(354)	(729)	(11)	–	(1,094)
Sale/disposal	5	320	6	–	331
31 December 2019	(2,804)	(5,806)	(91)	–	(8,701)
Allowance for impairment losses					
1 January 2019	–	–	–	–	–
31 December 2019	–	–	–	–	–
Net amount					
1 January 2019	10,361	2,102	55	1,064	13,582
31 December 2019	11,248	2,167	51	–	13,466

	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
Transfer-in/(transfer-out) of construction-in-process	–	–	–	–	–
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

	The Bank				
	Houses and buildings	Office supplies and Electronic devices	Transportation facilities	Construction in-process	Total
Original value					
1 January 2019	12,786	7,475	139	1,064	21,464
Acquisition in the year	142	822	7	41	1,012
Transfer-in/(transfer-out) of construction-in-process	1,105	–	–	(1,105)	–
Sale/disposal	(11)	(349)	(6)	–	(366)
31 December 2019	**14,022**	**7,948**	**140**	**–**	**22,110**
Accumulative depreciation					
1 January 2019	(2,451)	(5,379)	(85)	–	(7,915)
Charge for the year	(353)	(727)	(11)	–	(1,091)
Sale/disposal	5	320	6	–	331
31 December 2019	**(2,799)**	**(5,786)**	**(90)**	**–**	**(8,675)**
Allowance for impairment losses					
1 January 2019	–	–	–	–	–
31 December 2019	**–**	**–**	**–**	**–**	**–**
Net amount					
1 January 2019	10,335	2,096	54	1,064	13,549
31 December 2019	**11,223**	**2,162**	**50**	**–**	**13,435**

As at 31 December 2020 and 31 December 2019, the Group has several houses and buildings 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. Deferred taxation

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Deferred income tax assets	10,155	8,574	9,432	7,886

(1) Changes in balance of deferred income tax assets

	The Group		The Bank	
	2020	2019	2020	2019
Balance at the beginning of the year	8,574	9,493	7,886	9,102
Recorded in profit or loss	982	(826)	947	(1,122)
Recorded in other comprehensive income	599	(93)	599	(94)
Balance at the end of the year	10,155	8,574	9,432	7,886

(2) Recorded into other comprehensive income

	The Group			
	31 December 2020		31 December 2019	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Allowance for impairment losses on loans	25,161	5,885	21,064	5,265
Wages set aside but not paid	6,837	1,700	6,540	1,635
Allowance for impairment losses on other assets	8,168	2,016	5,682	1,420
Changes in fair value of derivative financial instruments	4	1	876	219
Changes in fair value of held-for-trading financial assets	(1,771)	(443)	(1,274)	(318)
Changes in fair value of other debt investments	315	79	(1,483)	(371)
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	129	32	139	35
Changes in fair value of other equity instrument investments	1,104	275	606	151
Projected liabilities	2,309	577	2,147	536
Others	212	33	8	2
Total	42,468	10,155	34,305	8,574

	The Bank			
	31 December 2020		31 December 2019	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Allowance for impairment losses on loans	21,024	5,256	18,649	4,663
Wages set aside but not paid	6,716	1,679	6,445	1,611
Allowance for impairment losses on other assets	7,912	1,978	5,451	1,363
Changes in fair value of derivative financial instruments	4	1	876	219
Changes in fair value of held-for-trading financial assets	(1,771)	(443)	(1,274)	(318)
Changes in fair value of other debt investments	315	79	(1,483)	(371)
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	129	32	139	35
Changes in fair value of other equity instrument investments	1,095	274	602	150
Projected liabilities	2,302	576	2,135	534
Others	(2)	–	1	–
Total	37,724	9,432	31,541	7,886

14. Other assets

		The Group		The Bank	
		31 December 2020	31 December 2019	31 December 2020	31 December 2019
Receivables and payment on account	(1)	8,523	6,412	6,838	4,491
Funds to be cleared		2,074	2,231	2,073	2,226
Long-term prepaid expenses		1,576	1,306	1,554	1,279
Repossessed assets to be disposed of	(2)	1,358	1,906	1,357	1,905
Interest receivable		966	670	919	616
Others		308	257	308	257
Total		14,805	12,782	13,049	10,774

(1) Receivables and payment on account presented by aging

	The Group							
	31 December 2020				31 December 2019			
Aging	Amount	%	Allowance for bad debts	Net amount	Amount	%	Allowance for bad debts	Net amount
No more than 1 year	7,115	75.95	(91)	7,024	5,377	73.92	(92)	5,285
1 – 2 years (inclusive)	1,037	11.07	(35)	1,002	826	11.35	(59)	767
2 – 3 years (inclusive)	222	2.37	(51)	171	196	2.69	(88)	108
More than 3 years	994	10.61	(668)	326	876	12.04	(624)	252
Total	**9,368**	**100.00**	**(845)**	**8,523**	**7,275**	**100.00**	**(863)**	**6,412**

	The Bank							
	31 December 2020				31 December 2019			
Aging	Amount	%	Allowance for bad debts	Net amount	Amount	%	Allowance for bad debts	Net amount
No more than 1 year	5,649	74.15	(79)	5,570	4,127	77.79	(85)	4,042
1 – 2 years (inclusive)	953	12.51	(32)	921	215	4.05	(38)	177
2 – 3 years (inclusive)	102	1.34	(24)	78	124	2.34	(71)	53
More than 3 years	914	12.00	(645)	269	839	15.82	(620)	219
Total	**7,618**	**100.00**	**(780)**	**6,838**	**5,305**	**100.00**	**(814)**	**4,491**

(2) Repossessed assets to be disposed of

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Repossessed assets to be disposed of	2,328	2,511	2,327	2,510
Less: Allowance for impairment losses	(970)	(605)	(970)	(605)
Book value of repossessed assets to be disposed of	1,358	1,906	1,357	1,905

15. Allowance for impairment losses on credit/assets

	The Group						
	2020						
	Opening balance	Charge/ (reversal) for the year	Transfer-in/ (transfer-out) for the year	Recovery for the year	Write-offs 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	7,922	36,527	(664)	1,628	(29,939)	(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
Others	2,962	1,039	(57)	–	(132)	(4)	3,808
Total	54,565	40,267	(721)	1,629	(30,190)	(27)	65,523

	The Group						
	2019						
	Opening balance	Charge/ (reversal) for the year	Transfer-in/ (transfer-out) for the year	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks	33	(8)	–	–	–	–	25
Placements with banks and other financial institutions	121	4	–	–	(45)	5	85
Financial assets purchased under agreements to resell	809	(503)	–	–	–	–	306
Loans and advances to customers measured at amortized cost	55,134	28,757	(831)	645	(35,785)	2	47,922
Loans and advances to customers measured at fair value through other comprehensive income	166	502	–	–	–	–	668
Debt investments	2,445	110	–	–	–	2	2,557
Other debt investments	38	2	–	–	–	–	40
Others	1,675	1,466	(22)	–	(157)	–	2,962
Total	**60,421**	**30,330**	**(853)**	**645**	**(35,987)**	**9**	**54,565**

	The Bank						
	2020						
	Opening balance	Charge/ (reversal) for the year	Transfer-in/ (transfer-out) for the year	Recovery for the year	Write-offs 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	(659)	1,626	(29,740)	(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
Others	2,913	1,022	(57)	–	(131)	(3)	3,744
Total	**51,023**	**38,245**	**(716)**	**1,627**	**(29,990)**	**(26)**	**60,163**

	The Bank						
	2019						
	Opening balance	Charge/ (reversal) for the year	Transfer-in/ (transfer-out) for the year	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks	33	(8)	–	–	–	–	25
Placements with banks and other financial institutions	121	4	–	–	(45)	5	85
Financial assets purchased under agreements to resell	809	(503)	–	–	–	–	306
Loans and advances to customers measured at amortized cost	52,936	27,548	(828)	642	(35,691)	2	44,609
Loans and advances to customers measured at fair value through other comprehensive income	166	502	–	–	–	–	668
Debt investments	2,427	(52)	–	–	–	2	2,377
Other debt investments	38	2	–	–	–	–	40
Others	1,656	1,435	(22)	–	(156)	–	2,913
Total	**58,186**	**28,928**	**(850)**	**642**	**(35,892)**	**9**	**51,023**

16. Due to central banks

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Mid-term credit facility	129,800	141,500	129,800	141,500
Others	97	51	–	–
Accrued interest	1,139	2,066	1,139	2,066
Total	**131,036**	**143,617**	**130,939**	**143,566**

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 2020, the Bank held the facilities for an original term of twelve months at the interest rate of 2.95% – 3.25% which was pledged with its bonds worth of RMB138,678 million. On 31 December 2019, the Bank held the facilities for an original term of twelve months at the interest rate of 3.15% – 3.30% which was pledged with its bonds worth of RMB156,910 million.

