

# **2020 Annual Report**

**Australia and New Zealand Bank (China)  
Company Limited**

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## **I. Company Profile & Milestones in 2020**

Opened in October 2010, Australia and New Zealand Bank (China) Company Limited ("ANZ China" or the "Bank") is a wholly owned subsidiary by Australia and New Zealand Banking Group Company Limited ("ANZ Group"). ANZ Group has more than 30 years' presence in China and now is the only Australian bank locally incorporated in China. As one of the largest Australian investors, ANZ China is well-positioned to support customers' increasing financial needs and growing business opportunities across the region.

As of end of 2020, ANZ China has branches in Beijing, Shanghai, Guangzhou, Chongqing, Chengdu, Hangzhou and Qingdao.

### **Key Milestones of ANZ China in 2020:**

- ANZ China ranked No. 1 for 'Overall Quality in Relationship' for the fourth consecutive year in 2020 Greenwich Associates Asian Large Corporate Banking Survey.
- ANZ China won the Leading Foreign Bank Award of the year in China in 2020 by Pengpai Top Financial Institutional Award for the fourth consecutive year.

As of the end of 2020, ANZ Group ranked top ten-listed company on the Australian Stock Exchange by market capitalization. ANZ Group's network covers 33 markets globally. ANZ Group remains Top 5 Corporate Bank in Asia for overall market penetration for the ninth year running in Greenwich Associates Large Corporate Banking survey.

## II. Basic Information of the Company (as of 31 December 2020)

1. **Legal Name:** Australia and New Zealand Bank (China) Company Limited
2. **Legal Representative:** Farhan Faruqui
3. **Registered Address:** Unit D,E,F 17th Floor, Unit A,B,C,D2,E,F 15th Floor and Unit B1 12th Floor, Mirae Asset Tower, 166 Lujiazui Ring Road, Pudong, Shanghai.

**Post Code:** 200120

**Telephone:** +86 21 6169 6001

**Complaint Hotline:** 4008218030/ 4006519920

**Website:** www.anz.com.cn

#### 4. Other Information

**Date of Incorporation:** 16 September 2010

**Registered with:** Shanghai Administration for Market Regulation

**Centralized Social Credit Code:** 91310000561913643B

**Registered Capital :** RMB 6,225,000,000

**Shareholder :** Australia and New Zealand Banking Group Limited

**Shareholding :** 100%

**Type of Company :** Limited Liability Company (Wholly Foreign-owned)

**Business Scope :** To provide all kinds of foreign exchange services and Renminbi services to all types of customers within the following scope: taking deposits from the public; extending short-term, medium-term and long-term loans; acceptance and discounting of negotiable instruments; trading of treasury bonds, financial bonds and other foreign currency denominated securities (other than stocks); provision of letter of credit services and guarantees; domestic or international settlements; sales and purchase of foreign exchange and acting as an agent for selling and purchasing foreign exchange; insurance agency; inter-bank lending; bank card business; safety box services; creditability investigations and consultancy services; such other businesses as approved by the CBIRC.(Business operation that involves administrative permit shall run with the permit).

**Auditor:** KPMG Huazhen (Special General Partnership) Shanghai Branch

### III. Summary of Financial Statements

As at 31 December 2020, ANZ China's total assets is RMB 37.48 billion which includes loans & advances (gross amount excluding accrued interest receivable) amounting to RMB 7.39 billion, the Bank's total liabilities is RMB 30.11 billion which includes total deposit (gross amount excluding accrued interest payable) amounting to RMB11.69 billion. In terms of financial performance in 2020, the Bank reported RMB 0.55 billion total operating income and RMB 63.87 million net profit after tax (NPAT). In 2020, the bank keeps all prudential ratios well within regulatory requirements, with its capital adequacy ratio at 24.08%, liquidity ratio at 101.33% and non-performing-loan ratio at zero.

	Y2020	Y2019	
	RMB million	RMB million	Change Rate
<b>Business Performance</b>			
Total Operating Incomes	551.67	1,005.02	-45.11%
Net Profit after Tax	63.87	296.83	-78.48%
<b>Balance Sheet</b>			
Loans & Advances (gross amount excluding accrued interest receivable)	7,393.64	9,720.81	-23.94%
Total Assets	37,477.00	38,635.22	-3.00%
Total Deposits (gross amount excluding accrued interest payable)	11,685.74	16,532.54	-29.32%
Total Owners' Equity	7,363.27	7,603.47	
<b>Main Ratio</b>			
Cost Income Ratio <sup>*Note 1</sup>	101.36%	60.66%	
Liquidity Ratio	101.33%	96.16%	
High Quality Liquidity Asset Adequacy Ratio	420.40%	258.84%	
Capital Adequacy Ratio	24.08%	18.37%	
Leverage Ratio	14.87%	14.04%	
Provision Coverage Ratio <sup>*Note 3</sup>	Not applicable <sup>*Note 2</sup>	Not applicable <sup>*Note 2</sup>	
Loan/Provision Ratio <sup>*Note 3</sup>	2.50%	2.50%	

\* Note 1: Cost Income Ratio = Business and administrative expenses / Operation Income X 100%

\* Note 2: As of 31<sup>st</sup> Dec 2019 and 31<sup>st</sup> Dec 2020, non-performing loan balance were both zero.

\* Note 3: For 2020, the minimum regulatory requirement for Provision Coverage Ratio and Loan/Provision Ratio is 120% and 1.5% respectively

## IV. Risk Management

### A. Credit Risk

#### 1. Oversight by the Board of Directors, two-level Risk Management Committee and the Senior Management

The Board of Directors of ANZ China is responsible for overall risk appetite of the bank, reviewing and approving the bank's risk management targets and strategies. The Board of Directors approves the Credit Approval Discretion (CAD) schedule and delegates the credit authority down to CRO, who will further delegate to relevant personnel in credit risk management roles to ensure the independence of the daily credit decision-making framework at ANZ China.

Under the Board of Directors, there are two levels of Risk Management Committees (Board Level Risk Management Committee -- BL RMC; and Management Level Risk Management Committee -- ML RMC) responsible for assisting the Board and senior management in managing and monitoring credit risks, markets risk, operational risk, compliance risk, liquidity risk, legal risk and reputation risk; setting up and maintaining the independent and robust risk management framework. ML RMC has been split into ML RMC-CMRC (Credit and Markets Risk Committee) and ML RMC-ORCC (Operational Risk and Compliance Committee).

The key risk management officers of ANZ China include Chief Risk Officer, Head of Credit Risk, wholesale credit approvers, credit portfolio monitoring and risk governance managers, Head of Market Risk, market risk managers, and operational risk manager. As one of the senior executives, China CRO reports directly to China CEO. CRO undertakes supervision responsibilities through engagement in formulating the risk management strategy and policies, and daily management of all risk areas including credit risk, market risk and operational risk etc. CRO will, via ML RMC and BL RMC, update the bank's senior management and the Board of Directors on the implementation of the risk management strategies and the overall status of the risk management. New credit risk management policies or major changes to the policies are recommended by CRO and ML RMC-CMRC to the Board or BL RMC for approval, to ensure an independent credit risk management framework in ANZ China. In addition, CRO will maintain smooth communication with the regulatory authorities to ensure they are well informed of the risk management status of ANZ China, which will provide ANZ China with timely guidance.

#### 2. Credit Risk Management Policies, Procedures and Risk Limit Management

Credit risk management policies/procedures of ANZ China outlines the detailed credit application, approval, and monitoring process and defines roles and responsibilities to ensure that the Bank complies with Banking Law, the ANZ Group policies/procedures and the local regulatory requirements. According to the requirements outlined in the CBIRC regulations for credit risk management, the Bank has developed and implemented the following internal credit risk management policies, procedures and processes: Wholesale Judgmental Credit Requirements, CBIRC Risk-based 5-Grade Categorization Guideline and Procedure, Implementation Measures for Working Capital Loan Management, Implementation Measures for Fixed Asset Loans Management, Implementation Measures for Project Finance, Country

Risk Management Procedure and Process, Credit Asset Transfer Business Guideline, Implementation Measures for Property Loan Management, Syndication Management Guideline, Green Credit Guide, Large-amount Risk Exposure Guideline and Joint Credit Procedure, etc.

The regulatory ratios required by the CBIRC and the Credit Risk Management Principles issued by the Basel Committee are well understood by the Bank, of which the importance to the risk management has been fully acknowledged. The Bank ensures that all regulatory ratios are complied with in the process of credit risk management.

As an important part of credit risk management policy, limits management policies of ANZ China have established provisions in detail as follows: limit management, transfer of limit between customers, change of product type and reinstatement of revolving limits, limits recording, documentation, credit approval discretion delegation, limit excess management, country limits, optimizing risk return, business writing strategy, industry concentration caps, large-amount risk exposure caps and single group/customer concentration limits etc. Daily limit excess report is generated by risk system to monitor limit excess constantly.

### 3. Risk Measurement, Monitoring and Management Reporting Systems

The Bank uses the global risk information system of ANZ Group to provide complete and timely information management reports to senior management, Risk and Operations departments.

To improve system capability for end-to-end credit approval process through more automated system support to ensure accurate and complete records of all approval terms and conditions set out throughout credit chain, we have rolled out OCP system to replace the old system Risk Origin since Dec 2019, i.e. consolidate the Customer Financial Statement Entry System and the Electronic Platform for Credit Application and Approval, and implement the Credit Risk Assessment Template through the system to create, submit and approve the credit application.

Under the support of ANZ Group, ANZ China has completed the 2020 regular credit stress testing and presented the results to the Senior Management and the Board. There were three levels of stressed scenarios applied, namely Mild, Severe and Extreme. Stressed factors include slow-down in China GDP growth, CPI movement, and the impact of US-China Trade War and COVID-19. EAD growth and default rate migration under stress scenarios were simulated based on internal PD/LGD and Monte Carlo models, with provisions calculated for stressed portfolios. The stress test results are summarized as follows:

Loss rate of credit assets given customer downgrades under stress are:

- 1.66% of the book is defaulted by year 2 in the Extreme scenario;
- 0.41% of the book is defaulted by year 2 in the Severe scenario;
- 0.06% of the book is defaulted by year 2 in the Mild scenario.

Provisioning impacts simulated based on the stressed portfolios exerting higher loss rates are:

- Individual Provision Charges peak in year 1 at CNY29M for the Mild Scenarios, and in year 2 at CNY 195M, and CNY783M for the Severe and Extreme Scenarios respectively.

- Collective Provision Charges peak in year 1 at CNY17M, CNY23M, and CNY33M for the Mild, Severe and Extreme Scenarios respectively.
- Total Provision Charges peak in year 1 at CNY49M for the Mild Scenarios, in year 2 at CNY213M, CNY783M for the Severe and Extreme scenarios respectively.

The testing results indicate that our current credit profile exhibits manageable level of assets quality deterioration and provision impacts under stress scenarios.

ANZ China and its subsidiary branch Shanghai Branch have performed property loan stress test based on local CBIRC requirements in 2020. Given the minimal property loan exposure of ANZ China, the impact on overall asset quality and capital adequacy is limited.

ANZ China also performed country risk stress test in 2020. The impact on provisioning and capital adequacy is limited under all stress scenarios and all country risk exposure at the time of stress testing is booked at low-risk countries.

#### 4. Internal Control

The principle of independence has been embedded in the bank's end-to-end credit process from customer acquisition, credit approval, loan disbursement, post-credit monitoring activities carried out by frontline, middle office and back office to achieve segregation of duties.

ICG and Research & Analysis (R&A) at the frontline are responsible for business development, due diligence, evaluating customers' comprehensive banking needs, developing account strategies, and submitting credit risk assessment and credit application report to Risk for approval. They are also accountable for monitoring risk profile of the customers after facility drawdown, and taking prompt actions in the case of any emerging risk events.

Risk, as middle office, is in charge of wholesale credit risk management, and management of non-performing assets based on the expert and technical support of Lending Services of ANZ Group.

The back office is operation divisions, which include payment operations, trade operations, credit administration, lending operations, market operations, accounts and customer services, finance, and operations divisions in branches/sub-branches.

The Bank set up New Product Forum for reviewing and approving new and major variation products. The forum is chaired by CRO and joined by CEO, COO, Head of Business units, Compliance and Legal to formalize new product approval process and ensure the compliance of new product launch with local market conditions and legal and regulatory requirements and comprehensive assessment of the associated product and credit and markets risks etc. through proper evaluation of technology support, resource allocation and internal process.

#### 5. Collection / Recovery of Non-performing Assets



In accordance with the related policies of ANZ China, Guidelines for Disposal of Non-performing Financial Assets and Interim Procedures in Non-performing Assets Monitoring and Assessment of Commercial Banking issued by CBIRC and other relevant laws and regulations, the Bank has established procedures for problem loan management and incorporated into our China Judgmental Credit Requirements, which are strictly followed for managing and collection of non-performing assets.

Collection/recovery of non-performing assets is currently outsourced to Lending Services North East Asia of ANZ Group. They are responsible for providing expert opinion and technical support for high risk account management i.e. mainly collection for non-performing assets. BL RMC under the delegation of ANZ China Board holds the final authority to decide and approve for bad debt write-off. Through entering into Statement of Work (SOW) between ANZ China and Lending Services North East Asia, detailed roles and responsibilities of ANZ China and ANZ Group are defined and the local accountability of supervision and final decision making are highlighted.

## 6. Green Credit Business

According to ANZ China Green Credit Guide, the bank will support industries and projects ("Preferred") focusing on energy saving and environmental protection and in line with the State Government's Industry Development Guideline, with reference to environmental protection laws and regulations, industry access policy and the credit guidance of ANZ China. Priority will be given to industries and customers involving environment and eco-system protection, environment treatment, sewage and waste treatment and recycling, public services, and in particular energy-saving projects. Preferential consideration will be given to industries including advanced information technology, advanced manufacturing, biology, renewable energy (including renewable-energy automobile), and renewable material, subject to meeting ANZ's normal credit underwriting standards.

Report on lending to customers exposed to high environmental risk (if any) is provided to CBIRC on regular basis.

## 7. Large-amount Risk Exposure

In order to better implement the requirements of the "Large-amount Risk Exposure Management Measures of Commercial Banks" announced by the CBIRC. In the area of management system, according to the regulation requirements from CBIRC on large-amount risk exposure monitoring and our internal management and statistical requirements, the Bank has constantly updated and improved the "ANZ China Large-amount Risk Exposure Management Guideline" and "Large-amount Risk Exposure Monitoring Procedure". The Bank has completed the annual review "ANZ China Large-amount Risk Exposure Management Guideline" in Sep 2020, and updated the "Large-amount Risk Exposure Monitoring Procedure" at the end of 2020, which clarified the monitoring for Repo and Reverse Repo Limit, etc.

Since 2019, the Bank has implemented the large-amount risk exposure monitoring metrics in the updated RAS (Risk Appetite Statement) Dashboard to be presented at BL-RMC and CMRC,

continuously track the movement and management situation, and regularly report to the senior management. As of 31 Dec 2020, all of the large-amount risk exposures were well within the caps required by CBIRC.

Our large-amount risk exposure index as of 31 Dec 2020:

Metrics for Large-amount Risk Exposures	Regulatory Caps	ANZ Internal Threshold (RAS trigger)	Top 1 Customer/Customer Group %
Top onshore single corporate customer loan outstanding (% of China net Capital)	<10%	<9%	7.81%
Top onshore single corporate customer risk exposure (% of China Tier 1 net Capital)	<15%	<13.5%	8.60%
Top onshore corporate customer group risk exposure (% of China Tier 1 net Capital)	<20%	<18%	10.90%
Top single interbank customer/group customer risk exposure (% of China Tier 1 net Capital)	<45%	<40.5%	29.51%
Top onshore single unqualified Central Counter-Party clearing/non-clearing risk exposure (% of China Tier 1 net Capital)	<25%	<22.5%	N/A

## 8. Retail Credit Risk

After ANZ China sold the Retail Business in July 2017, and as of the end of Dec 2020, there was nil non-performing retail loan. The Bank will not grant any new retail mortgage loan, and continue to strictly implement the CBIRC's post-loan verification requirements on existing retail mortgage loans, and prudently review the income and collateral of borrowers, so as to maintain the NPL rate of the Bank at a reasonable and controllable level.

## B. Liquidity Risk

The major business which impacts the Bank's liquidity is traditional business such as customer deposit, interbank borrowing and lending, bond & investment products and customer loans.

Currently ANZ China uses the mode of centralized fund management, where funding needs of the branches and business operation units are arranged by Markets, to manage the funds of ANZ China effectively and control the liquidity risk at a low level.

Overall, the Bank's current liquidity management framework, policy and procedure can meet the needs of our current business development.

The relevant policies and procedures include China Liquidity Guideline, China Liquidity Crisis Contingency Plan, Liquidity Metrics Management Procedure, RMB Deposit Reserve Management Procedure and Intra Day Liquidity Management Procedure.

The main components of liquidity management are as follows:

1. Regular update to guidelines and internal limits structure to meet requirement of risk monitoring;
2. Sound internal reporting mechanism with corresponding departments, personnel and committees, such as Risk Management Committee, Asset and Liability Committee, CRO, Market Risk Function and Treasurer. The Board undertakes ultimate oversight responsibility of the adequacy of liquidity risk management;
3. Specific risk monitoring system to ensure timely and accurate measurement, monitoring and reporting about liquidity risk and management;
4. Regular stress test based on the different scenario settings;
5. Independent internal audit of liquidity risk management.

ANZ China Asset and Liability Committee ('ALCO') is responsible for monitoring the liquidity conditions. ALCO holds monthly meetings to discuss major decisions on funding, and reviews the Bank's asset & liability structure. ALCO is responsible for ensuring effective implementation and execution of liquidity management framework. At the monthly meeting, senior management participates in the Bank's liquidity management evaluation, oversees movement and liquidity situation in the balance sheet and discusses relevant risk management.

As of 31 December 2020, the Bank's High Quality Liquid Asset Adequacy Ratio was at 420.40%, high quality liquid assets reached RMB5.718bn, and the net cash outflow for the future 30-day was expected at RMB1.36bn.