17. Due to banks and other financial institutions

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Due to domestic banks	128,126	94,482	128,224	95,706
Due to other domestic financial institutions	305,506	206,650	310,544	206,650
Accrued interest	1,360	1,205	1,368	1,205
Total	**434,992**	**302,337**	**440,136**	**303,561**

18. Placements from banks and other financial institutions

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Placements from domestic banks	102,242	102,650	19,869	26,258
Placements from other domestic financial institutions	6,090	600	–	–
Accrued interest	685	814	36	151
Total	**109,017**	**104,064**	**19,905**	**26,409**

19. Financial assets sold under agreements to repurchase

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Bonds	43,608	86,440	42,430	86,090
Bills	5,515	7,250	5,515	7,250
Accrued interest	32	84	30	83
Total	**49,155**	**93,774**	**47,975**	**93,423**

For details on the Group's assets taken as collateral for repurchase, please see Note XII-6 Collateral.

20. Deposits taken

		The Group		The Bank	
		31 December 2020	31 December 2019	31 December 2020	31 December 2019
Demand deposits					
Corporate deposits		691,013	632,009	689,790	631,304
Personal deposits		133,660	116,909	133,500	116,751
Time deposits					
Corporate deposits		589,609	531,566	589,318	531,192
Personal deposits		218,276	196,713	217,367	195,912
Security deposit received	(1)	180,173	173,627	180,042	173,486
Outward remittances and remittances outstanding		5,531	5,639	5,526	5,634
Others		68	26	68	26
Sub-total		1,818,330	1,656,489	1,815,611	1,654,305
Accrued interest		18,690	14,787	18,647	14,757
Total		**1,837,020**	**1,671,276**	**1,834,258**	**1,669,062**

(1) Security deposit received is presented by item as follows:

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Security deposit for bank acceptance	125,916	127,700	125,884	127,644
Security deposit for L/C issuance	30,391	22,652	30,391	22,652
Security deposit for L/G issuance and guarantee	5,049	5,400	5,028	5,388
Other security deposits	18,817	17,875	18,739	17,802
Total	**180,173**	**173,627**	**180,042**	**173,486**

21. Accrued payroll

	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 Group			
	2019			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Wages and bonuses	5,687	12,552	(11,699)	6,540
Employee welfare	–	428	(428)	–
Social insurance	54	2,166	(2,166)	54
Housing provident fund	10	797	(797)	10
Labor union funds and employee education expense	48	286	(291)	43
Total	**5,799**	**16,229**	**(15,381)**	**6,647**

	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**

	The Bank			
	2019			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Wages and bonuses	5,614	12,333	(11,502)	6,445
Employee welfare	–	425	(425)	–
Social insurance	47	2,135	(2,142)	40
Housing provident fund	9	791	(790)	10
Labor union funds and employee education expense	38	281	(288)	31
Total	**5,708**	**15,965**	**(15,147)**	**6,526**

22. Taxes and dues payable

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Enterprise income tax	5,543	3,597	5,095	3,155
VAT	1,702	1,556	1,697	1,537
Others	495	419	465	391
Total	7,740	5,572	7,257	5,083

23. Debt obligations payable

		The Group		The Bank	
		31 December 2020	31 December 2019	31 December 2020	31 December 2019
Bonds payable					
Financial bonds	(1)	113,000	70,000	106,000	65,000
Tier-2 capital bonds	(2)	30,000	30,000	30,000	30,000
Sub-total		143,000	100,000	136,000	95,000
Certificates of deposit with banks and other financial institutions	(3)	366,186	301,109	366,186	301,109
Accrued interest		2,628	2,475	2,516	2,386
Total		511,814	403,584	504,702	398,495

(1) Financial bonds

(i) As approved by the former CBRC and PBOC, the Bank issued the financial bonds of Hua Xia Bank Co., Ltd. for 2016 from 3 to 7 March 2016 and the issuance volume was RMB40 billion. This issue of bonds has two types. The type one bonds have an issuance volume of RMB15 billion with a term of three years. The coupon rate is fixed at 3.03%, and the interest will be paid annually. The value date is 7 March 2016, and the maturity date is 7 March 2019. The type two bonds have an issuance volume of RMB25 billion with a term of five years. The coupon rate is fixed at 3.25%, and the interest will be paid annually. The value date is 7 March 2016, and the maturity date is 7 March 2021.

(ii) As approved by CBIRC and PBOC, the Bank issued the phase 1 financial bonds of Hua Xia Bank Co., Ltd. for 2018 from 20 to 24 April 2018 and the issuance volume was RMB18 billion. The bonds have a term of three years, the coupon rate is fixed at 4.30% and the interest will be paid annually. The value date is 24 April 2018 and the maturity date is 24 April 2021.

(iii) 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.

(iv) 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.

(v) As approved by CBIRC and PBOC, the Bank issued the financial bond of Hua Xia Bank Co., Ltd. for 2020 from 16 to 18 December 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.

(vi) As approved by CBIRC Yunnan Office and PBOC, Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group, issued the phase 1 financial bonds for 2018 from 25 to 29 October 2018 and the issuance volume was RMB2.5 billion. The bonds have a term of three years, the coupon rate is fixed at 4.15% and the interest will be paid annually. The value date is 29 October 2018 and the maturity date is 29 October 2021.

(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 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.

(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 2020 from 10 to 14 September 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.

(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 2020, there were 306 outstanding certificates of deposit with banks and financial institutions with the total face value of RMB370,204 million and terms of 1 month to 1 year. Except five 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.

24. Projected liabilities

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Credit commitments	2,309	2,147	2,302	2,135
Pending legal proceedings	–	–	–	–
Total	**2,309**	**2,147**	**2,302**	**2,135**

ECL of loan commitments are classified into three stages:

	31 December 2020			
	Stage 1 12 months 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

	31 December 2019			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
The Group	1,868	106	173	2,147
The Bank	1,856	106	173	2,135

25. Other liabilities

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Security deposit for financial lease	5,157	4,927	–	–
On-lending	3,205	2,789	3,205	2,789
Deferred income	1,182	1,997	265	628
Funds to be settled and cleared payable	1,151	1,432	1,151	1,432
Agency collection for asset securitization business	417	2,931	417	2,931
Others	3,640	2,556	3,245	2,131
Total	14,752	16,632	8,283	9,911

26. Share capital

	31 December 2020		31 December 2019	
	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 2020, the Bank's paid-in capital had amounted to RMB15,387 million (31 December 2019: RMB15,387 million), with the par value of each share being RMB1.

27. 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 bench mark 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.

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.

(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 2020, 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 2020		Increase over the year		Decrease over the year		31 December 2020	
	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	Million shares	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.

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 2020		Increase over the year		Decrease over the year		31 December 2020	
	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 2020	31 December 2019
	RMB millions	RMB millions
Equity attributable to parent company		
Equity attributable to ordinary shareholders of parent company	220,642	207,617
Equity attributable to other shareholders of parent company	59,971	59,971
Of which: Net profit	2,780	840
Distributed profit for the period	(2,780)	(840)
Equity attributable to minority shareholders	2,042	1,749
Total shareholders' equity	**282,655**	**269,337**

28. Capital reserve

	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 Group			
	2019			
	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			
	2020			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	53,291	–	–	53,291

	The Bank			
	2019			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	53,291	–	–	53,291

29. Surplus reserve

	The Group and the Bank	
	31 December 2020	31 December 2019
Statutory surplus reserve	17,661	15,551
Discretionary surplus reserve	95	111
Total	**17,756**	**15,662**

(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 2020, 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-31 Retained Profit.

30. General risk reserve

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
General risk reserve	38,683	34,706	37,424	33,753

(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-31 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.

31. Retained profit

(1) Profit distribution for 2020

The profit distribution plan for 2020 that is passed by the Board of Directors and submitted to the Shareholders' General Meeting for approval on 28 April 2021 is 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 million.

(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.

(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 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 2020 and 27 March 2021 (at an annual dividend rate of 4.20%), and the dividends payable for these preference shares are RMB840 million. Dividends on preference shares were paid on 29 March 2021.

The above plan for distribution of dividends of preference shares was approved by the Board of Directors on 29 October 2020.

(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.

(2) 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 billion, 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 and 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.

(3) Profit distribution for 2018

The Bank has implemented the profit distribution plan for 2018 that was approved by the Shareholders' General Meeting on 15 May 2019. Particulars are as follows:

(i) Set aside statutory surplus reserve of RMB2,027 million based on the Bank's net profit for 2018 which is RMB20,266 million; such statutory surplus has been recorded in the balance sheet of the Group and the Bank dated 31 December 2019.

(ii) Set aside general risk reserve of RMB2,734 million, after which the Bank's balance of general risk reserve reaches 1.5% of the outstanding risk assets on 31 December 2018; such general risk reserve has been recorded in the balance sheet of the Group and the Bank dated 31 December 2019.

(iii) Distribute dividends to all ordinary shareholders at the rate of RMB1.74 (pre-tax) per 10 shares, totaling RMB2.677 billion, based on the Bank's total ordinary share capital of 15,387,223,983 shares at the end of 2018. The aforesaid dividends have been distributed in 2019.

(iv) The interest accrual period for preference shares issued in 2016 is from 28 March 2018 and 27 March 2019 (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 2019.

32. Net interest income

	The Group		The Bank	
	2020	2019	2020	2019
Interest income				
Loans and advances to customers	105,364	93,518	97,985	87,466
Of which: Corporate loans and advances to customers	68,233	63,252	60,911	57,255
Personal loans and advances to customers	33,044	27,259	32,987	27,204
Discounted bills	4,087	3,007	4,087	3,007
Financial investments	36,461	35,681	36,375	35,613
Of which: Debt investments	30,975	30,523	30,889	30,455
Other debt investments	5,486	5,158	5,486	5,158
Balances with central banks	2,632	2,681	2,629	2,678
Financial assets purchased under agreements to resell	1,502	2,089	1,496	2,084
Placements with banks and other financial institutions	1,129	1,949	1,132	1,942
Due from banks	151	353	150	348
Sub-total	147,239	136,271	139,767	130,131
Interest expense				
Deposits taken	(33,012)	(29,557)	(32,973)	(29,523)
Debt obligations payable	(13,249)	(14,023)	(13,034)	(13,847)
Due to banks and other financial institutions	(9,654)	(8,850)	(9,693)	(8,866)
Due to central banks	(3,779)	(4,789)	(3,777)	(4,787)
Placements from banks and other financial institutions	(3,569)	(4,150)	(931)	(1,535)
Financial assets sold under agreements to repurchase	(1,936)	(2,390)	(1,923)	(2,385)
Others	(73)	(117)	(73)	(114)
Sub-total	(65,272)	(63,876)	(62,404)	(61,057)
Net interest income	81,967	72,395	77,363	69,074
Of which: Interest income from impaired financial assets identified	664	831	659	828

33. Net fee and commission income

		The Group		The Bank	
	Notes	2020	2019	2020	2019
Fee and commission income					
Bank card business		5,849	5,775	5,850	5,775
Agency business	(1)	4,360	3,648	4,359	3,648
Credit commitments		1,916	1,928	1,915	1,928
Custody and other fiduciary services		1,192	1,090	1,192	1,090
Other business		890	806	899	806
Sub-total		14,207	13,247	14,215	13,247
Fee and commission expenses					
Fee expense	(2)	(3,649)	(3,065)	(3,703)	(3,038)
Net fee and commission income		10,558	10,182	10,512	10,209

(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 pint 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.

34. Investment loss/(gain)

	The Group		The Bank	
	2020	2019	2020	2019
Held-for-trading financial assets	1,864	928	1,864	928
Disposal of debt instruments measured at fair value through other comprehensive income	14	312	14	312
Gains on derecognition of financial assets measured at amortized cost	–	–	–	–
Other equity instrument investments	11	9	11	9
Derivative financial instruments	10	2	10	2
Others	(29)	(20)	(29)	(20)
Sub-total	1,870	1,231	1,870	1,231

35. Gains on changes in fair value

	The Group and the Bank	
	2020	2019
Held-for-trading financial assets	497	831
Derivative financial instruments	4	(7)
Others	2	(1)
Total	503	823

36. Exchange gains/losses

The exchange gains of the Group and the Bank in 2020 and 2019 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.

37. Tax and surcharges

	The Group		The Bank	
	2020	2019	2020	2019
Urban maintenance and construction tax	508	417	493	404
Education fee and surcharges	364	299	354	289
Others	204	174	192	163
Total	1,076	890	1,039	856

38. General and administrative expenses

		The Group		The Bank	
		2020	2019	2020	2019
Staff remuneration and welfare	(1)	14,984	16,229	14,687	15,965
Business expenses		8,244	6,583	8,192	6,547
Depreciation and amortization		3,394	3,108	3,361	3,076
Total		26,622	25,920	26,240	25,588

(1) Staff remuneration and welfare

	The Group		The Bank	
	2020	2019	2020	2019
Wages and bonuses	11,773	12,552	11,525	12,333
Employee welfare	421	428	417	425
Social insurance	1,442	2,166	1,413	2,135
Housing provident fund	830	797	822	791
Labor union funds and employee education expense	518	286	510	281
Total	14,984	16,229	14,687	15,965

39. Impairment losses on credit

	The Group		The Bank	
	2020	2019	2020	2019
Impairment losses of loans and advances to customers	36,307	29,259	34,302	28,050
Impairment losses of due from banks	40	(8)	40	(8)
Impairment losses of placements with banks and other financial institutions	9	4	9	4
Impairment losses of financial assets purchased under agreements to resell	–	(503)	–	(503)
Impairment losses of debt investments	2,761	110	2,761	(52)
Impairment losses of other debt investments	111	2	111	2
Projected liabilities	164	75	168	68
Others	618	1,312	601	1,281
Total	40,010	30,251	37,992	28,842

40. Income tax expense

	The Group		The Bank	
	2020	2019	2020	2019
Current income tax expense	6,567	4,622	5,926	3,933
Deferred income tax expense	(982)	826	(947)	1,122
Total	5,585	5,448	4,979	5,055

Adjustments to income tax expense and accounting profit are presented as follows:

	The Group		The Bank	
	2020	2019	2020	2019
Pre-tax profit	27,153	27,563	24,893	25,997
Income tax at statutory tax rate of 25%	6,788	6,891	6,223	6,499
Tax effect of non-deductible expense	1,769	1,226	1,728	1,225
Tax effect of tax-exempt income	(2,972)	(2,669)	(2,972)	(2,669)
Total	5,585	5,448	4,979	5,055

41. Other comprehensive income

Changes in other comprehensive income

	2020				
The Group	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)

	2019			
The Group	Opening balance	Amount in the year	Transferred from other comprehensive income to profit or loss	Ending balance
Other comprehensive income to be classified as profit/loss				
Changes in fair value of other debt investments	886	743	(146)	1,483
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	332	(139)	(332)	(139)
Allowance for credit losses on other debt investments	38	14	(12)	40
Allowance for credit losses on loans and advances to customers measured at fair value through other comprehensive income	166	668	(166)	668
Income tax influence	(269)	(322)	78	(513)
Sub-total	1,153	964	(578)	1,539
Other comprehensive income not to be classified as profit/loss				
Changes in fair value of other equity instrument investments	–	(606)	–	(606)
Income tax influence	–	151	–	151
Total	1,153	509	(578)	1,084

The Bank	Opening balance	Amount in the year	2020 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)

The Bank	Opening balance	Amount in the year	2019 Transferred from other comprehensive income to profit or loss	Ending balance
Other comprehensive income to be classified as profit/loss				
Changes in fair value of other debt investments	886	743	(146)	1,483
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	332	(139)	(332)	(139)
Allowance for credit losses on other debt investments	38	14	(12)	40
Allowance for credit losses on loans and advances to customers measured at fair value through other comprehensive income	166	668	(166)	668
Income tax influence	(269)	(322)	78	(513)
Sub-total	1,153	964	(578)	1,539
Other comprehensive income not to be classified as profit/loss				
Changes in fair value of other equity instrument investments	–	(602)	–	(602)
Income tax influence	–	150	–	150
Total	1,153	512	(578)	1,087

42. Earnings per share

	2020	2019
Net profit attributable to shareholders of the parent company in the year	21,275	21,905
Net profit attributable to ordinary shareholders of the parent company	18,495	21,065
Weighted average ordinary shares in issue (million shares)	15,387	15,387
Basic earnings per share (RMB yuan)	1.20	1.37

The Group has no potential ordinary share issued and outstanding in 2020 or 2019. Thus there is no need to disclose diluted earnings per share.

43. Cash and cash equivalents

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Cash on hand	2,062	1,980	2,051	1,971
Balances with central banks	45,777	35,693	45,008	35,367
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	49,525	54,994	49,938	54,829
Total	97,364	92,667	96,997	92,167

44. Supplementary information on the statement of cash flows

	The Group		The Bank	
	2020	2019	2020	2019
Net profit adjusted into cash flows from operating activities:				
Net profit	21,568	22,115	19,914	20,942
Plus: Impairment losses on credit	40,010	30,251	37,992	28,842
Other impairment losses on assets	421	154	421	154
Depreciation of fixed assets	1,080	1,094	1,076	1,091
Amortization of intangible assets	4	3	3	3
Amortization on long-term prepaid expenses	2,310	2,011	2,282	1,982
Interest income from investment and investment gains	(37,692)	(36,544)	(37,606)	(36,476)
Net gains or losses on disposal of fixed assets, intangible assets and other long-term assets	(3)	(15)	(3)	(15)
Unrealized exchange loss/(gain) and loss/(gain) on changes in fair value	79	(73)	79	(73)
Deferred income tax	(982)	826	(947)	1,122
Interest income from credit-impaired financial assets identified	(664)	(831)	(659)	(828)
Interest expense on bonds issued	4,332	4,567	4,117	4,392
Increase of operating receivables	(307,521)	(254,247)	(290,323)	(230,327)
Increase of operating payables	311,817	309,771	303,076	290,250
Net cash flows from operating activities	34,759	79,082	39,422	81,059
Net change of cash and cash equivalents:				
Closing balance of cash and cash equivalents	97,364	92,667	96,997	92,167
Less: Opening balance of cash and cash equivalents	(92,667)	(66,204)	(92,167)	(65,514)
Net change of cash and cash equivalents	4,697	26,463	4,830	26,653

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, Shijiazhuan, 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 and Hong Kong;

(4) Central and Eastern China: Jinan, Wuhan, Qingdao, Taiyuan, Fuzhou, Changsha, Xiamen, Zhengzhou, Nanchang and Haikou;

(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.