Specifically speaking, the Bank's liquidity management mainly includes the following measures:

#### 1. Liquidity Stress Testing

The Bank's cash flow model assumption setting of all the liquidity stress testing scenarios is based on the combination of external data and professional judgment and ANZ Group standard associated with China market actual liquidity status. Relevant parameters adjustment has been made to accommodate China market actual situation.

ANZ China establishes following liquidity stress testing scenarios:

#### a. Bank LCR and Bank LCR (Regulatory)

Scenario "Bank LCR" (Bank LCR) is a severe crisis scenario and incorporates a combination of both ANZ-specific and market stress factors, including deposit outflows, deterioration of whole funding, increased collateral requirement and credit or liquidity facilities being drawn by customers. The objective of the Bank LCR is to ensure that ANZ China maintains an adequate level of unencumbered High Quality Liquid Assets ('HQLA') that can be converted into cash to meet its liquidity needs for a 30-calendar-day period under a severe liquidity stress scenario. Bank LCR (Regulatory) is based on Bank LCR, and considers the default rate for 30-day FI loan cash inflow and 100% cash outflow for 30-day intragroup liabilities.

#### b. Mild LCR and Moderate LCR

Mild LCR and Moderate LCR are based on Bank LCR, which:

- Moderate LCR with the assumption to exclude intragroup outflows - assuming the liquidity stress only exists in China onshore market, ANZ Group can rollover their lending to ANZ China
- Mild LCR with the assumption to exclude the 5% outflow of revocable undrawn commitments plus intragroup outflow - assuming the bank can manage not to lend under cancellable commitments

The framework of liquidity metrics is outlined as below:

Liquidity Scenarios	Limit	Survival Horizon	Compliance Frequency
Mild LCR	>0	30(calendar days)	Quarterly
Moderate LCR	>0	30(calendar days)	Quarterly
Bank LCR (Regulatory)	>0	30(calendar days)	Quarterly
Bank LCR	>0	30(calendar days)	Daily

## 2. Liquidity Risk Metrics

The Bank also take into consideration relevant liquidity risk regulatory and monitoring ratios upon setting business development planning, mainly including liquidity ratio, HQLA adequacy ratio, liquidity matching ratio, deposit concentration and loan and deposit ratio etc.

## 3. Liquidity Crisis Contingency Plan

To ensure effective collaboration among each department during the liquidity crisis, ALCO regularly reviews LCCP and conduct annual rehearsal.

## C. Market Risk

Markets Risk is a risk management unit independent of the business that is responsible for measuring, monitoring and controlling market risk. China Markets Risk have implemented policies and procedures to ensure that ANZ China's market risk exposures are managed within the appetite and limit framework set by China Board. China Markets Risk reports results of limits utilizations and stress testing to China ML-RMC/ALCO on a regular basis and China BL-RMC on a quarterly basis.

#### Market Risk Structure

- Market Risk is a functional area that operates under the Group Market Risk framework, which ensures an effective and efficient approach to capture and monitor all Market Risk arising from Global Markets.
- Group Market Risk is responsible for all market risk systems and models, and supports China Market Risk Management.
- Group and China Market Risk work closely on all aspects of Market Risk.
- China Market Risk performs an annual review and any major changes of the guideline have to be approved by BL- RMC, noted by China Board; otherwise minor changes have to be approved by China CRO, noted by ML-RMC.

#### 1. Market Risk Structure & Management Principles

- Based on Group policies, China Market Risk develops and maintains China Market Risk Guideline to ensure its adaptation to local relevant regulatory requirements and the relevant personnel/committees fully understand their respective responsibilities and powers granted by Risk Committees, and proposes to senior management and Board and/or its delegated committees for review, approval and implementation.
- Conduct risk exposure monitoring, analysis, control and provide timely risk reporting to the business and senior management.
- Carry out regular limit review, manage the market risk limit approval process and limit excess process and report them to management level RMC and ALCO.
- Collaborate with China New Product Forum to identify and assess market risk arising from new products.
- Provide regular market risk reporting to Risk Committees and ALCO.

#### Key Policies, Processes and Procedures:

- Traded Market Risk China Guideline
- China IRRBB and FTP Guideline
- China Markets Risk Modelling Management Guideline

Currently the major products of China Markets are 1) FX and Rates, including Spot, Forward, FXS, RMB bond and Repo, IRS; 2) Shanghai Gold Exchange and Shanghai Futures Exchange trading; 3) FX Option Trading; 4) Credit Bond Trading; and 5) Bank's Asset and Liability Management. Based on different business purpose, Market Risk is managed on trading book and banking book separately.

#### 2. Market Risk Quantification Methodologies

ANZ China adopts same market risk quantification methodologies as ANZ Group. Any major changes to the methodologies are subject to the approval from board level RMC with support from management level RMC and ALCO. China Market Risk applies Value at Risk (VaR) and stress test on trading and banking book, and additionally Earning at Risk (EaR) on banking book. Detail market risk sensitivity limits are also imposed at each desk level including interest rate risk (DV01), FX (NPV) and optionality risk and credit spread (CR01).

- VaR is expressed to a 99.0% level of statistical confidence and using a one-day holding period. A 500-day historical simulation methodology is used in which overnight changes in the yield curve and/or other market price of each currency are applied to calculate the change in market value that would be observed had the current profile been subject to these historical outcomes. VaR is a statistical risk measurement of maximum expected loss (within the level of confidence) on a specific portfolio of financial assets during the holding period. Back testing is the process to identify the number of times that actual or hypothetical daily trading results (gains or losses) are greater than the calculated VaR exposure. ANZ China Market Risk conducts back testing for the major trading desks on daily basis.

-EaR is an estimate of the amount of the next 12 months' income that is at risk from interest rate movements over a one-month holding period, expressed to a 97.5% level of statistical confidence. This is earning-based measures for IRRBB management. It is calculated by applying a statistically derived interest rate shock to static repricing gaps. The volatility measure is based on the antithetic 97.5% confidence of monthly changes in the one-month interest rate over the past 6 years.

-Stress test

Trading Book: the Bank's stress testing results reflect the potential loss impact from applying the largest shocks occurring during recent history and incorporates both price movements and liquidity associated with these events. Data from 2008 is used (to encapsulate the GFC period) to capture severe historical price movements and liquidity shocks.

Banking Book: The 26 directions for the yield curve are applied as shocks at the 99.97% confidence level based on a 3-month (or 60-business-day) holding period to be commensurate with the nature of non-traded risk at the Bank.

ANZ China adopts Group Market Risk's historical stress test and also adopt extraordinary stress test that relate to China including China Hard Landing and CNY/HKD depeg scenarios, and sets corresponding stress test triggers for both trading and banking books.

### 3. Limits Setting, Approval and Excess management

Market Risk limit setting and excess reporting are key components of market risk management framework. With consideration of bank's business strategy and business development requirements, the Bank's Market Risk performs markets risk limits review regularly. The Board has ultimate responsibility for market risk management. The board level RMC with delegation from the Board is responsible for Market Risk Appetite approval i.e. VaR, EaR and Loss Limit. Limit excess will be reported to management level RMC and ALCO and tabled to board level RMC for noting on a quarterly basis.

### 4. Market Risk Quantification Analysis (in '000 RMB) as of 31 December 2020

	<u>as of 31 Dec 2020</u>	<u>Average</u>	<u>Max</u>	<u>Min</u>
VaR and EaR Overall Trading Book VaR*	15,090	7,936	15,611	3,518
- Local Market	13,555	6,526	14,532	2,773
- SGE	3,919	4,082	14,819	1,431
-FXO	397	412	1,462	97
- Credit	0	0	0	0
Banking Book VaR	7,199	6,575	9,058	4,919
Banking Book EaR	13,957	12,345	22,255	3,093

\*In 2020, trading book back testing results are within expectation.

Stress Test (Overall Trading Book –IR, FX and Credit and Banking Book):

<b>Stress Test</b>	<b>Stress Scenario</b>	<b>Outcome</b>
Trading Book - IR	Basis Widening	-102,395
Trading Book - FX	SpotUp VolUp	-10,625
Trading Book - Credit	-	-
Banking Book	Interes rate curveTwist	-91,644

Sensitivity Analysis over NII:

	Y2020	Y2019
Impact of 1% rate shock on the next 12 months' net interest income margin	8.4%	6.7%

## D. Operational Risk

### 1. Operational risk management structure

ANZ China has a comprehensive risk management structure. The Bank implemented three lines of defense on risk management:

- First line of defense: All business teams and enablement teams

The main responsibilities are the implementation of operational risk control and monitoring during daily operations.

- Second line of defense: management level Risk Management Committee – Operational Risk & Compliance Committee chaired by CRO of the Bank, Operational Risk governance role under risk team

The main responsibilities are to supervise the first line of defense performance and to provide guidance on risk management.

- Third line of defense: Internal Audit team

The main responsibilities (specific for Operational Risk) are to independently assess and evaluate the execution of operational risk management of the Bank by business teams and enablement team.

The Board and board level Risk Management Committee are responsible for the overall risk management of the Bank. As the first line of defense, Operational Risk team reports to COO of the Bank. Head of Operational Risk is leading operational risk management team and quality assurance team. To further enhance operational risk control, there is a role of risk champion set up in each business team and enablement team and all branches. They are responsible for coordinating operational risk management between business team/enablement team/branches and operational risk team, so that operational risk could be properly identified, assessed, managed and controlled. ANZ China categorizes operational risk in line with the following seven loss event categories, as defined by local regulator or group policy:


- Internal Fraud
- External Fraud
- Employment practices and workplace safety
- Clients, products and business practices
- Damage to physical assets
- Business disruption
- Execution, delivery and process management

### 2. Risk management platform

ANZ China Operational Risk Management Policy sets out the operational risk requirements under the ANZ Operational Risk Approach and Operational Risk Identify-Act-Monitor (“I.A.M”) Framework. It is part of the ANZ China’s Risk Management Strategy for material risks and in particular the management of operational risks.

Each business team has its Risk Forum on a regular basis. The forum is held by business head, with attendance from operational risk team, compliance, operation support team. During the meeting, the business head will summarize the recent risk matters. The medium and low risk matters would be discussed and expected to be resolved at the forum; the high risk matters or significant medium risk matters would be further escalated to ML RMC-ORCC.





ML RMC-ORCC is held at least 8 times a year. The Committee is chaired by CRO with attendance of all business heads and enablement function heads. The committee will address the emerging risks resulting from internal and external environment changes, regulation changes, KRI changes, loss and events, audit findings, QA results, strategy and organization changes, new product and new system changes, also external loss data, discuss the key operational risks, and adjust the risk rating if necessary, discuss the related solutions and management focus of the next phase, and review/monitor the following remediation.

Board level Risk Management Committee is held on a quarterly basis. COO presents the operational risk update and the risk management priorities going forward.

### 3. Operational Risk Capital Allocation and Loss

ANZ China calculates and maintains appropriate operational risk capital according to local regulatory requirements.

ANZ China is currently adopting the Basic Indicator Approach to estimate Operational Risk Capital, by multiplying the average eligible revenue over the previous 3 years with a regulatory determined ratio of 15%. The capital for Operational Risk is the product of the Operational RWAs reported to CBIRC, as per the quarterly Return on Capital Adequacy, and the 10.5% Minimum Regulatory Ratio.

For the year 2020, ANZ China reported 30 operational risk events, and no financial loss incurred.

## **V. Services for Small & Micro Enterprises**

ANZ China continued to support small & micro enterprises ("SME") business. In 2020, a total of 24 SME customers & facilities have been approved. The total amount of loan disbursement for SME is slightly above RMB2.1 billion (including both local currency and foreign currency loans) increased by 14.77% compared with that of 2019. The volume of transactions for SME loans increased by 5.39% compared with that of 2019, reaching the number of 215 at the end of 2020. Loan interest for SME clients was kept at stable level with average interest rate for RMB loan at around 4.48%.

## **VI. Corporate Governance**

### **1. Board Composition and Board Performance**

As of 31<sup>st</sup> December 2020, the Board of ANZ China composes of:

Chairman – Farhan Faruqui

Executive Director – Huang Xiaoguang

Non-Executive Director – Elizabeth Davies

Non-Executive Director – Annabel Squier

Independent Director– Zhao Jiusu

Independent Director – Zhang Xiaoyan

The Board of Directors is mainly responsible for major decisions such as business plans, and reports to the Shareholder and implements the Shareholder resolutions. The Board takes up the ultimate responsibility for the business performance and financial status. The Board has set up Connected Party Transaction Control Committee, Risk Management Committee, Audit Committee and Remuneration Committee.

The Board has actively fulfilled its fiduciary duty and duty of care in 2020. In 2020, the Board and its specialised committees have fulfilled its respective duties under our governance structure in accordance with laws, regulations, regulatory requirements, Articles of Association and relevant charters. The Board held its regular meetings on 30 March, 2 July, 22 September and 10 December in 2020 to receive regular updates from senior management on business performance, human resources, key IT projects, key regulation update and implementation status, and to review and discuss the bank's development strategy, financial plan, internal authority matrix, and external auditor's engagement and audit fees, etc.

### **2. Supervisor**

ANZ China has one Supervisor, Mr. Tim Bezencon, appointed by the Shareholder. The Supervisor is responsible to Shareholder and reports to Shareholder. The Supervisor attends Board meetings and Risk Management Committee meetings, reviews Board pack, receives reports from senior management at board meeting, and participates in discussion from the perspective of Supervisor, examines the bank's financial status and supervise the performance of directors and senior management and report to the Shareholder accordingly.

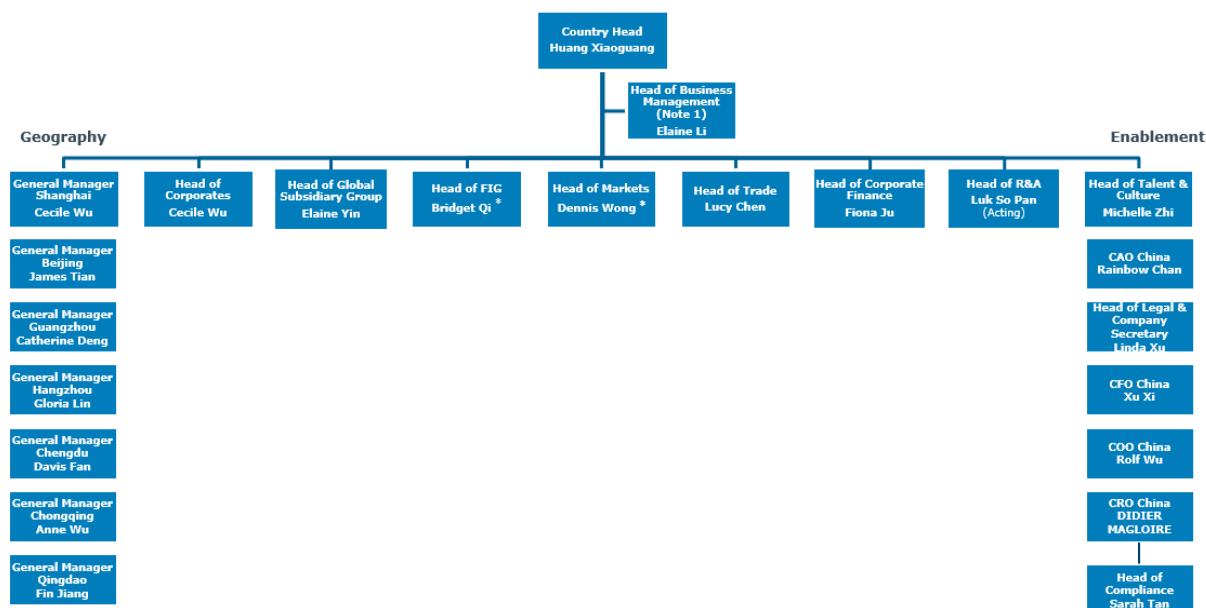
### **3. Independent Director**

The Independent Directors owe duty of loyalty and duty of care to ANZ China and its Shareholder. The Independent Directors fulfil their duties independently in accordance with PRC laws and regulations and Articles of Association to protect the overall interest of ANZ China. In the year 2020, Mr. Zhao Jiusu and Ms. Zhang Xiaoyan actively participated in the discussion and decisions at the Board meetings, expressed his objective and independent opinions. Mr. Zhao Jiusu is the chair-person of Connected Party Transaction Control Committee and Remuneration Committee; and he is also a member of Risk Management Committee and Audit Committee. Ms. Zhang Xiaoyan is the chair-person of Audit Committee;

and she is also a member of the Connected Party Transaction Control Committee and Risk Management Committee.

#### 4. Organization Chart – as of 31 December 2020

China Leadership Organization Chart  
31 December 2020



Notes:  
1) Head of Business Management also looks after Marketing and Communications business  
2) Both roles marked "\*" are co-heads to manage FI business unit

#### 5. Overall Assessment of Corporate Governance

The Bank has a sound corporate governance structure. There are clear roles and boundaries among Shareholder, Board of Directors, Supervisor and Senior Management. Various governance entities operate independently with effective checks and balance. In addition, our Directors, Supervisor and Senior Management possess sound professional background, business skills, professional ethics and industry experience, all of which contributes to an effective corporate governance team.

## VII. Equity Information

In accordance with Article 37 in <Provisional Measures on Administration of Equities of Commercial Banks> issued by China Banking & Insurance Regulatory Commission, ANZ China discloses its equity information as below:

### 1. Shareholder information as at the end of the reporting period

Australia and New Zealand Banking Group Limited is a listed company in Australia and is the only shareholder of ANZ China. There is no controlling shareholders, actual controlling party, parties acting in concert and ultimate beneficiaries for Australia and New Zealand Banking Group Limited.

### 2. Shareholder & its connected party as at the end of this reporting period; connected party transactions during this reporting period

In 2020, there was no connected transaction between the Bank and the connected individual of the shareholder.