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	6,226	13,781	11,832	1,966	(11)	4,698	95,309
Net interest income	24,203	20,631	5,933	13,304	11,401	1,891	–	4,604	81,967
Of which:									
Net external interest income	28,434	19,885	4,486	12,367	10,181	2,010	–	4,604	81,967
Segmental net interest income	(4,231)	746	1,447	937	1,220	(119)	–	–	–
Net fee and commission income	9,554	26	139	387	342	64	(8)	54	10,558
Other net operating income	2,256	147	154	90	89	11	(3)	40	2,784
Operating expenses	(28,557)	(11,215)	(3,061)	(11,843)	(8,557)	(2,474)	3	(2,454)	(68,158)
Operating profit	7,456	9,589	3,165	1,938	3,275	(508)	(8)	2,244	27,151
Net non-operating income	(36)	11	8	9	(14)	–	–	24	2
Total profit	7,420	9,600	3,173	1,947	3,261	(508)	(8)	2,268	27,153
Supplementary information									
1. Depreciation and amortization expenses	1,369	621	125	573	481	192	–	33	3,394
2. Capital expenditures	1,891	550	99	665	429	182	–	49	3,865
3. Impairment losses on credit	16,588	5,773	788	7,883	5,407	1,553	–	2,018	40,010
31 December 2020									
Segment assets	2,699,307	844,987	311,146	521,839	458,645	92,654	(1,662,033)	123,116	3,389,661
Undistributed assets									10,155
Total assets									3,399,816
Segment liabilities	2,457,601	835,321	307,932	518,857	455,373	94,503	(1,662,025)	109,599	3,117,161
Undistributed liabilities									–
Total liabilities									3,117,161

2019	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	32,510	18,347	5,663	12,197	10,847	1,837	–	3,333	84,734
Net interest income	22,428	17,684	5,316	11,548	10,364	1,734	–	3,321	72,395
Of which:									
Net external interest income	27,197	16,162	2,963	11,925	9,326	1,501	–	3,321	72,395
Segmental net interest income	(4,769)	1,522	2,353	(377)	1,038	233	–	–	–
Net fee and commission income	8,571	497	186	558	308	89	–	(27)	10,182
Other net operating income	1,511	166	161	91	175	14	–	39	2,157
Operating expenses	(24,296)	(8,039)	(2,329)	(13,224)	(5,062)	(2,502)	–	(1,785)	(57,237)
Operating profit	8,214	10,308	3,334	(1,027)	5,785	(665)	–	1,548	27,497
Net non-operating income	37	(4)	14	5	(2)	(2)	–	18	66
Total profit	8,251	10,304	3,348	(1,022)	5,783	(667)	–	1,566	27,563
Supplementary information									
1. Depreciation and amortization expenses	1,096	633	114	575	471	186	–	33	3,108
2. Capital expenditures	1,333	543	41	535	378	157	–	15	3,002
3. Impairment losses on credit	13,341	2,666	319	9,117	1,922	1,477	–	1,409	30,251
31 December 2019									
Segment assets	2,120,826	704,944	276,618	501,061	424,447	104,165	(1,222,146)	102,300	3,012,215
Undistributed assets									8,574
Total assets									3,020,789
Segment liabilities	1,882,072	695,340	273,535	503,127	418,996	107,122	(1,222,146)	93,406	2,751,452
Undistributed liabilities									–
Total liabilities									2,751,452

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 2020

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.	RMB28.755 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	RMB19.9 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.	RMB22.243 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.	RMB145.291 billion	8.5	8.5

(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 2020		31 December 2019	
	Transaction balance	%(i)	Transaction balance	%(i)
Assets				
Loans and advances to customers	14,989	0.73	12,390	0.66
Held-for-trading financial assets	15,083	12.18	2,695	3.00
Liabilities				
Deposits taken	4,165	0.23	10,479	0.63
Due to banks and other financial institutions	301	0.07	593	0.20
Off-balance-sheet items				
L/Gs and other payment commitments issued	691	2.49	597	2.03
L/Cs issued	3	0.00	306	0.22
Bank acceptance drafts	480	0.15	771	0.23
Non-principal-guaranteed wealth management products issued by the Bank	–	–	786	0.12

	2020		2019	
	Amount of transactions	%(i)	Amount of transactions	%(i)
Interest income	626	0.43	564	0.41
Interest expense	48	0.07	398	0.62
Fee and commission income	46	0.32	66	0.50
Investment loss/(gain)	56	2.99	36	2.92
General and administrative expenses	5	0.02	2	0.01
Gains on changes in fair value	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 parties

	31 December 2020		31 December 2019	
	Transaction balance	Percentage (%)(i)	Transaction balance	Percentage (%)(i)
Assets				
Loans and advances to customers	460	0.02	359	0.02
Placements with banks and other financial institutions	2,003	5.49	–	–
Held-for-trading financial assets	5,801	4.68	507	0.56
Debt investments	9,404	1.34	719	0.11
Other debt investments	678	0.39	1,028	0.79
Liabilities				
Deposits taken	7,351	0.40	3,158	0.19
Due to banks and other financial institutions	190	0.04	63	0.02
Off-balance-sheet items				
L/Gs and other payment commitments issued	4	0.01	1	–
L/Cs issued	463	0.32	–	–
Bank acceptance drafts	240	0.08	80	0.02
Non-principal-guaranteed wealth management products issued by the Bank	262	0.04	–	–

	2020		2019	
	Amount of transactions	%(i)	Amount of transactions	%(i)
Interest income	581	0.40	109	0.08
Interest expense	100	0.15	46	0.07
Fee and commission income	56	0.38	22	0.17
Investment loss/(gain)	21	1.12	7	0.57
General and administrative expenses	571	2.14	241	0.93
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) Remuneration of 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:

	2020	2019
Remunerations	20	15

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 2020.

(4) Transactions with related natural persons

As at 31 December 2020, the Bank's balance of loans to related natural persons totaled RMB74.55 million (31 December 2019: RMB58.18 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 2020 and 2019.

XII. CONTINGENCIES AND COMMITMENTS

1. Pending legal proceedings

As at 31 December 2020, the claimed amount of pending legal proceedings where the Group is the defendant or the third party totaled RMB2,483 million (31 December 2019: RMB3.877 billion). 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 2020	31 December 2019
Capital commitments signed but not confirmed in the financial statements		
Commitment to purchase long-term assets	888	736

3. Credit commitments

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Bank acceptance drafts	319,239	333,918	319,185	333,830
L/Cs issued	146,970	136,609	146,970	136,609
L/Gs and other payment commitments issued	27,764	29,368	27,742	29,355
Irrevocable loan commitments	2,411	3,428	2,411	3,428
Unused credit card limit	222,178	187,003	222,178	187,003
Total	718,562	690,326	718,486	690,225

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 leaser is as follows:

	The Group	
	31 December 2020	31 December 2019
Within 1 year	2,044	2,775

5. Operating lease commitments

On the balance sheet date, the minimum lease payment maturity under the irrevocable operating lease contracts signed by the Group and the Bank as the leasee is as follows:

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Within 1 year	2,058	1,786	2,016	1,763
1 – 2 years	1,675	1,530	1,636	1,523
2 – 3 years	1,319	1,252	1,301	1,247
3 – 5 years	1,566	1,610	1,543	1,602
Over 5 years	1,499	1,053	1,469	1,041
Total	8,117	7,231	7,965	7,176

6. 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 2020	31 December 2019	31 December 2020	31 December 2019
Bonds	43,629	90,778	42,350	90,396
Bills	5,493	7,311	5,493	7,311
Total	49,122	98,089	47,843	97,707

On 31 December 2020, the book value of financial assets sold under agreements to repurchase of the Group was RMB49,155 million, and the book value of financial assets sold under agreements to repurchase of the Bank was RMB47,975 million (31 December 2019: RMB93,774 million for the Group and RMB93,423 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 2020, the book value of the above collaterals was RMB181,062 million (31 December 2019: RMB202,963 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 2020 and 31 December 2019, 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.