As of 31 December 2020, the list of connected parties of Australia and New Zealand Banking Group Limited, the shareholder of the Bank, is as follows:

Company Name	Registered Holder
8 and 9 Chester Limited	Australia and New Zealand Banking Group (PNG) Limited
ACN 003 042 082 Limited (in liquidation)	Australia and New Zealand Banking Group Limited
ACN 008 647 185 Pty Ltd	ANZ Wealth Australia Limited
ANZ (Lao) Sole Company Limited	Australia and New Zealand Banking Group Limited
ANZ Asia Limited	ANZ International (Hong Kong) Limited
ANZ Bank (Kiribati) Limited	ANZ Funds Pty. Ltd.
ANZ Bank (Samoa) Limited	ANZ Funds Pty. Ltd.
ANZ Bank (Thai) Public Company Limited	ANZ Capel Court Limited
ANZ Bank (Thai) Public Company Limited	ANZ Fiduciary Services Pty Ltd
ANZ Bank (Thai) Public Company Limited	ANZ Funds Pty. Ltd.
ANZ Bank (Thai) Public Company Limited	ANZ Global Services and Operations Pty Limited
ANZ Bank (Thai) Public Company Limited	ANZ Leasing (Vic) Pty. Ltd.
ANZ Bank (Thai) Public Company Limited	ANZ Margin Services Pty. Limited
ANZ Bank (Thai) Public Company Limited	ANZ Properties (Australia) Pty Ltd
ANZ Bank (Thai) Public Company Limited	ANZ Rewards No. 2 Pty Ltd
ANZ Bank (Thai) Public Company Limited	ANZ Securities (Holdings) Pty Ltd
ANZ Bank (Thai) Public Company Limited	ANZ Securities Limited
ANZ Bank (Thai) Public Company Limited	ANZ Underwriting Limited
ANZ Bank (Thai) Public Company Limited	ANZ Wealth Australia Limited
ANZ Bank (Thai) Public Company Limited	Esanda Finance Corporation Pty Ltd
ANZ Bank (Thai) Public Company Limited	Jikk Pty Ltd
ANZ Bank (Thai) Public Company Limited	Votrant No. 1103 Pty Limited
ANZ Bank (Vanuatu) Limited	ANZ International (Hong Kong) Limited
ANZ Bank (Vietnam) Limited	Australia and New Zealand Banking Group Limited

ANZ Bank New Zealand Limited	ANZ Holdings (New Zealand) Limited
ANZ Capel Court Limited	Australia and New Zealand Banking Group Limited
ANZ Capital No. 1 Pty Ltd	Australia and New Zealand Banking Group Limited
ANZ Capital Private Limited	ANZ Funds Pty. Ltd.
ANZ Capital Private Limited	Jikk Pty Ltd
ANZ Centre Pty Ltd	Australia and New Zealand Banking Group Limited
ANZ Commodity Trading Pty Ltd	Australia and New Zealand Banking Group Limited
ANZ Custodial Services New Zealand Limited	ANZ Bank New Zealand Limited
ANZ Fiduciary Services Pty Ltd	Australia and New Zealand Banking Group Limited
ANZ Finance American Samoa, Inc	Australia and New Zealand Banking Group Limited
ANZ Finance Guam, Inc	Citizens Bancorp
ANZ Funds Pty. Ltd.	Australia and New Zealand Banking Group Limited
ANZ Global Services And Operations (Chengdu) Company Limited	ANZ Global Services and Operations Pty Limited
ANZ Global Services And Operations (Manila) Inc	ANZ Global Services and Operations Pty Limited
ANZ Global Services and Operations Pty Limited	ANZ Funds Pty. Ltd.
ANZ Guam Inc.	Citizens Bancorp
ANZ Holdings (New Zealand) Limited	ANZ Funds Pty. Ltd.
ANZ ILP Pty Ltd	ANZ Wealth Australia Limited
ANZ International (Hong Kong) Limited	ANZ Funds Pty. Ltd.
ANZ International Private Limited	ANZ Funds Pty. Ltd.
ANZ Investment Services (New Zealand) Limited	ANZ Bank New Zealand Limited
ANZ Investments (PNG) Limited	Australia and New Zealand Banking Group (PNG) Limited
ANZ IPB Nominees Pte Ltd	ANZ Singapore Limited
ANZ Leasing (BWC Financing) Pty Ltd	Australia and New Zealand Banking Group Limited
ANZ Leasing (NSW) Pty Ltd	Australia and New Zealand Banking Group Limited
ANZ Leasing (Vic) Pty. Ltd.	Australia and New Zealand Banking Group Limited
ANZ Lenders Mortgage Insurance Pty. Limited	Australia and New Zealand Banking Group Limited
ANZ Life Assurance Company Pty Limited (in liquidation)	ANZ Wealth Australia Limited
ANZ Margin Services Pty. Limited	Australia and New Zealand Banking Group Limited
ANZ National Staff Superannuation Limited	ANZ Bank New Zealand Limited
ANZ New Zealand (Int'l) Limited	ANZ Bank New Zealand Limited
ANZ New Zealand Investments Limited	ANZ Wealth New Zealand Limited
ANZ New Zealand Investments Nominees Limited	ANZ New Zealand Investments Limited
ANZ New Zealand Securities Limited	ANZ Bank New Zealand Limited
ANZ Nominees Pty Ltd	Australia and New Zealand Banking Group Limited
ANZ Operations And Technology Private Limited	ANZ Funds Pty. Ltd.
ANZ Operations And Technology Private Limited	ANZ International Private Limited
ANZ Pacific Operations Pte Ltd	ANZ Funds Pty. Ltd.
ANZ Pacific Operations Pte Ltd	Australia and New Zealand Banking Group Limited
ANZ Pensions (UK) Limited	Australia and New Zealand Banking Group Limited
ANZ Properties (Australia) Pty Ltd	Australia and New Zealand Banking Group Limited
ANZ Rewards No. 2 Pty Ltd	Australia and New Zealand Banking Group Limited
ANZ Securities (Holdings) Pty Ltd	Australia and New Zealand Banking Group Limited

ANZ Securities (Japan), Ltd.	ANZ Funds Pty. Ltd.
ANZ Securities Limited	ANZ Securities (Holdings) Pty Ltd
ANZ Securities, Inc.	Minerva Holdings Limited
ANZ Self Managed Super Pty Limited (in liquidation)	ANZ Wealth Australia Limited
ANZ Singapore Limited	ANZ International Private Limited
ANZ Support Services India Private Limited	ANZ Funds Pty. Ltd.
ANZ Support Services India Private Limited	Australia and New Zealand Banking Group Limited
ANZ Underwriting Limited	ANZ Securities (Holdings) Pty Ltd
ANZ Wealth Australia Limited	Australia and New Zealand Banking Group Limited
ANZ Wealth New Zealand Limited	ANZ Bank New Zealand Limited
ANZcover Insurance Private Ltd	ANZ Funds Pty. Ltd.
ANZEF Limited	Minerva Holdings Limited
ANZEST Pty Ltd	Australia and New Zealand Banking Group Limited
ANZi Holdings Pty Ltd	Australia and New Zealand Banking Group Limited
Arawata Assets Limited	ANZ Bank New Zealand Limited
Australia and New Zealand Bank (China) Company Limited	Australia and New Zealand Banking Group Limited
Australia and New Zealand Banking Group (PNG) Limited	Australia and New Zealand Banking Group Limited
AUT Administration Pty Ltd (in liquidation)	ANZ Wealth Australia Limited
Chongqing Liangping ANZ Rural Bank Company Limited	Australia and New Zealand Banking Group Limited
Citizens Bancorp	Australia and New Zealand Banking Group Limited
E S & A Holdings Pty Ltd (in liquidation)	Australia and New Zealand Banking Group Limited
Endeavour Finance Limited	ANZ Bank New Zealand Limited
Esanda Finance Corporation Pty Ltd	Australia and New Zealand Banking Group Limited
Franchise Asset Holdings Pty Ltd	Australia and New Zealand Banking Group Limited
Jikk Pty Ltd	Australia and New Zealand Banking Group Limited
Journeywise Pty Ltd	ANZi Holdings Pty Ltd
La Serigne Limited	ANZ Bank (Vanuatu) Limited
Looking Together Pty Ltd	Australia and New Zealand Banking Group Limited
Minerva Holdings Limited	ANZ Funds Pty. Ltd.
OneAnswer Nominees Limited	ANZ New Zealand Investments Limited
Payment Acceptance Australia Pty Limited	Australia and New Zealand Banking Group Limited
PT Bank ANZ Indonesia	Australia and New Zealand Banking Group Limited
PT Bank ANZ Indonesia	PT Bank Pan Indonesia, Tbk
Share Investing Limited	Australia and New Zealand Banking Group Limited
Share Investing Nominees Pty Limited (in liquidation)	Share Investing Limited
Shout for Good Pty. Ltd.	ANZ Wealth Australia Limited
SIL Nominees Pty Limited	Share Investing Limited
Tandem Financial Advice Pty Limited (in liquidation)	ANZ Wealth Australia Limited
Union Investment Company Pty Limited (in liquidation)	ANZ Wealth Australia Limited
Votrait No. 1103 Pty Limited	ANZ Funds Pty. Ltd.

For the year 2020, the service-related connected party transaction amounts between the Bank and its shareholder / its connected parties are disclosed as follows:

Shareholder related service fee	RMB 59,799,200.54
Operation Hubs related service fee	RMB 18,611,687.00

### **3. Director & Supervisor Nomination**

In 2020, the shareholder appointed one Independent Director, Zhang Xiaoyan.

### **4. Equity Change & Equity Pledge**

There is no equity change or equity pledge taken place in 2020.



## VIII. Remuneration

As per the Article 22 of Supervisory Guidelines on Sound Compensation in Commercial Banks and Attachment 15 of Administrative Measures for the Capital of Commercial Banks (for Trial Implementation), we hereby disclose the remuneration information as below:

### 1. The remuneration management framework and approval procedures, including the composition and limit of authority of the REM Committee

- Setup of REM Committee: the REM Committee is established in April 2016, and report to the Board of ANZ China. REM Committee is comprised of 3 directors and the Chairman of the Committee is assumed by Independent Director Zhao Jiusu. The REM Committee will meet at least once annually and more frequently if it deems necessary.
- Duties and Responsibilities of REM Committee: Subject to any requirement to keep the China Board informed of its activities, the REM Committee has power to deal with all matters falling within the scope of its purpose and duties as set out in its Charter and all other matters that may be delegated by the China Board to the REM Committee from time to time, including:
  - the review and approval of annual Performance and Remuneration Review outcomes for ANZ China employees in aggregate;
  - the review and approval of updates to the ANZ China Remuneration Operating Guidelines;
  - Set and review annual working plan of the China Remuneration Committee, including the review of the annual internal Remuneration and Performance Evaluation Audit findings for ANZ China to ensure compliance with the legal and regulatory requirements on remuneration;
  - Make recommendations on any other matters referred to the REM Committee to the Chair of the REM Committee or the China Board; and
  - Review the terms of this Charter on an annual basis, and where appropriate, recommend any changes to the China Board.
  - Review and determine ANZ China Material Risk Takers (China MRTs) roles.
  - Review and update ANZ China Governance Framework for Management of Professionals' Conduct.

### 2. The total annual compensation, beneficiaries, and the composition and distribution of compensation

- The total 2020 annual remuneration amount is CNY 304,610,000, inclusive of fixed and variable compensation (exclude benefits).
- Remuneration structure: The ANZ remuneration structure includes fixed compensation, variable compensation and benefits, and the benefits include commercial insurance, housing fund etc.

### 3. The standards for compensation and performance measurement and risk adjustments

Individual remuneration outcomes are discretionary and linked to both ANZ and individual performance outcomes for all employees. The performance appraisal system of our bank requires employees to set performance objective from three aspects: "How", "What" and "Growth". The setting of performance objectives can take into account the personal objectives of the employees and the common objectives of the department and team. The "How" includes, but is not limited to, our unified corporate values and staff's code of conduct, so as to regulate the behaviour of employees; the "What" is mainly based on the four pillars : Customer, Financial Discipline & Operational Resilience, People & Culture, Risk. To set the staff's performance objectives, the sum of the weights of all four pillars shall be 100%, of which the weight of a single financial target shall not exceed 25%, and the sum of the total financial weight shall not exceed 30%. The "Growth" requires employees to set at least one learning growth goal. Objectives of "Growth" are not included in the year-end assessment. Throughout the appraisal year, employees are encouraged to discuss the performance objectives and completion status with the line manager at any time. The performance objectives can also be adjusted according to the actual situation and the results of the discussion. In our bank's year-end appraisal, the line manager will assess and evaluate the performance of employees based on the objectives of "How" and "What". In the event of misconduct, violation of the code of conduct or non-compliance of employees, their rating will be negatively affected. The performance compensation of ANZ reflects sufficient risks and the incentive and constraint requirements for sustainable development of the bank.

**4. The information about deferred compensation payouts and non-cash compensation, including the information about clawbacks for some reasons**

Deferral and non-cash payment of variable compensation: Mandatory deferral places an increased emphasis on having a variable structure that is flexible, continues to be performance linked, has significant retention elements and motivates employees to drive continued performance over the longer term. The deferral part is granted as ANZ equity which vests at the end of 1, 2 and 3 years. The determination and payment of overall performance based compensation will be approved by the Board of Directors in advance. At the end of the relevant deferral period, the consent of the Board is required before the deferred amount is released.

No malus or clawback of variable compensation occurred in the year 2020.

**5. The information about compensation of the board of directors, senior management, and those employees in posts having material impact on risks of the bank**

Board members (as of 31 December 2020) - refer to Part VI 'Corporate Governance' Section 1 'Board Composition'.

As of 31 December 2020, total fixed compensation paid to the Independent Directors is CNY 550,000.

The roles of senior managements and those employees in posts having material impact on risks of the bank are set forth as below; the list of the roles will be adjusted from time to time.


Category	Position
----------	----------

Senior Management	Country Head China
	Chief Risk Officer (CRO) China
	Chief Financial Officer (CFO) China
	Chief Operating Officer (COO) China
	Chief Audit Officer (CAO) China
	Head of Corporates China & GM Shanghai
	Head of Global Subsidiary Group China
	Head of Markets China
	Head of Transaction Banking China
	Head of FIG China
	Head of R&A China
	Head of Corporate Finance China
	Head of Compliance China
	Head of Legal & Company Secretary China
	Head of Talent & Culture China
	GM Beijing
	GM Guangzhou
	GM Hangzhou
	GM Chongqing
	GM Chengdu
GM Qingdao	

As of 31 December 2020, total income (exclude benefits) paid to senior managements and those employees in posts having material impact on risks of the bank is CNY 68,890,000 and paid part of incentive bonus is CNY 7,040,000 and the deferral part is CNY 8,330,000.

## **6. The preparation and filing of the annual compensation plan, and the information about the assessment of the accomplishment of the indicators on economy, risks and social responsibilities**

It is essential that all employees are aware of the standards of ANZ Values, behaviour and risk/compliance that are expected of them. Failure to meet the required standards during the year will result in a negative impact to performance and remuneration outcomes. ANZ also review staff's compliance with external laws and regulations and internal process and regulator's feedback on regular basis, and inform the senior management team in a timely manner. From bank level, we ensure close monitor and supervision on our position on regulatory index such as capital adequacy ratio and provision. For front-line positions that have major impact on the risk, risk related performance targets such as the credit quality of clients, adherence to internal risk preference, and ensuring no regulatory breach as 1st line



of defence have all been incorporated and will have direct impact on employee's performance outcome.

**7. The exceptions to the original compensation plan, including the affecting factors, and the composition, form, number and beneficiaries of the compensation changes**

No exceptions to the original compensation plan occurred in 2020 financial year.

**8. Remuneration Policy**

The ANZ China Remuneration Operating Guideline is reviewed or updated (if need) on annual basis. ANZ China Remuneration Committee reviewed and approved ANZ China Remuneration Operating Guideline in 2020. In the Guideline, the Remuneration structure, fix remuneration and variable remuneration are introduced, and the Guideline is applicable to all staff of ANZ China.

## **IX. Corporate Social Responsibility**

The Board continued the promotion of ICARE (Integrity, Collaboration, Accountability, Respect, and Excellence) in 2020 as the Bank's key value and behavioural standards, taking great effort to achieve harmonious development for the business, the individual, the community and the environment.

2020 is a special year of fighting against the COVID pandemic. As the only Australian bank being locally incorporated in China, ANZ China implemented the spirit and requirements of epidemic prevention and control and also initiated charity donations and other love care programs to continuously promote the harmonious development of the society. ANZ China delivered 5 volunteer activities in 2020 with 1217 volunteer hours committed.

### **Highlights of 2020 volunteer activities:**

#### **COVID-19 Donation**

- ANZ China and all staff donated a fund of RMB 300,000 to Shanghai United Foundation for fighting against the COVID-19 outbreak charity project in total. The fund has been used to maximize the benefit of providing much-needed medical and daily-use supplies, community epidemic prevention and other public welfare projects.

#### **Poverty Alleviation Efforts**

- ANZ China partnered with Shanghai United Foundation to participate in '2020 One Egg Charity Walk' – virtual step challenge.
- ANZ China Qingdao branch engaged in a local poverty alleviation program for Qingdao Laixi Nanlan primary school.

#### **Education and Love Care**

- ANZ China Hangzhou branch keeps the long-term relationship with Lin'an Children's Home to help abandoned children & disabled children.
- ANZ China Chongqing Branch keeps the long-term relationship with Leyi Special kindergarten for regular love care program



## **X. Other Significant Matters**

In the year 2020, there is no significant matters taking place in accordance with the measurements of 'significant matters' as specified in Article 22 of <Measures on Information Disclosure by Commercial Banks> Decree of the China Banking Regulatory Commission No.7 (2007).



## **XI. Financial Statements**

Our financial statements have been audited by KPMG and the details are attached in this report.