7. 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 2020, the Group was obliged to redeem the savings government bond principal of RMB8,382 million (31 December 2019: RMB8.654 billion) 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.

8. Entrusted transaction

(1) Entrusted deposits and loans

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Entrusted loans	173,793	221,261	173,106	219,898
Entrusted loan funds	173,793	221,261	173,106	219,898

(2) Entrusted investments

	The Group and the Bank	
	31 December 2020	31 December 2019
Entrusted investments	588,508	654,436

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. The Group had none of the above securitized/structured financial assets in 2020 (2019: RMB5.921 billion). At the same time, the Group subscribed a certain ratio of asset-backed securities. As at 31 December 2020, the above securities held by the Group amounted to RMB2 million (31 December 2019: RMB28 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-1 Interests and Rights Enjoyed in Structured Entities Sponsored Excluded from the Consolidated Financial Statements.

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 2020 and 31 December 2019, please see Note XII-6(1).

Credit assets transfer

In 2020, the Group disposed of loans with a book value of RMB3,306 million via transfer to third parties (2019: RMB11.493 billion). 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 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	

	31 December 2019				
	Sponsor amount/Product balance	Book value	Maximum loss exposure	Income from structured entities in the year	Major income type
Asset-backed securities	5,921	28	28	167	Fee income and interest income
Non-principal-guaranteed wealth management products	654,436	N/A	N/A	2,043	Fee income
Total	660,357	28	28	2,210	

As at 31 December 2020 and 31 December 2019, 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:

	31 December 2020			
The Group	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

	31 December 2019			
The Group	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Asset-backed securities	–	3,666	22,372	26,038
Asset management plan of financial institutions	19,752	122,286	–	142,038
Fund investments	49,470	–	–	49,470
Beneficiary rights of assets	2,004	1,664	–	3,668
Total	71,226	127,616	22,372	221,214

Note: On 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. On 31 December 2019, asset-backed securities were included in financial institution bonds under Note IX-8 Debt Investments and Note IX-9 Other Debt Investments.

2. Consolidated structured entities

Consolidated structured entities of the Group were principal-guaranteed wealth management products issued by the Group.

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 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 corporate goods price index (CGPI). 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 5.15%, 1.41%, 1.35% and -0.35%.

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 2020	31 December 2019
Balances with central banks	202,020	190,931
Due from banks	18,505	15,938
Placements with banks and other financial institutions	36,470	23,461
Derivative financial assets	12,361	926
Financial assets purchased under agreements to resell	24,776	24,050
Loans and advances to customers	2,059,825	1,829,171
Held-for-trading financial assets	24,642	18,557
Debt investments	702,909	675,286
Other debt investments	172,926	129,400
Other financial assets	11,563	9,313
Sub-total	3,265,997	2,917,033
Off-balance-sheet credit risk exposure	718,297	690,954
Total	**3,984,294**	**3,607,987**

	The Bank	
	31 December 2020	31 December 2019
Balances with central banks	201,131	190,457
Due from banks	18,356	15,896
Placements with banks and other financial institutions	38,380	23,961
Derivative financial assets	12,361	926
Financial assets purchased under agreements to resell	23,582	24,050
Loans and advances to customers	1,948,555	1,732,552
Held-for-trading financial assets	24,642	18,557
Debt investments	700,879	673,615
Other debt investments	172,926	129,400
Other financial assets	9,830	7,333
Sub-total	3,150,642	2,816,747
Off-balance-sheet credit risk exposure	716,184	688,090
Total	**3,866,826**	**3,504,837**

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 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

The Group	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Book value
	31 December 2019				
Financial assets measured at amortized cost:					
Balances with central banks	190,931	–	–	–	190,931
Due from banks	15,958	–	5	(25)	15,938
Placements with banks and other financial institutions	23,461	–	85	(85)	23,461
Financial assets purchased under agreements to resell	24,050	–	306	(306)	24,050
Loans and advances to customers measured at amortized cost	1,641,374	67,626	34,362	(47,922)	1,695,440
Debt investments	668,849	7,630	1,364	(2,557)	675,286
Other financial assets	7,734	372	3,564	(2,357)	9,313
Sub-total	2,572,357	75,628	39,686	(53,252)	2,634,419
Financial assets measured at fair value through other comprehensive income:					
Loans and advances to customers measured at fair value through other comprehensive income	133,731	–	–	(668)	133,731
Other debt investments	129,400	–	–	(40)	129,400
Sub-total	263,131	–	–	(708)	263,131
Off-balance-sheet items	690,283	2,262	556	(2,147)	690,954
Total	3,525,771	77,890	40,242	(56,107)	3,588,504

The Bank	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Book value
	31 December 2020				
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

The Bank	31 December 2019 Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Book value
Financial assets measured at amortized cost:					
Balances with central banks	190,457	–	–	–	190,457
Due from banks	15,916	–	5	(25)	15,896
Placements with banks and other financial institutions	23,961	–	85	(85)	23,961
Financial assets purchased under agreements to resell	24,050	–	306	(306)	24,050
Loans and advances to customers measured at amortized cost	1,544,198	65,149	34,083	(44,609)	1,598,821
Debt investments	666,998	7,630	1,364	(2,377)	673,615
Other financial assets	5,761	372	3,508	(2,308)	7,333
Sub-total	2,471,341	73,151	39,351	(49,710)	2,534,133
Financial assets measured at fair value through other comprehensive income:					
Loans and advances to customers measured at fair value through other comprehensive income	133,731	–	–	(668)	133,731
Other debt investments	129,400	–	–	(40)	129,400
Sub-total	263,131	–	–	(708)	263,131
Off-balance-sheet items	687,407	2,262	556	(2,135)	688,090
Total	3,421,879	75,413	39,907	(52,553)	3,485,354

3.6 Loans and advances to customers

(1) The Loans and advances to customers are distributed by industry as follows:

	The Group			
	31 December 2020		31 December 2019	
Industry	Amount	Percentage (%)	Amount	Percentage (%)
Leasing and commercial services	379,629	18.00	275,650	14.72
Manufacturing	192,254	9.12	190,969	10.20
Real estate	153,005	7.25	141,000	7.53
Water conservancy, environment and public facilities management	143,721	6.81	117,432	6.27
Wholesale and retail	141,197	6.69	147,086	7.86
Construction industry	104,095	4.94	102,469	5.47
Electric power, heat, gas and water production and supply industry	63,174	3.00	62,067	3.31
Transportation, warehousing and post industry	51,183	2.43	51,476	2.75
Mining industry	31,752	1.51	27,612	1.48
Other corporate industries	132,070	6.26	115,589	6.17
Discounted bills	122,402	5.80	138,249	7.38
Personal loan	594,511	28.19	503,003	26.86
Total	2,108,993	100.00	1,872,602	100.00

	The Bank			
	31 December 2020		31 December 2019	
Industry	Amount	Percentage (%)	Amount	Percentage (%)
Leasing and commercial services	372,222	18.68	269,821	15.22
Manufacturing	188,764	9.47	186,646	10.53
Real estate	153,002	7.68	140,995	7.95
Wholesale and retail	140,736	7.06	146,667	8.27
Construction industry	103,082	5.17	100,942	5.69
Water conservancy, environment and public facilities management	91,149	4.57	81,269	4.58
Transportation, warehousing and post industry	38,646	1.95	36,775	2.08
Electric power, heat, gas and water production and supply industry	33,837	1.70	30,900	1.74
Mining industry	29,425	1.48	26,517	1.50
Other corporate industries	125,818	6.31	111,766	6.30
Discounted bills	122,402	6.14	138,249	7.80
Personal loan	593,534	29.79	502,130	28.34
Total	1,992,617	100.00	1,772,677	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:

	The Group			
	31 December 2020		31 December 2019	
Regions	Amount	Percentage (%)	Amount	Percentage (%)
Yangtze River Delta	580,053	27.50	468,276	25.01
Beijing-Tianjin-Hebei Region	537,563	25.49	523,662	27.96
Central and Eastern China	336,018	15.93	320,096	17.09
Western China	279,830	13.27	254,278	13.58
Guangdong-Hong Kong-Macao Greater Bay Area	194,184	9.21	151,480	8.09
Northeastern China	64,969	3.08	54,885	2.93
Subsidiaries	116,376	5.52	99,925	5.34
Total	2,108,993	100.00	1,872,602	100.00

Regions	The Bank			
	31 December 2020		31 December 2019	
	Amount	Percentage (%)	Amount	Percentage (%)
Yangtze River Delta	580,053	29.11	468,276	26.42
Beijing-Tianjin-Hebei Region	537,563	26.98	523,662	29.53
Central and Eastern China	336,018	16.86	320,096	18.06
Western China	279,830	14.04	254,278	14.34
Guangdong-Hong Kong-Macao Greater Bay Area	194,184	9.75	151,480	8.55
Northeastern China	64,969	3.26	54,885	3.10
Total	1,992,617	100.00	1,772,677	100.00