## XII. Network and Contact (as of 31 December 2020)

<b>Network</b>	<b>Address</b>	<b>Telephone</b>	<b>Fax</b>
ANZ China Headquarter	Unit D,E,F 17th Floor, Unit A,B,C,D2,E,F 15th Floor and Unit B1 12th Floor Mirae Asset Tower, 166 Lujiazui Ring Road, Pudong, Shanghai	+86 21 6169 6000	+86 21 6169 6199
Shanghai Branch	Unit A,B2,C,D,E &F, 12F, Mirae Asset Tower, No. 166 Lujiazui Ring Road Pudong, Shanghai	+86 21 6169 6000	+86 21 6169 6199
Shanghai Free Trade Zone Sub-branch	Unit D1,15th Floor, Mirae Asset Tower 166 Lujiazui Ring Road, Pudong, Shanghai	+86 21 6169 6000	+86 21 6169 6199
Beijing Branch	Unit 01A,02,03,05A,07, Floor 32, Tower 3, China Central Place, No. 77 Jianguo Road, Chaoyang District, Beijing	+86 10 6599 8188	+86 10 8588 8696
Guangzhou Branch	Unit 02, 20F, International Finance Place 8 Huaxia Road, Pearl River New Town, Guangzhou	+86 20 3814 1088	+86 20 3814 1077
Chongqing Branch	11F, Metropolitan Tower, 68 Zourong Road, Yuzhong District, Chongqing	+86 23 8810 5900	+86 23 8810 5971
Hangzhou Branch	Unit302, Building 1 (C),Euro America Center (EAC),18 Jiao Gong Road, Hangzhou, Zhejiang	+86 571 2689 0888	+86 571 2689 0877
Chengdu Branch	Unit 3, 30F, Office Tower 1, International Finance Square, No. 1, Section 3, Hongxing Road, Jinjiang District, Chengdu, Sichuan	+86 28 6872 1911	+86 28 6872 1901
Qingdao Branch	Unit 2502-2503, Shangri-la Centre, No.9, Xianggang Zhong Road, Shinan District, Qingdao	+86 532 8163 3688	+86 532 8163 3608



Australia and New Zealand Bank  
(China) Company Limited

English translation of financial statements  
for the year 1 January 2020 to 31 December 2020  
If there is any conflict of meaning between the Chinese version  
and its English translation, the Chinese version will prevail

## AUDITORS' REPORT

毕马威华振沪审字第 2100871 号

The Board of Directors of Australia and New Zealand Bank (China) Company Limited:

### Opinion

We have audited the accompanying financial statements of Australia and New Zealand Bank (China) Company Limited ("ANZ China") set out on pages 1 to 95 which comprise the balance sheet as at 31 December 2020, the income statement, the cash flow statement and the statement of changes in owner's equity for the year then ended, and notes to the financial statements.

In our opinion, the allowance for impairment losses of loans and advances to customers is recognised in all material respects in accordance with the preparation basis as stated in Note 2 to the financial statements, and the rest of ANZ China's financial statements are in all material respects in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China. On this basis, the financial statements present fairly, in all material respects, the financial position of ANZ China as at 31 December 2020, and the financial performance and the cash flows of ANZ China for the year then ended.

### Basis for Opinion

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

### Other Information

ANZ China's management is responsible for the other information. The other information comprises all the information included in 2020 annual report of ANZ China, 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.

## AUDITORS' REPORT (continued)

毕马威华振沪审字第 2100871 号

### Other Information (continued)

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with and based on the Accounting Standards for Business Enterprises and the requirement for the allowance for impairment losses of loans and advances to customers as stated in Note 2 to the financial statements, and for the design, implementation and maintenance of such internal control necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing ANZ China's financial reporting process.

### Auditors' Responsibilities for the Audit of the Financial Statements

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

## AUDITORS' REPORT (continued)

毕马威华振沪审字第 2100871 号

### Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

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

**AUDITORS' REPORT (continued)**

毕马威华振沪审字第 2100871 号

**Auditors' Responsibilities for the Audit of the Financial Statements (continued)**

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

KPMG Huazhen LLP  
Shanghai Branch

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

Chen Sijie  
(Signed on Chinese original)

Shanghai, China

Xue Ying  
(Signed on Chinese original)

Date: 13 APR 2021

Australia and New Zealand Bank (China) Company Limited  
 Balance Sheet as at 31 December 2020  
 (Expressed in RMB)

	Note	2020	2019
Assets:			
Cash and deposits with central bank	6	3,260,665,112.29	3,268,716,154.38
Deposit with banks and other financial institutions	7	2,479,793,695.35	1,577,663,544.74
Precious metals		699,980,877.30	724,587,221.89
Placements with banks and other financial institutions	8	4,975,604,504.88	9,582,667,727.06
Derivative financial assets	9	8,793,659,508.82	4,228,136,075.11
Loans and advances to customers	10	7,233,989,430.76	9,505,059,252.59
Financial investment			
- Financial asset held for trading	11	1,998,499,707.11	2,150,279,478.76
- Other debt investment	12	5,415,219,780.47	4,936,937,616.74
Fixed assets	13	16,481,280.98	23,404,677.66
Right-of-use assets	14(1)	81,701,740.09	N/A
Intangible assets		3,313,203.97	7,917,209.62
Deferred tax assets	15	88,413,907.76	46,883,716.24
Other assets	16	2,429,672,952.02	2,582,971,845.69
Total assets		<u>37,476,995,701.80</u>	<u>38,635,224,520.48</u>

The notes on pages 10 to 95 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited  
 Balance Sheet as at 31 December 2020 (continued)  
 (Expressed in RMB)

	Note	2020	2019
Liabilities:			
Deposits from banks and other financial institutions	17	1,052,577,553.06	1,230,063,108.46
Placements from banks and other financial institutions	18	2,933,171,696.48	2,175,093,079.78
Financial liabilities held for trade	19	1,966,190,660.47	1,371,991,571.19
Derivative financial liabilities	9	8,951,257,160.98	4,198,981,861.21
Financial assets sold under repurchase agreements	20	2,939,965,337.99	3,691,877,310.81
Deposits from customers	21	11,724,941,169.37	16,572,752,058.29
Employee benefits payable	22	20,154,439.95	27,026,824.96
Taxes payable	23	16,409,591.08	35,461,303.37
Debt securities issued	24	149,160,176.71	1,376,642,820.65
Lease liability	14(2)	89,801,090.55	N/A
Provision	25	13,796,354.07	32,000,497.51
Other liabilities	26	256,298,980.02	319,867,179.28
Total liabilities		<u>30,113,724,210.73</u>	<u>31,031,757,615.51</u>

The notes on pages 10 to 95 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited  
 Balance Sheet as at 31 December 2020 (continued)  
 (Expressed in RMB)

	Note	2020	2019
Owners' equity:			
Paid-in capital	27	6,225,000,000.00	6,225,000,000.00
Other comprehensive income	28	6,998,798.26	43,923,218.67
Surplus reserve	29	232,864,575.83	226,477,675.18
General reserve	30	200,028,578.49	200,028,578.49
Retained earnings		698,379,538.49	908,037,432.63
Total owners' equity		<u>7,363,271,491.07</u>	<u>7,603,466,904.97</u>
Total liabilities and owners' equity		<u>37,476,995,701.80</u>	<u>38,635,224,520.48</u>

These financial statements were approved by the Board of Directors of Australia and New Zealand Bank (China) Company Limited.

Xiaoguang Huang China Country Head	Xi Xu Chief Financial Officer	Australia and New Zealand Bank (China) Company Limited
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(Stamp)

Date: 7 APR 2021

The notes on pages 10 to 95 form part of these financial statements.



Australia and New Zealand Bank (China) Company Limited  
Income Statement for the year ended 31 December 2020  
*(Expressed in RMB)*

	<i>Note</i>	<i>2020</i>	<i>2019</i>
Operating income		551,665,182.32	1,005,019,396.87
Net interest income	32	333,478,335.28	428,517,903.36
Interest income		697,192,025.64	952,506,321.38
Interest expenses		(363,713,690.36)	(523,988,418.02)
Net fee and commission income	33	78,844,503.12	151,325,112.13
Fee and commission income		116,887,851.36	190,303,865.72
Fee and commission expenses		(38,043,348.24)	(38,978,753.59)
Investment (losses)/income	34	(181,538,176.01)	278,181,228.61
Other income	35	5,104,986.89	1,901,471.24
Losses from changes in fair value	36	(150,652,391.34)	(22,641,774.45)
Foreign exchange gains		466,427,924.38	167,735,455.98
Operating expenses		(467,009,181.73)	(608,475,708.66)
Taxes and surcharges		3,397,106.50	(12,490,409.46)
Business and administrative expenses	37	(559,165,227.68)	(609,647,215.72)
Reversal of credit impairment losses	38	88,791,651.91	13,979,325.79
Losses from asset disposals		(32,712.46)	(317,409.27)
Operating profit		84,656,000.59	396,543,688.21

The notes on pages 10 to 95 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited  
Income Statement for the year ended 31 December 2020 (continued)  
*(Expressed in RMB)*

	<i>Note</i>	<i>2020</i>	<i>2019</i>
Operating profit		84,656,000.59	396,543,688.21
Add: Non-operating income		293.24	159.41
Less: Non-operating expenses		<u>(108,434.86)</u>	<u>(242,107.16)</u>
Profit before tax		84,547,858.97	396,301,740.46
Less: Income tax expenses	39	<u>(20,678,852.46)</u>	<u>(99,474,894.06)</u>
Net profit		63,869,006.51	296,826,846.40
Other comprehensive income, net of tax:	40		
Items that may be reclassified to profit or loss			
- Other debt investment changes in fair value		(36,990,273.80)	2,399,218.75
- Changes in expected credit losses ("ECL") in other debt investment		65,853.39	(158,494.06)
- Cash flow hedge reserve		<u>-</u>	<u>(68,373.47)</u>
Total comprehensive income		<u>26,944,586.10</u>	<u>298,999,197.62</u>

The notes on pages 10 to 95 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited  
Cash Flow Statement for the year ended 31 December 2020  
(Expressed in RMB)

	Note	2020	2019
Cash flows from operating activities:			
Net decrease in deposits with the central bank, banks and other financial institutions		-	80,890,262.53
Net decrease in financial assets held for trade at FVTPL		141,314,574.06	299,167,829.18
Net decrease in placements with banks and other financial institutions		3,167,073,850.94	131,075,181.97
Net decrease in loans and advances to customers		2,327,855,501.31	1,154,368,547.58
Net increase in deposits from customers and other banks		-	2,156,256,983.80
Net increase in placements from banks and other financial institutions and financial assets purchased under resale agreements		9,970,062.03	131,954,999.81
Refund of value added tax		66,073,394.01	-
Proceeds from interest, fee and commission		837,070,816.49	1,207,388,805.66
Proceeds relating to other operating activities		1,906,072,067.73	1,492,041,900.30
Sub-total of cash inflows		<u>8,455,430,266.57</u>	<u>6,653,144,510.83</u>
Net increase in deposits with the central bank, banks and other financial institutions		(268,371,103.71)	-
Net increase in other debt investment		(515,301,332.71)	(399,111,330.77)
Net decrease in deposits from customers and other banks		(5,024,003,659.06)	-
Payment for interest, fee and commission payable		(361,362,871.68)	(535,956,530.38)
Payment to and for employees		(354,249,316.59)	(382,104,664.42)
Payment of various taxes		(45,236,985.96)	(243,190,736.93)
Payment for other operating activities		(905,460,888.62)	(1,204,678,830.63)
Sub-total of cash outflows		<u>(7,473,986,158.33)</u>	<u>(2,765,042,093.13)</u>
Net cash flow generated from operating activities	41(1)	<u>981,444,108.24</u>	<u>3,888,102,417.70</u>

The notes on pages 10 to 95 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited  
Cash Flow Statement for the year ended 31 December 2020 (continued)  
(Expressed in RMB)

	Note	2020	2019
Cash flows from investing activities:			
Payment for acquisition of fixed assets, intangible assets and other long-term assets		(4,809,241.19)	(5,718,802.76)
Sub-total of cash outflows		<u>(4,809,241.19)</u>	<u>(5,718,802.76)</u>
Net cash outflows from investing activities		<u>(4,809,241.19)</u>	<u>(5,718,802.76)</u>
Cash flows from financing activities:			
Proceeds from issuance of debt securities		832,423,400.00	5,377,601,400.00
Sub-total of cash inflows		<u>832,423,400.00</u>	<u>5,377,601,400.00</u>
Repayments of debt securities		(2,100,000,000.00)	(6,040,000,000.00)
Repayments of principal and interest of lease liabilities		(23,365,062.57)	N/A
Payment for profit distributions		(267,140,000.00)	(421,930,455.46)
Sub-total of cash outflows from financing activities		<u>(2,390,505,062.57)</u>	<u>(6,461,930,455.46)</u>
Net cash flow used in financing activities		<u>(1,558,081,662.57)</u>	<u>(1,084,329,055.46)</u>
Effect of foreign exchange rate changes on cash and cash equivalents		<u>(224,436,546.86)</u>	<u>24,380,111.65</u>
Net (decrease)/increase in cash and cash equivalents	41(2)	(805,883,342.38)	2,822,434,671.13
Add: Cash and cash equivalents at the beginning of the year		<u>8,526,681,455.03</u>	<u>5,704,246,783.90</u>
Cash and cash equivalents at the end of the year	41(3)	<u>7,720,798,112.65</u>	<u>8,526,681,455.03</u>

The notes on pages 10 to 95 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited  
Statement of Changes in Owners' equity for the year ended 31 December 2020  
(Expressed in RMB)

	Note	Paid-in capital	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total
Balance at 31 December 2019		6,225,000,000.00	43,923,218.67	226,477,675.18	200,028,578.49	908,037,432.63	7,603,466,904.97
Changes in equity during the year							
1. Total comprehensive income		-	(36,924,420.41)	-	-	63,869,006.51	26,944,586.10
2. Appropriation of profits							
- Appropriation for surplus reserve	29, 31	-	-	6,386,900.65	-	(6,386,900.65)	-
- Distributions to owners	31	-	-	-	-	(267,140,000.00)	(267,140,000.00)
Sub-total of 1 & 2		-	(36,924,420.41)	6,386,900.65	-	(209,657,894.14)	(240,195,413.90)
Balance at 31 December 2020		6,225,000,000.00	6,998,798.26	232,864,575.83	200,028,578.49	698,379,538.49	7,363,271,491.07

The notes on pages 10 to 95 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited  
Statement of Changes in Owners' equity for the year ended 31 December 2019 (continued)  
(Expressed in RMB)

	Note	Paid-in capital	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total
Balance at 31 December 2018		6,225,000,000.00	40,145,356.30	199,050,602.58	200,028,578.49	1,083,124,234.49	7,747,348,771.86
Add: change in accounting policy		-	1,605,511.15	(2,255,612.04)	-	(20,300,508.16)	(20,950,609.05)
Adjusted balance at 1 January 2019		6,225,000,000.00	41,750,867.45	196,794,990.54	200,028,578.49	1,062,823,726.33	7,726,398,162.81
Changes in equity during the year							
1. Total comprehensive income		-	2,172,351.22	-	-	296,826,846.40	298,999,197.62
2. Appropriation of profits							
- Appropriation for surplus reserve	29, 31	-	-	29,682,684.64	-	(29,682,684.64)	-
- Distributions to owners	31	-	-	-	-	(421,930,455.46)	(421,930,455.46)
Sub-total of 1 & 2		-	2,172,351.22	29,682,684.64	-	(154,786,293.70)	(122,931,257.84)
Balance at 31 December 2019		6,225,000,000.00	43,923,218.67	226,477,675.18	200,028,578.49	908,037,432.63	7,603,466,904.97

The notes on pages 10 to 95 form part of these financial statements.

Australia and New Zealand Bank (China) Company Limited  
Notes to the financial statements  
(Expressed in RMB)

1 General information

Australia and New Zealand Bank (China) Company Limited ("ANZ China" or "The Bank") is a wholly foreign-owned corporate bank incorporated in Shanghai, the People's Republic of China ("the PRC"), by Australia and New Zealand Banking Group Limited ("ANZ" or "the parent bank").

The Bank obtained a Business Licence for Enterprise on 16 September 2010. As stated in the Bank's Business Licence, the Bank has an undefined operating period. the Bank's business scope includes foreign currency business and RMB business to kinds of clients approved by relevant authorities.

As at 31 December 2020, the Bank has established 7 branches and 1 sub-branch in Shanghai, Beijing, Guangzhou, Chongqing, Hangzhou, Chengdu and Qingdao.

2 Basis of preparation

The financial statements have been prepared on the basis of going concern.

The Bank has adopted the revised *Accounting Standard for Business Enterprises No. 21 – Leases* issued by the MOF in 2018 since 1 January 2020 (see Note 4).

The financial statements have been prepared in accordance with the requirements of "Accounting Standards for Business Enterprises - Basic Standard" issued by the Ministry of Finance ("the MOF"); in addition, allowance for impairment losses of loans and advances to customers, are determined on the basis of the requirements of China Accounting Standards ("CAS"), with reference to the relevant regulations of "*the Administrative Measures on Loan Loss Provision of Commercial Banks*" (Decree of the CBRC [2011] No. 4) issued by the former China Banking Regulatory Commission ("CBRC") (i.e. the loan provision shall not be less than 2.5% of all loan balances or be less than 150% of non-performing loan balances) (see Note 3(2)(h)). If the difference between the allowance for impairment losses of loans and advances to customers calculated based on the Decree of the CBRC [2011] No.4 and that based on CAS is higher than zero, the difference will be recognised as an additional allowance for impairment losses of loans and allowances for customers and form part of total allowances for impairment losses of loans and allowances for customers. These accounting policies are compliant with relevant regulations and reporting requirements of other authorities.

On above basis, the financial statements present truly and completely the financial position of the Bank as at 31 December 2020, and the financial performance and the cash flows of the Bank for the year then ended.

(1) Accounting year

The Bank's accounting year is from 1 January to 31 December.

(2) Functional currency and presentation currency

The Bank's functional currency is RMB and these financial statements are presented in RMB. Functional currency is determined by the Bank on the basis of the currency in which major income and costs are denominated and settled.

3 Significant accounting policies and accounting estimates

(1) Translation of foreign currencies

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

A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method, such as the average exchange rate of the current period or the weighted average exchange rate.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the balance sheet date. The resulting exchange differences are recognised in profit or loss. Non-monetary items that are measured at historical cost in foreign currencies are translated to RMB using the exchange rate at the transaction date.

(2) Financial instruments

(a) Recognition and initial measurement of financial assets and liabilities

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

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



(b) Classification and subsequent measurement of financial assets

(i) Classification of financial assets

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

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

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The business model refers to how the Bank manages its financial assets in order to generate cash flows. That is, the Bank's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Bank determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Bank's key management personnel.

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

(ii) Subsequent measurement of financial assets

- Financial assets at FVTPL

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

- Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

- Debt investments at FVOCI

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

(c) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified financial liabilities measured at FVTPL, financial guarantee liabilities or amortised cost.

- Financial liabilities at FVTPL

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

Financial liabilities at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

- Financial guarantee liabilities

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

Financial guarantees are initially recognised as deferred income at fair value. The deferred income is amortised in profit or loss during the guarantee period, and its subsequent measurement is in accordance with accounting policies for financial instrument impairment as in Note 3(2)(h).

- Financial liabilities at amortised cost

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

(d) Offset

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

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

(e) Derecognition of financial assets and financial liabilities

A financial asset is derecognised when one of the following conditions is met:

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

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

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

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

(f) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date the derivative transaction contract is signed, and are subsequently measured at fair value. Derivative financial instruments with a positive fair value are recognised as an asset, and a negative fair value is recognised as a liability.

When the host included in the hybrid contract is an asset within the scope of new financial instrument standards, derivatives embedded in contracts where the host is a financial asset are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. When the host included in the mixed contract is not an asset within the scope of new financial instrument standards, and some embedded derivative financial instruments do not have a close relationship with the economic characteristics and risks of their host, they are consistent with separate instruments with the same terms as the embedded derivative, and the hybrid instrument is not measured at FVTPL, the embedded derivative shall be split from the hybrid contract and treated as an independent derivative financial instrument. These embedded derivative financial instruments are measured at FVTPL, the changes in the fair value are through profit or loss.

Gains and losses arising from changes in the fair value of derivative financial instruments are through profit or loss.

(g) Financial assets purchased under resale agreements and financial assets sold under repurchase agreements

Assets will be repurchased on a certain future date in accordance with the agreement are not derecognised in the balance sheet. Proceeds from the sale of these assets, including interest accrued, are listed under "sold under repurchase agreement" on the balance sheet to reflect the economic substance as loans to the Bank. The difference between the selling price and the repurchase price is recognised during the agreement period using the effective interest method and is recognised in interest expense.

In contrast, assets that are agreed to be resold on a fixed future date in accordance with the purchase agreement will not be recognised in the balance sheet. The costs paid for the purchase of these assets, including interest accrued, are presented in the balance sheet as payment for resale. The difference between purchase and resale is recognised during the agreement period using the effective interest method and is recognised in interest income. Pursuant to the principle of classification of financial assets (see Note 3(2)(b)) is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, a financial asset is classified as measured at amortised cost.

The cash advanced or received is recognised as amounts purchased under resale or sold under repurchase agreements in the balance sheet. Underlying assets purchased under resale agreements are reported not as purchase of the assets. Underlying assets sold under repurchase agreement are retained in the balance sheet.

Interest earned on resale agreements and interest incurred on repurchase agreements are recognised as interest income and interest expenses respectively, over the life of each agreement using the effective interest method.

(h) Impairment of financial assets

The Bank performs impairment accounting and recognises losses for the following items based on ECL:

- financial assets measured at amortised cost;
- Debt investment at FVOCI;
- Financial guarantee contracts and credit commitment.

Financial assets measured at fair value, including debt investment at FVTPL, and derivative financial assets, are not subject to the ECL assessment.

#### Measurement of ECL

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

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

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

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

The Bank measures loss allowance at an amount equal to 12-month ECL for the following financial instruments, and at an amount equal to lifetime ECL for all other financial instruments:

- If the financial instrument is determined to have low credit risk at the balance sheet date; The credit risk on a financial instrument is considered low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may not necessarily reduce the ability of the borrower to fulfil its contractual cash flow obligations; or
- If the financial instrument's credit risk has not increased significantly after initial recognition. In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Bank compares the risk of default occurring on the financial instrument assessed at the balance sheet date with that assessed at the date of initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including forward-looking information. In particular, the following information is taken into account:

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

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on an individual basis.

Normally, the Bank assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Credit-impaired financial assets

At each balance sheet date, the Bank assesses whether financial assets carried at amortised cost and debt investments at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- for economic or contractual reasons relating to the borrower's financial difficulty, the Bank having granted to the borrower a concession that would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

According to relevant regulations of “the Administrative Measures on Loan Loss Provision of Commercial Banks” (Decree of the CBRC [2011] No.4), the loan provision rate and the provision coverage shall not be, in principal, lower than 2.5% and 150% respectively. The higher of the above two rates shall be the regulatory standard for commercial banks. As at 31 December 2020, the total allowance for impairment losses of loans and advances to customers the Bank recognised was RMB184,862,630.83, of which, the additional allowance made is RMB144,641,055.13, with a loan loss provision rate of 2.5% (31 December 2019: amount of RMB243,037,973.64, with an additional allowance of RMB197,357,694.33, and a loan loss provision rate of 2.5%). As at 31 December 2020, the Bank has met the regulatory requirements.

#### Presentation of allowance for ECL

ECL is remeasured at each balance sheet date to reflect changes in the financial instrument’s credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Bank recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income.

#### Write-off

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

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

The Bank’s gold lease business is accounted by referencing the financial instrument standards.

### (3) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted deposits with central bank, deposits and placements with banks and other financial institutions, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value; and financial assets purchased under resale under repurchase agreement.



(4) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are acquired by the Bank principally for trading purpose are measured at fair value with changes in fair value recognised in profit or loss.

(5) Fixed assets and construction in progress

Fixed assets represent the tangible assets held by the Bank for operation and administrative purposes with useful lives over 1 year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 3(8)). Construction in progress is stated in the balance sheet at cost less impairment losses (see Note 3(8)).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs and any other costs directly attributable to bringing the asset to working condition for its intended use.

Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets when it is probable that the economic benefits associated with the costs will flow to the Bank, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day maintenance of fixed assets are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

The cost of a fixed asset, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful lives, unless the fixed asset is classified as held for sale. The estimated useful lives, residual value rates and depreciation rates of each class of fixed assets are as follows:

<i>Class of fixed assets</i>	<i>Estimated useful life</i>	<i>Residual value rate</i>	<i>Depreciation rate</i>
Office furniture	10 years	0%	10.0%
Office equipment	8 years	0%	12.5%
Computers	3 ~ 5 years	0%	20.0% ~ 33.3%

Useful lives, estimated residual values and depreciation methods are reviewed at least at each year-end.

(6) Lease

A contract is lease if the lessor conveys the right to control the use of an identified asset to lessee for a period of time in exchange for consideration.

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset. An identified asset may be specified explicitly in a contract or implicitly specified when available for use by customers and should be physically distinct, or capacity portion or other portion of an asset that is not physically distinct but it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from the use of the asset. If the supplier has a substantive substitution right throughout the period of use, then the asset is not identified;
- the lessee has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;
- the lessee has the right to direct the use of the asset.

For a contract that contains more separate lease components, the lessee separate lease components and account for each lease component as a lease separately. For a contract that contains lease and non-lease components, the lessee separate lease components from non-lease components. For a contract that contains lease and non-lease components, the lessee allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(a) As a lessee

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, any lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is depreciated using the straight-line method. If the lessee is reasonably certain to exercise a purchase option by the end of the lease term, the right-of-use asset is depreciated over the remaining useful lives of the underlying asset. Otherwise, the right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Impairment losses of right-of-use assets are accounted for in accordance with the accounting policy described in Note 3(8).

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate.

A constant periodic rate is used to calculate the interest on the lease liability in each period during the lease term with a corresponding charge to profit or loss or included in the cost of assets where appropriate. Variable lease payments not included in the measurement of the lease liability is charged to profit or loss or included in the cost of assets where appropriate as incurred.

Under the following circumstances after the commencement date, the Bank remeasures lease liabilities based on the present value of revised lease payments:

- there is a change in the amounts expected to be payable under a residual value guarantee;
- there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments;
- there is a change in the assessment of whether the Bank will exercise a purchase, extension or termination option, or there is a change in the exercise of the extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(7) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 3(8)).

For an intangible asset with finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised on the straight-line method over its estimated useful life, unless the intangible asset is classified as held for sale. The intangible assets of the Bank are software with 3 to 10 years estimated useful lives and no residual value.

(8) Impairment of other assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets and construction in progress
- right-of-use assets
- intangible assets
- others

If any indication exists, the recoverable amount of the asset is estimated. In addition, the Bank estimates the recoverable amounts of intangible assets not ready for use at least once a year irrespective of whether there is any indication of impairment.

An asset group is composed of assets directly related to cash generation and is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups.

The recoverable amount of an asset (or asset group, set of asset groups) is the higher of its fair value less costs to sell and the present value of expected future cash flows (see Note 3(9)).

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using an appropriate pre-tax discount rate.

If the result of the recoverable amount calculation indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to profit or loss for the current period. A provision for impairment of the asset is recognised accordingly. For impairment losses related to an asset group or a set of asset groups, is reduced the carrying amount of the assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be lower than the greatest amount of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

(9) Fair value measurement

Unless otherwise specified, the Bank measures fair value as follows:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring fair value, the Bank takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date.

The Bank use valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Valuation techniques mainly include the market approach, the income approach and the cost approach.

(10) Employee benefits

(a) Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or accrued at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(b) Post-employment benefits - defined contribution plans

Pursuant to the relevant laws and regulations of the People's Republic of China, the Bank participated in a defined contribution basic pension insurance and unemployment insurance plans in the social insurance system established and managed by government organisations. The Bank makes contributions to basic pension insurance and unemployment insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions payable are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(c) Termination benefits

When the Bank terminates the employment with employees before the employment contracts expire, or provides compensation under an offer to encourage employees to accept voluntary redundancy, a provision is recognised with a corresponding expense in profit or loss at the earlier of the following dates:

- When the Bank cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or a curtailment proposal;
- When the Bank has a formal detailed restructuring plan involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

(d) Other long-term employee benefits

The deferred remuneration for the employees of important management positions is recognised as a liability as the employee provides services, with a corresponding charge to profit or loss.

(11) Provisions

A provision is recognised for an obligation related to a contingency if the Bank has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provision usually equals payable in the future, however when the payable amount will have a material difference with current value (the time value of money is material), payable should be determined with the current value of the future payable amount.

(12) Revenue recognition

Revenue is the gross inflow of economic benefits arising in the course of the Bank's ordinary activities when those inflows result in increase in equity, other than increases relating to contributions from owners.

(a) Interest income

Interest income arising from the use by others of the entity's assets is recognised in profit or loss based on the duration and the effective interest rate. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or, when appropriate, a shorter period, to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Bank estimates cash flows considering all the contractual terms of the financial instrument (for example, prepayment and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(b) Fee and commission income

The Bank collects fees and commissions by providing services to clients. Fee and commission income recognised by the Bank reflects the consideration expected to be received by the Group in providing services to its clients, and revenue is recognised when the compliance obligations in the contract are fulfilled.

(i) The Bank recognises revenue in accordance with the progress of the compliance during the period when one of the following conditions is met:

- The client simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;
- The client is able to control the sub-services during the obligation compliance of the Bank;
- Services performed by the Bank during the obligation compliance are irreplaceable, and the Bank has the right to receive payments for the part of the performance that has been completed to date.

(ii) In other cases, the Bank recognises revenue when the customer obtains control of relevant services.

(13) Expense recognition

(a) Interest expense

Interest expense arising from financial liabilities is calculated based on the amortization cost of the financial liabilities and duration by using the effective interest rate and recognised in the corresponding period.

(b) Other expense

Other expense is recognised on an accrual basis.

(14) Government grants

Government grants are non-reciprocal transfers of monetary assets or non-monetary assets from the government to the Bank except for capital contributions from the government in the capital as an investor in the Bank.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Bank will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value.

A government grant related to an asset is recognised as deferred income and amortised over the useful life of the related asset on a reasonable and systematic manner as other income or non-operating income. A grant that compensates the Bank for expenses or losses to be incurred in the future is recognised as deferred income and included in other income or non-operating income in the periods in which the expenses or losses are recognised. Otherwise, the grant is included in other income or non-operating income directly. As for the year 2020, the Bank recognised the government grants in other income.

(15) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset if the Bank has a legally enforceable right to settle the tax assets and liabilities on a net amount basis, and also intends either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss).

At the balance sheet date, the amount of deferred tax recognised is measured based on the expected manner of recovery or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date, and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the balance sheet date, deferred tax assets and liabilities are offset, if all the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax assets and liabilities; and
- they related to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities which intend either to settle the current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.



(16) Profit distributions

Distributions of profit proposed in the profit appropriation plan to be approved after the balance sheet date are not recognised as a liability at the balance sheet date but disclosed in the notes separately.

(17) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Bank is under common control only from the State and that have no other related party relationships are not regarded as related parties.

(18) Fiduciary activities

The Bank acts as administrator, trustee or agent of clients' assets in a fiduciary business. The risks and returns of the asset are borne by the clients. Currently, the Bank's fiduciary activities mainly include entrusted loan business.

Entrusted lending is the business where the Bank enters into entrusted loan agreements with customers, whereby the customers provide funding (the "entrusted funds") to the Bank, and the Bank grants loans to third parties (the "entrusted loans") at the instruction of the customers. As the Bank does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts.

(19) Significant accounting estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In addition to the assumptions and risk factors related to the valuation of the fair value of financial instruments in Note 48, other uncertainty factors of the estimations are as follows:

(a) Measurement of ECL

(i) 3 levels of financial instrument impairment

Credit risk hasn't increased significantly since initial recognition (level 1): The Bank measures loss allowance at an amount equal to 12-month ECL, and interest income is recognised at book value (before impairment losses) and effective interest rate.

Credit risk increased significantly since initial recognition but no credit impaired (level 2): The Bank measures loss allowance at an amount equal to lifetime ECL for the financial instrument, and interest income is recognised at book value and effective interest rate.

Credit impaired since initial recognition (level 3): The Bank measures loss allowance at an amount equal to lifetime ECL for the financial instrument, and revenue is recognised at book value and effective interest rate.

The Bank only measures loss allowance at an amount equal to lifetime ECL for an financial instrument which has been credit-impaired at the time of purchased or originated, and interest income is recognised at amortised cost and credit-adjusted interest rate.

Measurement on significant increased credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Bank compares the probability of default of the financial instrument assessed at the balance sheet date with that assessed at the date of initial recognition. Factors for the Bank's consideration include:

- Internal price index movement due to credit risk changes;
- If an existing financial instrument is originated or issued as a new financial instrument at the reporting date, the interest rate or other terms of the financial instrument will change significantly;
- Significant changes in external market indicator of credit risk for the same financial instrument or similar financial instrument with the same expected life;
- Expected or actual significant changes in the external credit rating for the financial instrument;
- The borrower's expected or actual internal credit rating is downgraded;
- Adverse changes in business, financial or external economic conditions that are expected to result in a significant change in the borrower's capability to meet its debt obligations;
- Significant expected or actual changes in the borrower's operating results;
- If credit risk of other financial instruments issued by the same borrower significantly increased;
- Significant adverse changes in the regulatory, economic or technological environment where the borrower is exposed;

- Significant changes in the value in the following: the collateral for debt, the guarantees provided by third parties or the credit enhancements;
- Significant changes that are expected to lower the borrower's economic motivation to repay in accordance with the contractual terms;
- Expected changes in the loan agreement;
- Significant changes in the borrower's expected performance and repayment behaviour;
- Changes in the Bank's approach to credit management of financial instruments;
- Overdue information. Normally, the Bank assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

(ii) Measurement of ECL

Expected credit loss is calculated based on the following credit risk factors (discounted)

- Probability of Default: An estimate of the likelihood of a borrower defaulting within a given period;
- Default risk exposure: risk exposure on the balance sheet of principal and interest repayments, expected additional withdrawals and accrued interest;
- Loss of default: Expected loss on the borrower's default after considering direct and indirect cost recovery, presented in percentage of default risk exposure.

The above credit risk factors will be adjusted based on current and forward-looking macroeconomic variables and information.

(b) Impairment of assets such as fixed assets and intangible assets

As described in Note 3(8), assets such as fixed assets and intangible assets are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is recognised. Once an impairment loss is recognised, it is not reversed in a subsequent period.

The recoverable amount of an asset (asset group) is the greater of its fair value less cost to sell and its present value of expected future cash flows. When a market price for the asset (or asset group) cannot be obtained reliably, and the fair value of the asset cannot be estimated reliably, the recoverable amount is calculated based on the present value of estimated future cash flows. In assessing its present value of expected future cash flows, significant judgements are exercised to estimate the asset's income, related operating expenses and discounting rate used. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of related income and operating expenses based on reasonable and supportable assumptions.

(c) Depreciation and amortisation of assets such as fixed assets and intangible assets

As described in Note 3(5) and Note 3(7), fixed assets and intangible assets are depreciated and amortised over their useful lives after taking into account residual value. The useful lives of the assets are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives of the assets are determined based on historical experiences of similar assets and estimated technical changes. If there have been significant changes in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation is revised prospectively.

(d) Deferred tax assets

When assessing whether there will be sufficient future taxable profits available against which the deductible temporary differences can be utilised, the Bank recognises deferred tax assets to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, using tax rates that would apply in the period when the asset would be utilised. In determining the amount of deferred tax assets, the Bank exercises judgements about the estimated timing and amount of taxable profits of the following periods, and of the tax rates applicable in the future according to the existing tax policies and other relevant regulations. Differences between such estimates and the actual timing and amount of future taxable profits and the actual applicable tax rates affect the amount of deferred tax assets that should be recognised.

#### 4 Changes in accounting policies

In 2020, the Bank has adopted the following revised accounting standards issued by the MOF recently:

- CAS No.21 – Leases (Revised) (“New leases standard”)

##### (a) New standard on leases

New leases standard has revised CAS No.21 – Leases issued by the MOF in 2006 (“previous leases standard”). The Bank has applied new leases standard since 1 January 2020 and has adjusted the related accounting policies.