(3) The loans and advances to customers are distributed by collateral as follows:

	The Group		The Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Unsecured loans	479,821	379,151	456,206	360,446
Guaranteed loans	641,954	585,920	556,837	514,487
Collateral loans	987,218	907,531	979,574	897,744
Of which: Mortgage loans	687,866	609,017	683,523	604,001
Pledged loans	299,352	298,514	296,051	293,743
Total	2,108,993	1,872,602	1,992,617	1,772,677

(4) Overdue loans

	The Group				
	31 December 2020				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 days 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 Group				
	31 December 2019				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 days to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	2,695	5,012	867	159	8,733
Guaranteed loans	5,162	4,955	4,293	4,098	18,508
Mortgage loans	3,028	3,193	2,790	2,076	11,087
Pledged loans	732	572	785	750	2,839
Total	11,617	13,732	8,735	7,083	41,167

	The Bank				
	31 December 2020				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 days 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

	The Bank				
	31 December 2019				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 days to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	2,695	5,012	867	159	8,733
Guaranteed loans	4,669	4,789	4,245	4,077	17,780
Mortgage loans	3,021	3,177	2,762	2,076	11,036
Pledged loans	730	572	785	750	2,837
Total	11,115	13,550	8,659	7,062	40,386

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 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 Group				
	31 December 2019				
	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	1,145,777	63,649	26,442	(33,722)	1,202,146
Personal loans and advances to customers	491,274	3,809	7,920	(14,200)	488,803
Sub-total:	1,637,051	67,458	34,362	(47,922)	1,690,949
Loans and advances to customers measured at fair value through other comprehensive income					
Corporate loans and advances to customers	133,731	–	–	(668)	133,731
Total	1,770,782	67,458	34,362	(48,590)	1,824,680

	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

	The Bank				
	31 December 2019				
	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	1,049,453	61,190	26,173	(30,434)	1,106,382
Personal loans and advances to customers	490,429	3,791	7,910	(14,175)	487,955
Sub-total:	1,539,882	64,981	34,083	(44,609)	1,594,337
Loans and advances to customers measured at fair value through other comprehensive income					
Corporate loans and advances to customers	133,731	–	–	(668)	133,731
Total	1,673,613	64,981	34,083	(45,277)	1,728,068

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 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 Group		
	31 December 2019		
	Corporate loans and advances to customers	Personal loans and advances to customers	Total
Original value of credit-impaired loans	26,442	7,920	34,362
Less: Allowance for impairment losses	(15,896)	(7,315)	(23,211)
Book value	10,546	605	11,151
Collateral value	19,238	8,424	27,662

	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

	The Bank		
	31 December 2019		
	Corporate loans and advances to customers	Personal loans and advances to customers	Total
Original value of credit-impaired loans	26,173	7,910	34,083
Less: Allowance for impairment losses	(15,681)	(7,312)	(22,993)
Book value	10,492	598	11,090
Collateral value	19,074	8,413	27,487

3.7 Credit quality of debt instruments

	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 Group 31 December 2019			
	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Government bonds	182	274,564	16,278	291,024
Bonds of public entities and quasi-governments	2,449	67,351	36,408	106,208
Bonds of financial institutions	2,898	52,301	44,641	99,840
Corporate bonds	12,904	149,332	19,364	181,600
Certificates of deposit with banks and other financial institutions	–	–	10,917	10,917
Asset management plan of financial institutions	–	123,052	–	123,052
Beneficiary rights of assets	–	1,828	–	1,828
Sub-total	18,433	668,428	127,608	814,469
Accrued interest	124	9,415	1,792	11,331
Allowance for impairment losses	–	(2,557)	–	(2,557)
Total	18,557	675,286	129,400	823,243

	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 Bank			
	31 December 2019			
	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Government bonds	182	273,620	16,278	290,080
Bonds of public entities and quasi-governments	2,449	67,351	36,408	106,208
Bonds of financial institutions	2,898	52,301	44,641	99,840
Corporate bonds	12,904	148,432	19,364	180,700
Certificates of deposit with banks and other financial institutions	–	–	10,917	10,917
Asset management plan of financial institutions	–	123,052	–	123,052
Beneficiary rights of assets	–	1,828	–	1,828
Sub-total	18,433	666,584	127,608	812,625
Accrued interest	124	9,408	1,792	11,324
Allowance for impairment losses	–	(2,377)	–	(2,377)
Total	18,557	673,615	129,400	821,572

The debt instruments are classified based on credit ratings of credit rating agencies widely accepted in the market

	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 Group					
	31 December 2019					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	243,562	47,462	–	–	–	291,024
Bonds of public entities and quasi-governments	97,823	8,385	–	–	–	106,208
Bonds of financial institutions	4,054	95,043	743	–	–	99,840
Corporate bonds	130,506	27,866	23,228	–	–	181,600
Certificates of deposit with banks and other financial institutions	10,917	–	–	–	–	10,917
Asset management plan of financial institutions	123,052	–	–	–	–	123,052
Beneficiary rights of assets	1,828	–	–	–	–	1,828
Total	611,742	178,756	23,971	–	–	814,469

	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

	The Bank					
	31 December 2019					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	242,618	47,462	–	–	–	290,080
Bonds of public entities and quasi-governments	97,823	8,385	–	–	–	106,208
Bonds of financial institutions	4,054	95,043	743	–	–	99,840
Corporate bonds	129,606	27,866	23,228	–	–	180,700
Certificates of deposit with banks and other financial institutions	10,917	–	–	–	–	10,917
Asset management plan of financial institutions	123,052	–	–	–	–	123,052
Beneficiary rights of assets	1,828	–	–	–	–	1,828
Total	609,898	178,756	23,971	–	–	812,625

3.8 Renegotiated financial assets

The book balance of the financial assets which were identified as overdue or impaired and have been subject to the Group's concession arrangement with borrowers or changed guarantee conditions is as follows:

	31 December 2020	31 December 2019
Loans and advances to customers	692	767

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 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
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 assets	–	–	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 Group							
	31 December 2019							
	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	154,079	37,997	–	–	835	–	–	192,911
Due from banks	–	11,149	310	2,972	1,507	–	–	15,938
Placements with banks and other financial institutions	–	–	21,557	824	1,080	–	–	23,461
Derivative financial assets	–	7	283	141	476	19	–	926
Financial assets purchased under agreements to resell	–	–	19,471	4,579	–	–	–	24,050
Loans and advances to customers	16,488	–	188,197	145,376	627,216	531,903	319,991	1,829,171
Held-for-trading financial assets	–	71,224	425	3,431	7,176	7,205	322	89,783
Debt investments	514	–	6,213	13,202	97,106	433,118	125,133	675,286
Other debt investments	–	–	5,183	7,967	26,055	68,051	22,144	129,400
Other equity instrument investments	4,961	–	–	–	–	–	–	4,961
Other financial assets	676	8,637	–	–	–	–	–	9,313
Total financial assets	176,718	129,014	241,639	178,492	761,451	1,040,296	467,590	2,995,200
Financial liabilities								
Due to central banks	–	–	6,798	41	136,778	–	–	143,617
Due to banks and other financial institutions	–	37,782	69,290	157,358	37,907	–	–	302,337
Placements from banks and other financial institutions	–	–	21,399	19,926	58,490	4,249	–	104,064
Derivative financial assets	–	8	296	239	846	413	–	1,802
Financial assets sold under agreements to repurchase	–	–	88,262	3,029	2,483	–	–	93,774
Deposits taken	–	886,555	102,394	139,050	346,696	196,581	–	1,671,276
Debt obligations payable	–	–	34,896	76,031	214,657	48,000	30,000	403,584
Other financial liabilities	–	9,707	17	91	245	2,780	1,795	14,635
Total financial liabilities	–	934,052	323,352	395,765	798,102	252,023	31,795	2,735,089
Net position	176,718	(805,038)	(81,713)	(217,273)	(36,651)	788,273	435,795	260,111

	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
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

	The Bank							
	31 December 2019							
	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	153,932	37,661	–	–	835	–	–	192,428
Due from banks	–	10,985	312	2,972	1,627	–	–	15,896
Placements with banks and other financial institutions	–	–	22,057	824	1,080	–	–	23,961
Derivative financial assets	–	7	283	141	476	19	–	926
Financial assets purchased under agreements to resell	–	–	19,471	4,579	–	–	–	24,050
Loans and advances to customers	16,046	–	188,069	144,810	623,581	474,479	285,567	1,732,552
Held-for-trading financial assets	–	71,224	425	3,431	7,176	7,205	322	89,783
Debt investments	514	–	6,210	13,200	97,103	433,118	123,470	673,615
Other debt investments	–	–	5,183	7,967	26,055	68,051	22,144	129,400
Other equity instrument investments	4,946	–	–	–	–	–	–	4,946
Other financial assets	676	6,657	–	–	–	–	–	7,333
Total financial assets	176,114	126,534	242,010	177,924	757,933	982,872	431,503	2,894,890
Financial liabilities								
Due to central banks	–	–	6,798	–	136,768	–	–	143,566
Due to banks and other financial institutions	–	39,006	69,290	157,358	37,907	–	–	303,561
Placements from banks and other financial institutions	–	–	13,959	4,329	8,121	–	–	26,409
Derivative financial assets	–	8	296	239	846	413	–	1,802
Financial assets sold under agreements to repurchase	–	–	87,911	3,029	2,483	–	–	93,423
Deposits taken	–	885,416	102,350	138,919	346,189	196,188	–	1,669,062
Debt obligations payable	–	–	34,896	75,960	214,639	43,000	30,000	398,495
Other financial liabilities	–	9,283	–	–	–	–	–	9,283
Total financial liabilities	–	933,713	315,500	379,834	746,953	239,601	30,000	2,645,601
Net position	176,114	(807,179)	(73,490)	(201,910)	10,980	743,271	401,503	249,289