New leases standard refines the definition of a lease. The Bank assesses whether a contract is or contains a lease in accordance with the definition in new leases standard. For contracts existed before the date of initial application, the Bank has elected not to reassess whether a contract is or contains a lease at the date of initial application and surplus.

- As a lessee

Under previous leases standard, the Bank classifies leases as operating or finance leases based on its assessment of whether the lease transfers significantly all of the risks and rewards incidental to ownership of the underlying asset to the Bank.

Under new leases standard, the Bank no longer distinguishes between operating leases and finance leases. The Bank recognises right-of-use assets and lease liabilities for all leases (except for short-term leases and leases of low-value assets which are accounted for using practical expedient).

For a contract that contains lease and non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Bank has elected to recognise the cumulative effect of adopting new leases standard as an adjustment to the opening balances of retained earnings and other related items in the financial statement in the initial year of application. Comparative information has not been restated.

For leases classified as operating leases before the date of initial application, lease liabilities were measured at the present value of the remaining lease payments, discounted using the Bank’s incremental borrowing rate at the date of initial application. Right-of-use assets are measured at:

- an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments – the Bank applied this approach to all other leases.

- Effect of the application of new leases standard since 1 January 2020 on financial statements

When measuring lease liabilities, the incremental borrowing rate as at 1 January 2020 is used to discount the lease payments. The organisations of the Bank uses the interest rate that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, as the incremental borrowing rate.

The total future minimum lease payments of significant operating leases disclosed in the financial statements as at 31 December 2019	85,133,971.18
Present value discounted using the Bank's incremental borrowing rate at 1 January 2020	78,705,124.40
Lease liabilities under new leases standard at 1 January 2020	<u>(78,705,124.40)</u>
Difference between the above discounted present value and lease liabilities	<u>-</u>

The impact of adoption new leases standard on the balance sheets as at 1 January 2020 are summarised as follows:

	<u>31 December 2019</u>	<u>1 January 2020</u>	<u>Adjustments</u>
Assets			
Right-of-use assets	-	<u>78,325,968.60</u>	<u>78,325,968.60</u>
Liabilities and owners' equity			
Lease liabilities	-	<u>(78,705,124.40)</u>	<u>(78,705,124.40)</u>

5 Taxation

- (1) The types of taxes applicable to the Bank's rendering of services include value added tax ("VAT"), city maintenance and construction tax, education surcharges and local education surcharges, etc.

Tax Name	Tax basis and applicable rate
VAT	Output VAT is 6% of taxable revenue, based on tax laws. The basis for VAT payable is to deduct input VAT from the output VAT for the period
City maintenance and construction tax	7 % of VAT paid
Education surcharges	3% of VAT paid
Local education surcharges	2% of VAT paid

- (2) Income tax

The statutory income tax rate of the Bank is 25% (2019: 25%).

6 Cash and deposits with central bank

	Note	2020	2019
Cash on hand		460,534.74	301,268.66
Statutory deposit reserves	(1)	1,150,961,323.95	1,470,219,220.58
Surplus deposit reserves	(2)	1,026,368,331.77	1,303,141,125.35
Foreign exchange risk reserves	(3)	1,082,755,293.54	494,482,902.51
Add: Interest accrued		119,628.29	571,637.28
Total		<u>3,260,665,112.29</u>	<u>3,268,716,154.38</u>

- (1) Statutory deposit reserves represent reserve deposits placed with the PBOC in accordance with the Regulation of the People's Republic of China on the Administration of Foreign Funded Banks ("the Administrative Regulation") and the Notice of the People's Bank of China on the implementation of normal deposit reserve ratio for the deposits of overseas RMB business participation banks in domestic agency banks, which are not available for use in the Bank's daily business. As at the balance sheet date, the statutory deposit reserve ratios of the Bank were as follows:

	2020	2019
Deposit reserve ratio for RMB deposits	10.0%	11.0%
Deposit reserve ratio for foreign currency deposits	5.0%	5.0%

- (2) The surplus deposit reserves placed with the PBOC are mainly for settlement purpose.

- (3) Foreign exchange risk reserve represents the reserve placed with the PBOC in accordance with the PBOC's *Announcement on the Foreign Exchange Risk Reserve Policy Adjustments* (Yin Fa [2020] No.237), which requires banks to adjust their foreign exchange risk reserve ratio for the forward foreign exchange sales business from 20% to 0% starting from 12 October 2020. The Bank ceased to contribute to the foreign exchange risk reserve since November 2020.

7 Deposits with banks and other financial institutions

(1) Analysed by counterparty

	<i>Note</i>	<i>2020</i>	<i>2019</i>
Domestic banks		394,589,834.89	341,675,323.73
Domestic non-banking financial institutions		51,552,613.24	25,706,378.24
Overseas banks		<u>2,034,645,752.76</u>	<u>1,210,890,168.14</u>
Sub-total		2,480,788,200.89	1,578,271,870.11
Add: Interest accrued		<u>-</u>	<u>1,029,570.86</u>
Sub-total		2,480,788,200.89	1,579,301,440.97
Less: Allowance for impairment losses	(2)	<u>(994,505.54)</u>	<u>(1,637,896.23)</u>
Total		<u><u>2,479,793,695.35</u></u>	<u><u>1,577,663,544.74</u></u>

(2) Movement of allowance for impairment losses

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
31 December 2019	1,637,896.23	-	-	1,637,896.23
<b>Transfer:</b>				
- to level 1	-	-	-	-
- to level 2	-	-	-	-
- to level 3	-	-	-	-
Reversals during the year	(643,390.69)	-	-	(643,390.69)
31 December 2020	<u>994,505.54</u>	<u>-</u>	<u>-</u>	<u>994,505.54</u>

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
1 January 2019	5,616,925.61	-	-	5,616,925.61
<b>Transfer:</b>				
- to level 1	-	-	-	-
- to level 2	-	-	-	-
- to level 3	-	-	-	-
Reversals during the year	(3,979,029.38)	-	-	(3,979,029.38)
31 December 2019	<u>1,637,896.23</u>	<u>-</u>	<u>-</u>	<u>1,637,896.23</u>



8 Placements with banks and other financial institutions

(1) Analysed by counterparty

	<i>Note</i>	<i>2020</i>	<i>2019</i>
Domestic banks		521,992,012.87	348,810,010.23
Domestic non-bank financial institutions		2,812,490,016.09	5,780,526,864.27
Overseas banks		1,639,693,521.85	3,444,342,063.60
Sub-total		4,974,175,550.81	9,573,678,938.10
Add: Interest accrued		11,403,456.08	30,575,122.08
Sub-total		4,985,579,006.89	9,604,254,060.18
Less: Allowance for impairment losses	(2)	(9,974,502.01)	(21,586,333.12)
<b>Total</b>		<b>4,975,604,504.88</b>	<b>9,582,667,727.06</b>

(2) Movement of allowance for impairment losses

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
31 December 2019	20,697,200.75	889,132.37	-	21,586,333.12
<b>Transfer:</b>				
- to level 1	-	-	-	-
- to level 2	-	-	-	-
- to level 3	-	-	-	-
Reversals during the year	(10,722,698.74)	(889,132.37)	-	(11,611,831.11)
31 December 2020	9,974,502.01	-	-	9,974,502.01
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
1 January 2019	21,714,218.08	-	-	21,714,218.08
<b>Transfer:</b>				
- to level 1	-	-	-	-
- to level 2	-	-	-	-
- to level 3	-	-	-	-
(Reversals)/charge during the year	(1,017,017.33)	889,132.37	-	(127,884.96)
31 December 2019	20,697,200.75	889,132.37	-	21,586,333.12

9 Derivatives

	<i>2020</i>		
	<i>Notional amount total</i>	<i>Fair value assets</i>	<i>Fair value liabilities</i>
Interest rate derivatives:			
Interest rate swaps	235,173,539,329.21	648,918,106.84	(759,209,288.35)
Interest rate options	1,743,718,843.88	16,532.01	(16,532.01)
	<u>236,917,258,173.09</u>	<u>648,934,638.85</u>	<u>(759,225,820.36)</u>
Currency derivatives:			
Foreign exchange swaps	469,127,661,156.06	7,614,784,648.28	(7,851,023,647.78)
Forward foreign exchange	14,592,936,031.51	410,742,179.00	(158,897,143.00)
Foreign exchange options	1,705,762,008.30	81,669,294.24	(78,402,886.74)
	<u>485,426,359,195.87</u>	<u>8,107,196,121.52</u>	<u>(8,088,323,677.52)</u>
Commodity/precious metal derivatives:			
Precious metal futures	4,399,154,037.92	8,003,232.50	(59,611,852.50)
Gold/silver swaps	2,636,403,485.76	5,481,429.55	(38,860,314.60)
Gold forward	196,313,938.49	2,548,838.47	(1,286,132.55)
Platinum forward	155,481,808.09	494,256.62	(124,261.98)
Gold deferred	352,817,630.54	207,173.73	(139,896.45)
Gold options	13,173,661.33	3,220,386.91	(34,538.70)
	<u>7,753,344,562.13</u>	<u>19,955,317.78</u>	<u>(100,056,996.78)</u>
Offset complicated derivatives, net:	<u>2,242,657,298.98</u>	<u>17,573,430.67</u>	<u>(3,650,666.32)</u>
Total	<u>732,339,619,230.07</u>	<u>8,793,659,508.82</u>	<u>(8,951,257,160.98)</u>

	2019		
	<i>Notional amount total</i>	<i>Fair value assets</i>	<i>Fair value liabilities</i>
Interest rate derivatives:			
Interest rate swaps	221,465,339,939.68	452,492,150.06	(503,901,723.73)
Interest rate options	6,566,873,305.67	3,514,412.57	(845,755.38)
	<u>228,032,213,245.35</u>	<u>456,006,562.63</u>	<u>(504,747,479.11)</u>
Currency derivatives:			
Foreign exchange swaps	452,307,899,063.54	3,490,620,498.46	(3,260,631,924.41)
Forward foreign exchange	9,017,256,059.12	61,224,223.00	(120,194,731.00)
Foreign exchange options	1,585,524,765.41	47,249,246.35	(4,099,352.72)
	<u>462,910,679,888.07</u>	<u>3,599,093,967.81</u>	<u>(3,384,926,008.13)</u>
Commodity/precious metal derivatives:			
Precious metal futures	8,118,078,970.62	106,436,942.56	(137,863,457.56)
Gold/silver swaps	2,974,052,182.26	26,808,023.98	(156,787,826.27)
Gold forward	510,393,853.46	11,521,980.90	(2,514,726.47)
Platinum forward	325,714,244.20	7,017,960.61	(7,925,324.56)
Gold deferred	156,420,377.43	436,888.84	-
Gold options	109,290,129.48	12,046,633.34	(2,993,356.22)
	<u>12,193,949,757.45</u>	<u>164,268,430.23</u>	<u>(308,084,691.08)</u>
Offset complicated derivatives, net:	<u>2,158,154,197.70</u>	<u>8,767,114.44</u>	<u>(1,223,682.89)</u>
Total	<u>705,294,997,088.57</u>	<u>4,228,136,075.11</u>	<u>(4,198,981,861.21)</u>

The notional amounts of the derivatives indicate the volume of transactions outstanding at the balance sheet date and do not represent the amounts at risk.

10 Loans and advances to customers

As of 31 December 2020, all the loans and advances issued by the Bank were measured at amortised cost.

(1) Analysis by corporate and personal loans

	2020	2019
Corporate loans		
- Loans	7,070,647,993.07	9,634,287,943.13
- Bills negotiation	282,412,012.79	39,695,257.54
- Bills discounted	23,948,504.80	23,860,164.00
Personal loans	16,634,819.45	22,967,359.13
	<u>7,393,643,330.11</u>	<u>9,720,810,723.80</u>
Total		
Add: Interest accrued	25,208,731.48	27,286,502.43
	<u>7,418,852,061.59</u>	<u>9,748,097,226.23</u>
Sub-total		
Less: Allowance for impairment losses	(184,862,630.83)	(243,037,973.64)
<i>Including: Additional allowance</i>	(144,641,055.13)	(197,357,694.33)
	<u>(329,503,685.96)</u>	<u>(440,395,667.97)</u>
Total book value	<u>7,233,989,430.76</u>	<u>9,505,059,252.59</u>

(2) Analysis by industry sectors

	2020		2019	
	Book value	Percentage (%)	Book value	Percentage (%)
Manufacturing industry	2,721,263,827.86	36.81%	4,116,349,321.13	42.35%
Wholesale and retail trade	1,586,333,124.89	21.46%	2,796,354,110.94	28.77%
Financial industry	1,132,112,291.41	15.31%	-	0.00%
Leasing and commercial services	758,643,389.29	10.26%	1,433,690,897.39	14.75%
Information transmission, computer services and software industry	523,666,636.08	7.08%	419,915,024.38	4.31%
Transport, storage and postal industry	208,504,523.51	2.82%	266,555,358.41	2.74%
Real estate industry	194,000,000.00	2.62%	198,000,000.00	2.04%
Production and supply of electricity, gas and water	180,000,000.00	2.43%	180,000,000.00	1.85%
Mining industry	72,484,717.62	0.98%	110,000,000.00	1.13%
Personal loans	16,634,819.45	0.22%	22,967,359.13	0.24%
Agriculture, forestry, husbandry and fishery	-	0.00%	149,752,514.30	1.54%
Construction industry	-	0.00%	24,295,867.49	0.25%
Residential service, repair and other services	-	0.00%	2,930,270.63	0.03%
<b>Total</b>	<b>7,393,643,330.11</b>	<b>100.00%</b>	<b>9,720,810,723.80</b>	<b>100.00%</b>
Add: Interest accrued	25,208,731.48		27,286,502.43	
Sub-total	7,418,852,061.59		9,748,097,226.23	
Less: Allowance for impairment losses	(184,862,630.83)		(243,037,973.64)	
Including: Provision for additional loan losses	(144,641,055.13)		(197,357,694.33)	
Total book value	7,233,989,430.76		9,505,059,252.59	

(3) Analysis by geographical sectors

	2020		2019	
	Book value	Percentage (%)	Book value	Percentage (%)
East China	3,954,155,688.86	53.48%	5,624,120,040.33	57.86%
North China	1,864,495,003.07	25.22%	1,658,773,721.69	17.06%
South China	823,105,795.55	11.13%	602,663,123.00	6.20%
North-west China	278,557,016.87	3.77%	726,096,515.15	7.47%
Central China	198,244,065.61	2.68%	222,586,660.70	2.29%
North-east China	144,019,427.69	1.95%	383,602,402.00	3.95%
South-west China	115,273,544.17	1.56%	502,968,260.93	5.17%
Overseas and Hong Kong SAR, Macau SAR and Taiwan region	15,792,788.29	0.21%	-	-
Total	<u>7,393,643,330.11</u>	<u>100.00%</u>	<u>9,720,810,723.80</u>	<u>100.00%</u>
Add: Interest accrued	25,208,731.48		27,286,502.43	
Sub-total	7,418,852,061.59		9,748,097,226.23	
Less: Allowance for impairment losses	(184,862,630.83)		(243,037,973.64)	
Including: Additional allowance	<u>(144,641,055.13)</u>		<u>(197,357,694.33)</u>	
Total book value	<u>7,233,989,430.76</u>		<u>9,505,059,252.59</u>	

East China includes Shandong, Jiangsu, Zhejiang, Fujian, Shanghai, Anhui; North China includes Beijing, Tianjin, Hebei, Inner Mongolia; North-west China includes Shaanxi, Ningxia; South China includes Guangdong, Guangxi; South-west China includes Sichuan, Chongqing, Guizhou; Central China includes Hubei, Hunan, Henan, Jiangxi; North-east China includes Liaoning.

(4) Analysis by security type

	2020	2019
Unsecured loans	3,777,748,969.09	4,383,377,291.22
Guaranteed loans	3,229,882,196.68	4,854,514,249.53
Collateral loans	386,012,164.34	582,919,183.05
<i>Including: Secured loans</i>	362,134,242.88	399,059,019.05
<i>Pledged loans</i>	23,877,921.46	183,860,164.00
	<hr/>	<hr/>
Total	7,393,643,330.11	9,720,810,723.80
Add: interest accrued	25,208,731.48	27,286,502.43
	<hr/>	<hr/>
Sub-total	7,418,852,061.59	9,748,097,226.23
Less: Allowance for impairment losses	(184,862,630.83)	(243,037,973.64)
<i>Including: Additional allowance</i>	(144,641,055.13)	(197,357,694.33)
	<hr/>	<hr/>
Total book value	<u>7,233,989,430.76</u>	<u>9,505,059,252.59</u>

(5) As of 31 December 2020, the Bank does not have any loan that is overdue (31 December 2019: nil).

(6) Movement of allowance for impairment losses

	<i>ECL Allowance</i>			<i>Additional allowance for loan impairment losses</i>	<i>Total</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>		
31 December 2019	45,310,798.66	253,088.34	116,392.31	197,357,694.33	243,037,973.64
<b>Transfer:</b>					
- to level 1	-	-	-	-	-
- to level 2	(342,186.95)	342,186.95	-	-	-
- to level 3	-	-	-	-	-
(Reversals)/charge during the year	(5,486,551.90)	144,240.60	(958,180.90)	(52,716,639.20)	(59,017,131.40)
Written-off during the year	-	-	-	-	-
Received from write-off loans	-	-	846,523.16	-	846,523.16
Exchange differences	-	-	(4,734.57)	-	(4,734.57)
31 December 2020	<u>39,482,059.81</u>	<u>739,515.89</u>	<u>-</u>	<u>144,641,055.13</u>	<u>184,862,630.83</u>

	<i>ECL Allowance</i>			<i>Additional allowance for loan impairment losses</i>	<i>Total</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>		
1 January 2019	43,947,767.37	1,329,221.14	21,066,760.88	205,984,229.05	272,327,978.44
<b>Transfer:</b>					
- to level 1	185,863.43	(185,863.43)	-	-	-
- to level 2	(112,364.49)	112,364.49	-	-	-
- to level 3	-	-	-	-	-
Charge/(reversals) during the year	1,289,532.35	(1,002,633.86)	(3,718,724.29)	(8,626,534.72)	(12,058,360.52)
Written-off during the year	-	-	(18,034,232.28)	-	(18,034,232.28)
Received from write-off loans	-	-	1,040,049.24	-	1,040,049.24
Exchange differences	-	-	(237,461.24)	-	(237,461.24)
31 December 2019	<u>45,310,798.66</u>	<u>253,088.34</u>	<u>116,392.31</u>	<u>197,357,694.33</u>	<u>243,037,973.64</u>



(7) Analysis by impairment losses

As at 31 December 2020, the Bank does not have any loans and advances for which impairment losses are based on lifetime ECL-credit impaired (31 December 2019: RMB5,819,616.11. The amount of the loans which collaterals could secure was RMB5,819,616.11. The fair value of the collaterals for the loans was RMB8,850,000.00. For such loans, the impairment losses based on lifetime ECL-credit impaired were RMB116,392.31).

The fair value of the collateral above-mentioned is determined based on the collateral disposal experience and market conditions and is adjusted to the latest available external evaluation value.

11 Financial investment — Financial assets held for trading

(1) Financial assets held for trading

	2020	2019
Bonds investment held for trading	<u>1,998,499,707.11</u>	<u>2,150,279,478.76</u>

(2) Bonds held for trading are issued by the following institutions and stated at fair value:

	2020	2019
Domestic policy banks	1,539,037,359.95	2,006,817,022.21
Ministry of Finance	<u>459,462,347.16</u>	<u>143,462,456.55</u>
Total	<u>1,998,499,707.11</u>	<u>2,150,279,478.76</u>

As at the balance sheet date, most of these bonds investment were pledged as security in respect of repurchase agreements (see Note 44), and the rest has no major restriction for cashing.

12 Financial investment — other debt investment

	2020	2019
FVOCI		
- Bonds investment	5,280,289,522.81	4,814,308,555.17
Add: Interest accrued	<u>134,930,257.66</u>	<u>122,629,061.57</u>
Total	<u><u>5,415,219,780.47</u></u>	<u><u>4,936,937,616.74</u></u>

Other debt investment is issued by the following institutions and stated at fair value:

	2020	2019
Domestic policy banks	4,791,801,199.43	4,936,937,616.74
Ministry of Finance	<u>623,418,581.04</u>	<u>-</u>
Total	<u><u>5,415,219,780.47</u></u>	<u><u>4,936,937,616.74</u></u>

As at the balance sheet date, part of these other debt investment were pledged as security in respect of repurchase agreements (see Note 44), and the rest has no major restriction for cashing.

Impairment provisions for other debt investment (including accrued interest) are recognised in other comprehensive income (see Note 28). Their movements in 2020 and 2019 are as follows:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
31 December 2019	1,929,356.12	-	-	1,929,356.12
<b>Transfer:</b>				
- to level 1	-	-	-	-
- to level 2	-	-	-	-
- to level 3	-	-	-	-
Charge during the year	<u>87,804.52</u>	<u>-</u>	<u>-</u>	<u>87,804.52</u>
31 December 2020	<u><u>2,017,160.64</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>2,017,160.64</u></u>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
1 January 2019	2,140,681.53	-	-	2,140,681.53
<b>Transfer:</b>				
- to level 1	-	-	-	-
- to level 2	-	-	-	-
- to level 3	-	-	-	-
Reversals during the year	<u>(211,325.41)</u>	<u>-</u>	<u>-</u>	<u>(211,325.41)</u>
31 December 2019	<u><u>1,929,356.12</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1,929,356.12</u></u>

### 13 Fixed assets

	<i>Office furniture</i>	<i>Office equipment</i>	<i>Computers</i>	<i>Total</i>
<b>Cost</b>				
Balance at 1 January 2019	7,060,193.30	12,507,816.42	70,410,356.14	89,978,365.86
Additions	183,840.72	-	5,371,483.70	5,555,324.42
Disposal	(796,724.52)	(3,752,779.41)	(11,305,023.11)	(15,854,527.04)
<b>Balance at 31 December 2019</b>	<b>6,447,309.50</b>	<b>8,755,037.01</b>	<b>64,476,816.73</b>	<b>79,679,163.24</b>
Additions	-	49,238.94	4,760,002.25	4,809,241.19
Disposal	-	(2,563,530.16)	(40,326,055.11)	(42,889,585.27)
<b>Balance at 31 December 2020</b>	<b>6,447,309.50</b>	<b>6,240,745.79</b>	<b>28,910,763.87</b>	<b>41,598,819.16</b>
<b>Less: Accumulated depreciation</b>				
Balance at 1 January 2019	(4,915,265.10)	(8,252,937.02)	(44,733,905.00)	(57,902,107.12)
Charge for the year	(691,235.76)	(911,825.99)	(12,306,434.48)	(13,909,496.23)
Written-offs	585,139.02	3,646,955.64	11,305,023.11	15,537,117.77
<b>Balance at 31 December 2019</b>	<b>(5,021,361.84)</b>	<b>(5,517,807.37)</b>	<b>(45,735,316.37)</b>	<b>(56,274,485.58)</b>
Charge for the year	(330,862.65)	(776,197.78)	(10,625,541.57)	(11,732,602.00)
Written-offs	-	2,563,530.16	40,326,019.24	42,889,549.40
<b>Balance at 31 December 2020</b>	<b>(5,352,224.49)</b>	<b>(3,730,474.99)</b>	<b>(16,034,838.70)</b>	<b>(25,117,538.18)</b>
<b>Net book value</b>				
Balance at 31 December 2020	1,095,085.01	2,510,270.80	12,875,925.17	16,481,280.98
Balance at 31 December 2019	1,425,947.66	3,237,229.64	18,741,500.36	23,404,677.66

As at 31 December 2020, the Bank considers that no impairment provision for fixed assets is required (31 December 2019: nil).

14 Lease

(1) Right-of-use assets

	<i>Plant &amp; buildings</i>
Cost	
Balance at 1 January 2020	78,325,968.60
Additions during the year	38,685,711.12
Disposals during the year	<u>(1,583,642.37)</u>
Balance at 31 December 2020	<u>115,428,037.35</u>
Less: Accumulated depreciation	
Balance at 1 January 2020	-
Charge for the year	(34,884,707.88)
Written off on disposals	<u>1,158,410.62</u>
Balance at 31 December 2020	<u>(33,726,297.26)</u>
Carrying amounts	
Balance at 1 January 2020	<u>78,325,968.60</u>
Balance at 31 December 2020	<u>81,701,740.09</u>

As at 31 December 2020, the Bank considers that no impairment provision for intangible assets is necessary (31 December 2019: nil).

(2) Lease liabilities

	<i>31 December 2020</i>	<i>1 January 2020</i>
Lease liabilities	<u>(89,801,090.55)</u>	<u>(78,705,124.40)</u>

15 Deferred tax assets

	<i>Deferred tax assets</i>			
	<i>As at 1 January 2020</i>	<i>Charged to profit or loss during the year</i>	<i>Charged to equity during the year</i>	<i>As at 31 December 2020</i>
ECL allowance and write-off	55,433,534.52	(1,357,905.78)	-	54,075,628.74
Change of fair value	(15,984,983.22)	37,663,097.84	-	21,678,114.62
Change in fair value of other debt investment	(14,158,733.87)	-	12,330,091.28	(1,828,642.59)
ECL allowance for other debt investment	-	21,951.13	(21,951.13)	-
Accrued expenses	8,775,253.06	(4,275,427.24)	-	4,499,825.82
Employee benefits payable	6,756,706.24	(1,718,096.25)	-	5,038,609.99
Amortisation of intangible assets	3,705,382.76	(1,310,384.54)	-	2,394,998.22
Others	2,356,556.75	198,816.21	-	2,555,372.96
<b>Total</b>	<b>46,883,716.24</b>	<b>29,222,051.37</b>	<b>12,308,140.15</b>	<b>88,413,907.76</b>

	<i>Deferred tax assets</i>			
	<i>As at 1 January 2019</i>	<i>Charged to profit or loss during the year</i>	<i>Charged to equity during the year</i>	<i>As at 31 December 2019</i>
ECL allowance and write-off	62,305,123.14	(6,871,588.62)	-	55,433,534.52
Change of fair value	(21,645,426.84)	5,660,443.62	-	(15,984,983.22)
Change in fair value of other debt investment	(13,358,994.28)	-	(799,739.59)	(14,158,733.87)
ECL allowance for other debt investment	-	(52,831.35)	52,831.35	-
Accrued expenses	9,644,499.53	(869,246.47)	-	8,775,253.06
Employee benefits payable	6,713,103.85	43,602.39	-	6,756,706.24
Amortisation of intangible assets	5,169,179.24	(1,463,796.48)	-	3,705,382.76
Cash flow hedge reserve	(22,791.16)	-	22,791.16	-
Others	2,214,142.48	142,414.27	-	2,356,556.75
<b>Total</b>	<b>51,018,835.96</b>	<b>(3,411,002.64)</b>	<b>(724,117.08)</b>	<b>46,883,716.24</b>

As at 31 December 2020, the Bank does not have any unrecognised deferred tax assets (31 December 2019: nil).

16 Other assets

	<i>Note</i>	<i>2020</i>	<i>2019</i>
Gold lease-out receivable			
Including: Designated at FVTPL		1,142,646,142.53	1,862,278,054.97
At amortised cost		-	69,138,049.81
Refundable Deposit		1,178,443,460.12	457,611,364.29
Tax deductible		32,613,041.87	120,861,376.98
Service fee receivables due from related parties		57,529,731.34	55,329,190.29
Payment in advance		7,269,573.79	8,014,114.27
Leasehold improvements		2,716,958.89	3,173,381.35
Others		11,100,814.82	8,616,044.86
Sub-total		<u>2,432,319,723.36</u>	<u>2,585,021,576.82</u>
Less: Allowance for impairment losses	(1)	<u>(2,646,771.34)</u>	<u>(2,049,731.13)</u>
Total		<u><u>2,429,672,952.02</u></u>	<u><u>2,582,971,845.69</u></u>

(1) Movement of allowance for impairment losses

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
31 December 2019	2,049,731.13	-	-	2,049,731.13
<b>Transfer:</b>				
- to level 1	-	-	-	-
- to level 2	-	-	-	-
- to level 3	-	-	-	-
Charge for the year	<u>597,040.21</u>	<u>-</u>	<u>-</u>	<u>597,040.21</u>
31 December 2020	<u><u>2,646,771.34</u></u>	<u>-</u>	<u>-</u>	<u><u>2,646,771.34</u></u>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
1 January 2019	3,194,482.39	-	-	3,194,482.39
<b>Transfer:</b>				
- to level 1	-	-	-	-
- to level 2	-	-	-	-
- to level 3	-	-	-	-
Reversals during the year	<u>(1,144,751.26)</u>	<u>-</u>	<u>-</u>	<u>(1,144,751.26)</u>
31 December 2019	<u><u>2,049,731.13</u></u>	<u>-</u>	<u>-</u>	<u><u>2,049,731.13</u></u>

17 Deposits from banks and other financial institutions

	2020	2019
Domestic banks	58,835,516.14	67,740,635.44
Domestic non-bank financial institutions	915,167,375.50	913,071,853.84
Overseas banks	51,157,619.87	248,569,553.90
Overseas non-bank financial institutions	27,013,086.67	-
	<u>1,052,173,598.18</u>	<u>1,229,382,043.18</u>
Sub-total	1,052,173,598.18	1,229,382,043.18
Add: Interest accrued	403,954.88	681,065.28
	<u>1,052,577,553.06</u>	<u>1,230,063,108.46</u>
Total	<u>1,052,577,553.06</u>	<u>1,230,063,108.46</u>

18 Placements from banks and other financial institutions

	2020	2019
Domestic banks	600,000,000.00	400,000,000.00
Overseas banks	2,328,931,216.46	1,767,961,154.43
	<u>2,928,931,216.46</u>	<u>2,167,961,154.43</u>
Sub-total	2,928,931,216.46	2,167,961,154.43
Add: Interest accrued	4,240,480.02	7,131,925.35
	<u>2,933,171,696.48</u>	<u>2,175,093,079.78</u>
Total	<u>2,933,171,696.48</u>	<u>2,175,093,079.78</u>

19 Financial liabilities held for trading

	2020	2019
Financial liabilities designated at FVTPL	<u>1,966,190,660.47</u>	<u>1,371,991,571.19</u>

A financial liability is designated at FVTPL if it is related to gold leases.

There was no significant change in the credit spread of the Bank this year. The change in fair value of financial liabilities designated at FVTPL due to changes in credit risk in 2020 is not significant. The change in fair value of financial liabilities is mainly due to changes in other market factors.

20 Financial assets sold under repurchase agreements

	2020	2019
Securities sold under repurchase agreements		
- Domestic policy banks	1,980,000,000.00	1,914,000,000.00
- Domestic commercial banks	<u>959,500,000.00</u>	<u>1,776,500,000.00</u>
Sub-total	2,939,500,000.00	3,690,500,000.00
Add: Interest accrued	<u>465,337.99</u>	<u>1,377,310.81</u>
Total	<u>2,939,965,337.99</u>	<u>3,691,877,310.81</u>

As at 31 December 2020, the collateral of the Bank's financial assets sold under repurchase agreements are bonds issued by domestic policy banks and the MOF, whose book value totals RMB3,207,371,280.27 (31 December 2019: RMB4,027,878,397.55).



21	Deposits from customers		
		2020	2019
	Current deposits		
	- Corporate customers	3,777,045,418.24	4,807,855,573.27
	- Individual customers	7,819,211.60	8,670,978.41
		<u>3,784,864,629.84</u>	<u>4,816,526,551.68</u>
	Sub-total		
	Term deposits (including call deposits)		
	- Corporate customers	7,300,878,447.91	9,261,011,740.13
	Structure deposits		
	- Corporate customers	600,000,000.00	2,455,000,000.00
		<u>11,685,743,077.75</u>	<u>16,532,538,291.81</u>
	Sub-total		
	Add: Interest accrued	39,198,091.62	40,213,766.48
		<u>11,724,941,169.37</u>	<u>16,572,752,058.29</u>
	Total		

22	Employee benefit payables		
		<i>Note</i>	
		2020	2019
	Employee benefits	(1) 19,622,703.85	25,692,557.89
	Post-employment benefits		
	- defined contribution plans	(2) 531,736.10	1,334,267.07
	Termination benefits	(3) -	-
		<u>20,154,439.95</u>	<u>27,026,824.96</u>
	Total		

(1) Employee benefits

	<i>2020</i>			
	<i>Balance at 1 January</i>	<i>Accrued during the year</i>	<i>Paid during the year</i>	<i>Balance at 31 December</i>
Salaries, bonuses and allowances	24,791,428.93	303,103,825.90	(309,043,604.11)	18,851,650.72
Staff welfare	-	18,740,114.05	(18,740,114.05)	-
Social insurance	692,994.96	6,635,028.08	(6,556,969.91)	771,053.13
- Medical insurance	631,426.41	6,584,035.11	(6,444,408.39)	771,053.13
- Work-related injury insurance	8,851.26	10,951.32	(19,802.58)	-
- Maternity insurance	52,717.29	40,041.65	(92,758.94)	-
Housing fund	208,134.00	10,731,713.00	(10,939,847.00)	-
Labour union fee, staff and workers' education fee	-	5,476,353.32	(5,476,353.32)	-
Other short-term employee benefits	-	1,475,146.90	(1,475,146.90)	-
<b>Total</b>	<b>25,692,557.89</b>	<b>346,162,181.25</b>	<b>(352,232,035.29)</b>	<b>19,622,703.85</b>

	<i>2019</i>			
	<i>Balance at 1 January</i>	<i>Accrued during the year</i>	<i>Paid during the year</i>	<i>Balance at 31 December</i>
Salaries, bonuses and allowances	24,402,659.80	323,035,555.48	(322,646,786.35)	24,791,428.93
Staff welfare	-	18,233,897.29	(18,233,897.29)	-
Social insurance	631,378.16	7,628,937.53	(7,567,320.73)	692,994.96
- Medical insurance	577,391.23	6,854,671.02	(6,800,635.84)	631,426.41
- Work-related injury insurance	5,816.49	108,746.71	(105,711.94)	8,851.26
- Maternity insurance	48,170.44	665,519.80	(660,972.95)	52,717.29
Housing fund	181,474.00	9,791,865.20	(9,765,205.20)	208,134.00
Labour union fee, staff and workers' education fee	-	6,498,796.24	(6,498,796.24)	-
Other short-term employee benefits	-	1,465,422.52	(1,465,422.52)	-
<b>Total</b>	<b>25,215,511.96</b>	<b>366,654,474.26</b>	<b>(366,177,428.33)</b>	<b>25,692,557.89</b>

(2) Post-employment benefits - defined contribution plans

	2020			
	<i>Balance at 1 January</i>	<i>Accrued during the year</i>	<i>Paid during the year</i>	<i>Balance at 31 December</i>
Basic pension insurance	1,280,888.89	1,146,478.75	(1,924,568.20)	502,799.44
Unemployment insurance	53,378.18	40,771.58	(65,213.10)	28,936.66
<b>Total</b>	<b>1,334,267.07</b>	<b>1,187,250.33</b>	<b>(1,989,781.30)</b>	<b>531,736.10</b>

	2019			
	<i>Balance at 1 January</i>	<i>Accrued during the year</i>	<i>Paid during the year</i>	<i>Balance at 31 December</i>
Basic pension insurance	1,387,063.38	12,260,470.96	(12,366,645.45)	1,280,888.89
Unemployment insurance	49,840.06	398,975.26	(395,437.14)	53,378.18
<b>Total</b>	<b>1,436,903.44</b>	<b>12,659,446.22</b>	<b>(12,762,082.59)</b>	<b>1,334,267.07</b>

(3) Termination benefits

	2020			
	<i>Balance at 1 January</i>	<i>Accrued during the year</i>	<i>Paid during the year</i>	<i>Balance at 31 December</i>
Termination benefits	-	27,500.00	(27,500.00)	-

	2019			
	<i>Balance at 1 January</i>	<i>Accrued during the year</i>	<i>Paid during the year</i>	<i>Balance at 31 December</i>
Termination benefits	200,000.00	2,965,153.50	(3,165,153.50)	-

23 Taxes payable

	2020	2019
Withholding tax	11,265,840.73	23,297,614.60
Value-added tax	2,928,006.83	6,096,715.98
Income tax	-	3,679,691.63
Taxes and surcharges	<u>2,215,743.52</u>	<u>2,387,281.16</u>
Total	<u>16,409,591.08</u>	<u>35,461,303.37</u>

As at 31 December 2020, the Bank's balance of input tax to be deducted and excess prepaid income tax have been reclassified to other assets (see note 16).