(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 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 Group							
	31 December 2019							
	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	154,079	37,997	–	631	2,742	–	–	195,449
Due from banks	–	11,150	320	3,009	1,553	–	–	16,032
Placements with banks and other financial institutions	–	–	21,578	845	1,115	–	–	23,538
Financial assets purchased under agreements to resell	–	–	20,165	4,621	–	–	–	24,786
Loans and advances to customers	16,571	–	196,270	158,529	678,123	639,919	441,923	2,131,335
Held-for-trading financial assets	–	71,224	429	3,440	7,331	7,821	355	90,600
Debt investments	549	–	6,773	15,471	115,976	494,701	159,431	792,901
Other debt investments	–	–	5,290	8,216	28,519	78,142	25,069	145,236
Other equity instrument investments	4,961	–	–	–	–	–	–	4,961
Other financial assets	676	8,637	–	–	–	–	–	9,313
Total financial assets	176,836	129,008	250,825	194,762	835,359	1,220,583	626,778	3,434,151
Financial liabilities								
Due to central banks	–	–	6,811	42	139,408	–	–	146,261
Due to banks and other financial institutions	–	37,807	69,690	159,021	38,802	–	–	305,320
Placements from banks and other financial institutions	–	–	21,667	20,442	60,118	4,477	–	106,704
Financial assets sold under agreements to repurchase	–	–	92,146	3,053	2,506	–	–	97,705
Deposits taken	–	886,555	103,605	140,887	354,213	218,113	–	1,703,373
Debt obligations payable	–	–	35,007	77,639	224,935	55,626	34,320	427,527
Other financial liabilities	–	9,707	17	91	245	2,781	1,795	14,636
Total financial liabilities	–	934,069	328,943	401,175	820,227	280,997	36,115	2,801,526
Net position	176,836	(805,061)	(78,118)	(206,413)	15,132	939,586	590,663	632,625

	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)

	The Bank							
	31 December 2019							
	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	153,932	37,661	–	630	2,740	–	–	194,963
Due from banks	–	10,985	323	3,009	1,675	–	–	15,992
Placements with banks and other financial institutions	–	–	22,078	845	1,115	–	–	24,038
Financial assets purchased under agreements to resell	–	–	20,165	4,621	–	–	–	24,786
Loans and advances to customers	16,130	–	195,280	156,216	669,088	580,707	416,050	2,033,471
Held-for-trading financial assets	–	71,224	429	3,440	7,331	7,821	355	90,600
Debt investments	549	–	6,770	15,469	115,904	494,392	157,097	790,181
Other debt investments	–	–	5,290	8,216	28,519	78,142	25,069	145,236
Other equity instrument investments	4,946	–	–	–	–	–	–	4,946
Other financial assets	676	6,657	–	–	–	–	–	7,333
Total financial assets	176,233	126,527	250,335	192,446	826,372	1,161,062	598,571	3,331,546
Financial liabilities								
Due to central banks	–	–	6,811	–	139,398	–	–	146,209
Due to banks and other financial institutions	–	39,031	69,690	159,021	38,802	–	–	306,544
Placements from banks and other financial institutions	–	–	14,023	4,370	8,330	–	–	26,723
Financial assets sold under agreements to repurchase	–	–	92,145	3,053	2,506	–	–	97,704
Deposits taken	–	885,416	103,561	140,756	353,700	217,669	–	1,701,102
Debt obligations payable	–	–	35,007	77,480	224,813	50,347	34,320	421,967
Other financial liabilities	–	9,283	–	–	–	–	–	9,283
Total financial liabilities	–	933,730	321,237	384,680	767,549	268,016	34,320	2,709,532
Net position	176,233	(807,203)	(70,902)	(192,234)	58,823	893,046	564,251	622,014

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 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 Group			
	31 December 2019			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	333,083	835	–	333,918
L/Cs issued	136,137	472	–	136,609
L/Gs and other payment commitments issued	17,650	10,115	1,603	29,368
Irrevocable loan commitments	5,032	726	445	6,203
Unused credit card limit	187,003	–	–	187,003
Total	678,905	12,148	2,048	693,101

	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

	The Bank			
	31 December 2019			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	332,995	835	–	333,830
L/Cs issued	136,137	472	–	136,609
L/Gs and other payment commitments issued	17,637	10,115	1,603	29,355
Irrevocable loan commitments	2,265	718	445	3,428
Unused credit card limit	187,003	–	–	187,003
Total	676,037	12,140	2,048	690,225

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 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
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 Group				
	31 December 2019				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	170,899	21,901	42	69	192,911
Due from banks	6,656	8,214	70	998	15,938
Placements with banks and other financial institutions	22,416	1,045	–	–	23,461
Derivative financial assets	5	906	4	11	926
Financial assets purchased under agreements to resell	24,050	–	–	–	24,050
Loans and advances to customers	1,804,007	20,508	659	3,997	1,829,171
Held-for-trading financial assets	89,783	–	–	–	89,783
Debt investments	645,219	29,950	–	117	675,286
Other debt investments	126,303	3,097	–	–	129,400
Other equity instrument investments	4,948	8	5	–	4,961
Other financial assets	9,055	99	159	–	9,313
Total financial assets	2,903,341	85,728	939	5,192	2,995,200
Due to central banks	143,617	–	–	–	143,617
Due to banks and other financial institutions	301,291	1,046	–	–	302,337
Placements from banks and other financial institutions	86,760	14,305	672	2,327	104,064
Derivative financial assets	6	1,785	4	7	1,802
Financial assets sold under agreements to repurchase	93,774	–	–	–	93,774
Deposits taken	1,630,533	38,834	291	1,618	1,671,276
Debt obligations payable	403,081	503	–	–	403,584
Other financial liabilities	11,561	971	–	2,103	14,635
Total financial liabilities	2,670,623	57,444	967	6,055	2,735,089
Net exposure	232,718	28,284	(28)	(863)	260,111

	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
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 Bank				
	31 December 2019				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	170,416	21,901	42	69	192,428
Due from banks	6,614	8,214	70	998	15,896
Placements with banks and other financial institutions	22,916	1,045	–	–	23,961
Derivative financial assets	5	906	4	11	926
Financial assets purchased under agreements to resell	24,050	–	–	–	24,050
Loans and advances to customers	1,707,388	20,508	659	3,997	1,732,552
Held-for-trading financial assets	89,783	–	–	–	89,783
Debt investments	643,548	29,950	–	117	673,615
Other debt investments	126,303	3,097	–	–	129,400
Other equity instrument investments	4,933	8	5	–	4,946
Other financial assets	7,075	99	159	–	7,333
Total financial assets	2,803,031	85,728	939	5,192	2,894,890
Due to central banks	143,566	–	–	–	143,566
Due to banks and other financial institutions	302,515	1,046	–	–	303,561
Placements from banks and other financial institutions	9,105	14,305	672	2,327	26,409
Derivative financial assets	6	1,785	4	7	1,802
Financial assets sold under agreements to repurchase	93,423	–	–	–	93,423
Deposits taken	1,628,319	38,834	291	1,618	1,669,062
Debt obligations payable	397,992	503	–	–	398,495
Other financial liabilities	6,209	971	–	2,103	9,283
Total financial liabilities	2,581,135	57,444	967	6,055	2,645,601
Net exposure	221,896	28,284	(28)	(863)	249,289

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 2020		31 December 2019	
	Pre-tax profit	Interests	Pre-tax profit	Interests
Appreciation by 5%	(396)	(397)	(418)	(418)
Depreciation by 5%	396	397	418	418

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						
	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 Group						
	31 December 2019						
	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	187,834	–	–	–	–	5,077	192,911
Due from banks	11,332	2,949	1,500	–	–	157	15,938
Placements with banks and other financial institutions	21,546	820	1,080	–	–	15	23,461
Derivative financial assets	–	–	–	–	–	926	926
Financial assets purchased under agreements to resell	19,457	4,553	–	–	–	40	24,050
Loans and advances to customers	912,701	250,335	483,459	141,350	14,697	26,629	1,829,171
Held-for-trading financial assets	65,909	3,406	7,090	7,193	322	5,863	89,783
Debt investments	31,218	79,615	81,207	369,255	104,098	9,893	675,286
Other debt investments	28,119	9,187	22,923	54,811	12,568	1,792	129,400
Other equity instrument investments	–	–	–	–	–	4,961	4,961
Other financial assets	719	–	–	–	–	8,594	9,313
Total financial assets	1,278,835	350,865	597,259	572,609	131,685	63,947	2,995,200
Due to central banks	6,600	41	134,910	–	–	2,066	143,617
Due to banks and other financial institutions	106,834	156,587	37,711	–	–	1,205	302,337
Placements from banks and other financial institutions	20,871	21,314	58,623	2,036	–	1,220	104,064
Derivative financial liabilities	–	–	–	–	–	1,802	1,802
Financial assets sold under agreements to repurchase	88,196	3,016	2,478	–	–	84	93,774
Deposits taken	986,665	137,179	342,722	189,709	–	15,001	1,671,276
Debt obligations payable	34,880	75,296	212,933	48,000	30,000	2,475	403,584
Other financial liabilities	2,790	–	–	–	–	11,845	14,635
Total financial liabilities	1,246,836	393,433	789,377	239,745	30,000	35,698	2,735,089
Net position	31,999	(42,568)	(192,118)	332,864	101,685	28,249	260,111

	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 liabilities	–	–	–	–	–	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 Bank						
	31 December 2019						
	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	187,361	–	–	–	–	5,067	192,428
Due from banks	11,168	2,949	1,620	–	–	159	15,896
Placements with banks and other financial institutions	22,046	820	1,080	–	–	15	23,961
Derivative financial assets	–	–	–	–	–	926	926
Financial assets purchased under agreements to resell	19,457	4,553	–	–	–	40	24,050
Loans and advances to customers	892,351	209,536	449,916	140,783	13,787	26,179	1,732,552
Held-for-trading financial assets	65,909	3,406	7,090	7,193	322	5,863	89,783
Debt investments	31,218	79,615	80,487	369,255	103,154	9,886	673,615
Other debt investments	28,119	9,187	22,923	54,811	12,568	1,792	129,400
Other equity instrument investments	–	–	–	–	–	4,946	4,946
Other financial assets	664	–	–	–	–	6,669	7,333
Total financial assets	1,258,293	310,066	563,116	572,042	129,831	61,542	2,894,890
Due to central banks	6,600	–	134,900	–	–	2,066	143,566
Due to banks and other financial institutions	108,058	156,587	37,711	–	–	1,205	303,561
Placements from banks and other financial institutions	13,495	4,305	8,052	–	–	557	26,409
Derivative financial liabilities	–	–	–	–	–	1,802	1,802
Financial assets sold under agreements to repurchase	87,846	3,016	2,478	–	–	83	93,423
Deposits taken	985,512	137,048	342,220	189,311	–	14,971	1,669,062
Debt obligations payable	34,880	75,296	212,933	43,000	30,000	2,386	398,495
Other financial liabilities	2,790	–	–	–	–	6,493	9,283
Total financial liabilities	1,239,181	376,252	738,294	232,311	30,000	29,563	2,645,601
Net position	19,112	(66,186)	(175,178)	339,731	99,831	31,979	249,289

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 2020 and 31 December 2019.

	The Group			
	31 December 2020		31 December 2019	
Change in interest rate (basis points)	Net interest income	Shareholders' equity	Net interest income	Interests
Up 100 basis points	(4,091)	(5,113)	(769)	(3,104)
Down 100 bps	4,091	5,522	769	3,241

	The Bank			
	31 December 2020		31 December 2019	
Change in interest rate (basis points)	Net interest income	Interests	Net interest income	Interests
Up 100 basis points	(4,192)	(5,113)	(1,025)	(3,104)
Down 100 bps	4,192	5,522	1,025	3,241

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.

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 2020	31 December 2019
Net core tier-1 capital	222,230	209,148
Net tier-1 capital	282,413	269,302
Net capital	330,769	314,020
Core tier-1 capital adequacy ratio	8.79%	9.25%
Tier-1 capital adequacy ratio	11.17%	11.91%
Capital adequacy ratio	13.08%	13.89%

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 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
Financial liabilities				
Derivative financial liabilities	–	12,365	–	12,365

	The Group			
	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	926	–	926
Loans and advances to customers measured at fair value through other comprehensive income	–	133,731	–	133,731
Held-for-trading financial assets	49,470	38,060	2,253	89,783
Other debt investments	–	129,400	–	129,400
Other equity instrument investments	229	–	4,732	4,961
Financial liabilities				
Derivative financial liabilities	–	1,802	–	1,802

	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
Financial liabilities				
Derivative financial liabilities	–	12,365	–	12,365

	The Bank 31 December 2019 Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	926	–	926
Loans and advances to customers measured at fair value through other comprehensive income	–	133,731	–	133,731
Held-for-trading financial assets	49,470	38,060	2,253	89,783
Other debt investments	–	129,400	–	129,400
Other equity instrument investments	214	–	4,732	4,946
Financial liabilities				
Derivative financial liabilities	–	1,802	–	1,802

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 2020 or 2019.

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.

	31 December 2020		
The Group and the Bank	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

	31 December 2019		
The Group and the Bank	Held-for-trading financial assets	Other equity instrument investments	Total
1 January 2019	–	3,535	3,535
Additions	2,253	1,838	4,091
Decrease	–	–	–
Losses recorded in other comprehensive income	–	(641)	(641)
31 December 2019	2,253	4,732	6,985

As at 31 December 2020, the financial assets held by the Group that were presented at Level 3 of fair value had no impact on profit or loss for the year. The resulting financial assets are mainly unlisted equity assets whose fair value can be determined based on the P/B or P/E ratios of comparable industries/companies. If the value of comparable industries/companies rises or falls by 5%, the fair value of relevant financial assets will rise or fall by RMB421 million.

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.

	The Group			
	31 December 2020		31 December 2019	
Financial assets	Book value	Fair value	Book value	Fair value
Debt investments	702,909	706,201	675,286	676,498

	The Group			
	31 December 2020		31 December 2019	
Financial liabilities	Book value	Fair value	Book value	Fair value
Debt obligations payable	511,814	515,023	403,584	405,071

	The Bank			
	31 December 2020		31 December 2019	
Financial assets	Book value	Fair value	Book value	Fair value
Debt investments	700,879	703,991	673,615	675,543

	The Bank			
	31 December 2020		31 December 2019	
Financial liabilities	Book value	Fair value	Book value	Fair value
Debt obligations payable	504,702	507,770	398,495	399,963

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 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 Group 31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments	–	455,834	220,664	676,498
Financial liabilities				
Debt obligations payable	–	405,071	–	405,071

	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

	The Bank			
	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments	–	454,879	220,664	675,543
Financial liabilities				
Debt obligations payable	–	399,963	–	399,963

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 29 October 2020, approving to distribute cash dividend of RMB4.20 (pre-tax) per share to preference shareholders. The dividends above totaled RMB840 million, and were distributed on 29 March 2021.

The Bank held a meeting of the Board of Directors on 28 April 2021, approving to distribute dividend of RMB3.01 (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 2020, the dividends distributed totaled RMB4,632 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 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.

XVII. COMPARATIVE DATA

This year, the Group and the Bank adjusted the credit card installment fee and rental fee income originally accounted for in "fee and commission income" to "interest income" in accordance with the presentation requirements of *Notice on Strictly Implementing the Accounting Standards for Business Enterprises and Strengthening the Work on Annual Reports of Enterprises in 2020* (C.K. [2021] No. 2) issued by the Ministry of Finance and adjust the year-on-year comparison data.

XVIII. APPROVAL OF THE FINANCIAL STATEMENTS

The Financial Statements were approved by the Board of Directors of the Bank on 28 April 2021.

UNAUDITED SUPPLEMENTARY INFORMATION

1 January to 31 December 2020 (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.

	2020	2019
Profit/loss from the disposal of assets	3	15
Other net operating income and expenses	2	66
Income tax influence of extraordinary profit and loss	(26)	(30)
Less: Extraordinary profit and loss attributable to minority shareholders	(4)	(2)
Total extraordinary profit and loss attributable to ordinary shareholders of the parent company	(25)	49

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.

	2020	2019
Net profit attributable to ordinary shareholders of the parent company	18,495	21,065
Weighted average return on equity (%)	8.64	10.61
Basic earnings per share (RMB yuan/share)	1.20	1.37
Net profit attributable to ordinary shareholders of the parent company after deduction of extraordinary profit and loss	18,520	21,016
Weighted average return on equity (%)	8.65	10.59
Basic earnings per share (RMB yuan/share)	1.20	1.37

The Group has no potential diluted ordinary share.

华夏银行
HUAXIA BANK

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