24 Debt securities issued

	2020			Balance at 31 December
	Balance at 1 January	Accrued during the year	Paid during the year	
Interbank negotiable certificates of deposit issued	<u>1,376,642,820.65</u>	<u>872,517,356.06</u>	<u>(2,100,000,000.00)</u>	<u>149,160,176.71</u>

## 25 Provisions

As of 31 December 2020, all of the Bank's provisions are off-balance sheet ECL, the changes are set out below:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
31 December 2019	30,400,199.68	1,600,297.83	-	32,000,497.51
<b>Transfer:</b>				
- to level 1	157,182.19	(157,182.19)	-	-
- to level 2	(78,357.14)	78,357.14	-	-
- to level 3	-	-	-	-
Reversals during the year	<u>(17,701,682.07)</u>	<u>(502,461.37)</u>	<u>-</u>	<u>(18,204,143.44)</u>
31 December 2020	<u>12,777,342.66</u>	<u>1,019,011.41</u>	<u>-</u>	<u>13,796,354.07</u>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
1 January 2019	27,953,261.45	505,210.32	-	28,458,471.77
<b>Transfer:</b>				
- to level 1	30,153.83	(30,153.83)	-	-
- to level 2	(86,366.41)	86,366.41	-	-
- to level 3	-	-	-	-
Charge for the year	<u>2,503,150.81</u>	<u>1,038,874.93</u>	<u>-</u>	<u>3,542,025.74</u>
31 December 2019	<u>30,400,199.68</u>	<u>1,600,297.83</u>	<u>-</u>	<u>32,000,497.51</u>

26 Other liabilities

	2020	2019
Market to market deposits	132,638,697.92	-
Service fee payable to related parties	81,750,774.01	89,476,552.88
Accrued expenses	17,999,303.29	35,101,012.22
Gold lease payable designated at FVTPL	-	171,608,139.65
Others	23,910,204.80	23,681,474.53
	<u>256,298,980.02</u>	<u>319,867,179.28</u>
Total	<u>256,298,980.02</u>	<u>319,867,179.28</u>

27 Paid-in capital

Registered capital and paid-in capital

	<u>2020</u>		<u>2019</u>	
	<i>Book value</i>	<i>Percentage (%)</i>	<i>Book value</i>	<i>Percentage (%)</i>
ANZ	<u>6,225,000,000.00</u>	<u>100%</u>	<u>6,225,000,000.00</u>	<u>100%</u>

ANZ contributed the paid-in capital to the Bank in accordance with the Administrative Regulation and relevant regulations. Capital contributions in foreign currency were translated into RMB at the exchange rates prevailing at the dates of each contribution received as quoted by the People's Bank of China.

The above paid-in capital was verified by certified public accountants with the related capital verification reports issued.

28 Other comprehensive income

	<i>Movements in fair value of other debt investment</i>	<i>ECL allowance of other debt investment</i>	<i>Effective portion of gains arising from cash flow hedging instruments</i>	<i>Total</i>
As at 1 January 2019	40,076,982.83	1,605,511.15	68,373.47	41,750,867.45
Additions/(reduction)	3,198,958.34	(211,325.41)	(91,164.63)	2,896,468.30
Less: Effects of deferred tax	(799,739.59)	52,831.35	22,791.16	(724,117.08)
As at 31 December 2019	42,476,201.58	1,447,017.09	-	43,923,218.67
Additions/(reduction)	(49,320,365.08)	87,804.52	-	(49,232,560.56)
Less: Effects of deferred tax	12,330,091.28	(21,951.13)	-	12,308,140.15
As at 31 December 2020	5,485,927.78	1,512,870.48	-	6,998,798.26

29 Surplus reserve

	<i>Note</i>	<i>Surplus reserve</i>
Balance at 1 January 2019		196,794,990.54
Profit appropriation	31	29,682,684.64
Balance at 31 December 2019		226,477,675.18
Profit appropriation	31	6,386,900.65
Balance at 31 December 2020		232,864,575.83

30 General reserve

	2020	2019
Balance at the beginning/end of the year	<u>200,028,578.49</u>	<u>200,028,578.49</u>

In accordance with the Administrative Measures on Provisions for Financial Institutions (Cai Jin [2012] No.20) issued by the MOF, Financial enterprises shall select the internal model approach or standard approach to carry out a quantitative analysis for risk status faced by risk assets in accordance with their own situation to determine the estimate for potential risks from 1 July 2012. General provision shall be accrued for the difference amount where the estimate for potential risks is higher than the provision for asset impairment. General provision may not be accrued where the estimate for potential risks is less than the provision for asset impairment.

31 Appropriation of profits

(1) Appropriation for surplus reserve

In 2020, the Bank appropriated an amount of RMB6,386,900.65 (2019: RMB29,682,684.64), representing 10% of profit after tax for the year to surplus reserve in accordance with relevant regulations and its articles.

(2) Distributions to owner

Pursuant to the approval at the Board of Directors on 2 July 2020, a distribution of profit in cash totalling RMB267,140,000.00 (2019: RMB421,930,455.46) was declared and paid to ANZ on 9 September 2020.



32 Net interest income

	2020	2019
Interest income:		
Loans and advances to customers	341,284,132.04	436,202,275.55
Deposits and placements with banks and other financial institutions	146,723,666.51	284,971,323.06
Other debt investment	178,423,780.55	178,595,608.00
Deposits with central bank	20,884,338.98	26,319,490.86
Financial assets purchased under resale agreements	-	3,324,209.31
Investment in negotiable certificates of deposit	-	22,720.97
Other interest income	9,876,107.56	23,070,693.63
Sub-total	<u>697,192,025.64</u>	<u>952,506,321.38</u>
Interest expenses:		
Deposits from customers	(260,729,865.80)	(329,551,714.93)
Financial assets sold under repurchase agreements	(27,085,185.61)	(78,332,525.01)
Deposits and placements from banks and other financial institutions	(32,264,686.05)	(66,355,794.19)
Issuance of negotiable certificates of deposit	(40,093,956.06)	(49,748,383.89)
Lease liability	(3,539,996.84)	N/A
Sub-total	<u>(363,713,690.36)</u>	<u>(523,988,418.02)</u>
Net interest income	<u>333,478,335.28</u>	<u>428,517,903.36</u>

33 Net fee and commission income

	2020	2019
Fee and commission income:		
Loan referral fees	58,551,948.53	77,632,302.42
Settlement and clearing fees	28,315,192.21	39,296,369.41
Guarantee fees	22,834,096.41	45,042,769.04
Gold leased-out commission	55,531.99	22,648,647.44
Others	7,131,082.22	5,683,777.41
Sub-total	<u>116,887,851.36</u>	<u>190,303,865.72</u>
Fee and commission expenses:		
Broker's commission	(36,795,847.60)	(38,092,837.99)
Others	(1,247,500.64)	(885,915.60)
Sub-total	<u>(38,043,348.24)</u>	<u>(38,978,753.59)</u>
Net fee and commission income	<u>78,844,503.12</u>	<u>151,325,112.13</u>

34 Investment (losses)/income

	2020	2019
Derivatives	(300,081,785.15)	132,125,784.56
Financial assets held for trading		
- The interest generated during the holding period	43,150,620.32	98,601,102.29
- Net gains on disposal of assets	52,992,416.11	47,133,198.99
Other assets		
- Gold leased-out receivable designated at FVTPL	<u>22,400,572.71</u>	<u>321,142.77</u>
Total	<u>(181,538,176.01)</u>	<u>278,181,228.61</u>

35 Government grants

	2020			2019		
	Amount	Presentation item	Amount recognised in profit or loss for the current period	Amount	Presentation item	Amount recognised in profit or loss for the current period
Government grants related to income:						
Shanghai Financial talent grant	2,830,188.68	Other income	2,830,188.68	1,561,000.00	Other income	1,561,000.00
Income tax fee refundable	2,066,446.59	Other income	2,066,446.59	340,471.24	Other income	340,471.24
	190,000.00	Other income	190,000.00	-		-
	18,351.62	Other income	18,351.62	-		-
<b>Total</b>	<b>5,104,986.89</b>		<b>5,104,986.89</b>	<b>1,901,471.24</b>		<b>1,901,471.24</b>

36 (Losses)/gain from changes in fair value

	2020	2019
Derivative financial instruments	(186,751,866.06)	(49,433,212.62)
Precious metals	37,774,399.70	29,521,809.09
Gold lease	(4,993,930.25)	11,764,842.81
Debt securities investments held for trading	3,319,005.27	(14,495,213.73)
<b>Total</b>	<b>(150,652,391.34)</b>	<b>(22,641,774.45)</b>

37 Business and administrative expenses

	2020	2019
Staff cost		
- Salaries, bonuses and allowances	304,578,972.80	324,500,978.00
- Social insurance and housing funds	18,553,991.41	30,080,248.95
- Staff welfare and others	24,216,467.37	24,732,693.53
- Termination benefits	27,500.00	2,965,153.50
	<u>347,376,931.58</u>	<u>382,279,073.98</u>
Sub-total		
Parent bank's service fees	59,799,200.54	62,213,012.73
Telecommunication expenses	49,178,652.18	52,838,822.51
Depreciation of right-of-use assets	27,924,416.19	N/A
Depreciation and amortisation	17,537,008.95	20,951,561.85
Operation and Service Hubs' service fees	18,611,687.00	18,728,171.82
Rental and property management expenses	6,844,589.42	30,555,524.43
Travelling expenses	1,697,866.71	6,832,562.98
Deposit insurance premium	3,697,265.39	4,089,918.29
Others	26,497,609.72	31,158,567.13
	<u>559,165,227.68</u>	<u>609,647,215.72</u>
Total		

38 Reversal/(charge) of credit impairment losses

	<i>Note</i>	2020	2019
Deposits with banks and other financial institutions	7	643,390.69	3,979,029.38
Placements with banks and other financial institutions	8	11,611,831.11	127,884.96
Loans and advances to customers	10	59,017,131.40	12,058,360.52
Other debt investment	12	(87,804.52)	211,325.41
Other assets	16	(597,040.21)	1,144,751.26
Financial guarantee and credit commitment	25	18,204,143.44	(3,542,025.74)
		<u>88,791,651.91</u>	<u>13,979,325.79</u>
Total			

39 Income tax expenses

(1) Income tax expenses

	2020	2019
Current year income tax	51,152,755.90	96,142,094.58
Changes of deferred taxation	(29,222,051.37)	3,411,002.64
Tax filing differences	(1,251,852.07)	(78,203.16)
Total	<u>20,678,852.46</u>	<u>99,474,894.06</u>

The analysis of deferred tax expense is set out below:

	2020	2019
Origination and reversal of temporary differences	<u>(29,222,051.37)</u>	<u>3,411,002.64</u>

(2) Reconciliation between income tax expense and accounting profit

	2020	2019
Profits before tax	<u>84,547,858.97</u>	<u>396,301,740.46</u>
Income tax at statutory tax rate 25%	21,136,964.74	99,075,435.12
Increase/(decrease) of tax effect:		
- Non-deductible expenses	1,513,875.19	1,608,548.78
- Non-taxable income	(2,500,395.12)	(1,111,521.93)
- Tax filing differences	(1,251,852.07)	(78,203.16)
- Adjustment to assets in previous year	1,780,259.72	(19,364.75)
Income tax expenses	<u>20,678,852.46</u>	<u>99,474,894.06</u>

40 Other comprehensive income

	2020	2019
Items that may be reclassified to profit or loss:		
Changes in fair value of other debt investments	(49,320,365.08)	3,198,958.34
Less: deferred tax	<u>12,330,091.28</u>	<u>(799,739.59)</u>
Sub-total	<u>(36,990,273.80)</u>	<u>2,399,218.75</u>
Expected credit losses of other debt investments	87,804.52	(211,325.41)
Less: deferred tax	<u>(21,951.13)</u>	<u>52,831.35</u>
Sub-total	<u>65,853.39</u>	<u>(158,494.06)</u>
Cash flow hedge reserve	-	(91,164.63)
Less: deferred tax	<u>-</u>	<u>22,791.16</u>
Sub-total	<u>-</u>	<u>(68,373.47)</u>
Total	<u>(36,924,420.41)</u>	<u>2,172,351.22</u>

41 Supplement to cash flow statement

(1) Reconciliation of net profit to net cash flows from operating activities:

	2020	2019
Net profit	63,869,006.51	296,826,846.40
Add: Interest expense arising from debt securities issued	40,093,956.06	49,748,383.89
Reversal of credit impairment loss	(88,791,651.91)	(13,979,325.79)
Depreciation of fixed assets	11,732,602.00	13,909,496.23
Depreciation of right-of-use assets	31,464,413.03	N/A
Amortisation of intangible assets	4,604,005.65	4,860,264.34
Amortisation of leasehold fixed asset improvements	1,200,401.30	2,181,801.28
Losses from asset disposals	32,712.46	317,409.27
Losses from changes in fair value	150,652,391.34	22,641,774.45
(Increase)/decrease in deferred tax liabilities	(29,222,051.37)	3,411,002.64
Unrealised foreign exchange gains	(96,641,051.77)	(184,962,946.19)
Decrease in operating receivables	6,611,502,512.85	2,599,535,863.17
(Decrease)/increase in operating payables	<u>(5,719,053,137.91)</u>	<u>1,093,611,848.01</u>
Net cash flow generated from operating activities	<u>981,444,108.24</u>	<u>3,888,102,417.70</u>

(2) Changes in cash and cash equivalents:

	2020	2019
Cash and cash equivalents at the end of the year	7,720,798,112.65	8,526,681,455.03
Less: Cash and cash equivalents at the beginning of the year	<u>(8,526,681,455.03)</u>	<u>(5,704,246,783.90)</u>
Net (decrease)/ increase in cash and cash equivalents	<u>(805,883,342.38)</u>	<u>2,822,434,671.13</u>

(3) Cash and cash equivalents

	2020	2019
Cash on hand	460,534.74	301,268.66
Deposits with central bank available on demand	1,026,368,331.77	1,303,141,125.35
Deposits with banks and other financial institutions	2,479,793,695.35	1,576,633,973.88
Placements with banks and other financial institutions	4,214,175,550.79	5,646,605,087.14
Total	<u>7,720,798,112.65</u>	<u>8,526,681,455.03</u>

42 Related-party relationships and transactions

(1) Information on parent bank of the Bank is listed as follows:

<i>Name</i>	<i>Registered address</i>	<i>Principle activities</i>	<i>Ordinary share capital</i>	<i>Shareholding percentage</i>	<i>Portion of voting rights</i>
ANZ	Australia	Banking and financial services	AUD 26,531million	100%	100%

(2) Transactions with key management personnel

(a) Balance of the transactions with key management personnel:

	2020	2019
Remuneration of key management personnel	68,888,813.00	74,286,555.08

(b) Transactions with related insiders

According to clause 38 of the *Administrative Measures for the Connected Transactions between the Commercial Banks and their Insiders or Shareholders* (CBRC [2004] No.3), the Bank discloses credit transactions with related insiders.

Related insiders include the Bank's internal people, legal persons or the controlling natural person shareholders, directors, key management personnel of other related organisations. Insiders includes the Bank's directors, senior management of head office and branches and other personnel who have the right to decide or participate in commercial bank credit commitments and asset transfer transactions.

During 2020, the Bank did not have the above transactions with related insiders (2019: nil).



(3) Transactions with related parties other than key management personnel

For the current year, the Bank had no material related transaction with its related parties under Section 22 of the Administrative Measures for the Connected Transactions (2019: nil).

(a) Major transactions with related parties during the year:

	2020	2019
Interest income	4,634,794.29	19,867,000.76
Interest expenses	(13,907,947.75)	(30,023,589.25)
Fee and commission income	55,061,220.50	50,356,526.88
Parent bank's service fees	(59,799,200.54)	(62,213,012.73)
Operation and Service Hubs' service fees	(18,611,687.00)	(18,728,171.82)
Gains/losses from changes in fair value of derivative financial instruments	6,674,417.57	(264,728,019.17)
Gains/losses from changes in fair value of gold lease	3,774,848.00	(847,786.26)

Of the above transactions, the transactions with the related bodies of non-commercial bank and their corresponding percentage to general and administrative expenses are as follows:

	2020	Percentage (%)	2019	Percentage (%)
Operation and Service Hubs' service fees - Amount of accepted services	18,611,687.00	3.33%	18,728,171.82	3.07%

Under the relevant service agreements, cost-plus pricing method is adopted in the above transactions with the related bodies of non-commercial bank.

(b) As at 31 December, the major balances with related parties are as follows:

	2020	2019
<b>Assets</b>		
Deposits with banks and other financial institutions	58,766,865.32	82,205,649.01
Placements with banks and other financial institutions	1,639,695,729.48	3,444,435,198.31
Derivative financial assets	136,307,382.39	45,481,047.59
Other assets	57,529,731.34	55,329,190.29
<b>Total</b>	<u>1,892,299,708.53</u>	<u>3,627,451,085.20</u>
	2020	2019
<b>Liabilities</b>		
Deposits from banks and other financial institutions	51,177,115.86	316,593,476.83
Placements from banks and other financial institutions	2,332,993,905.48	1,775,023,519.57
Financial liabilities held for trading	1,966,190,660.47	1,371,991,571.19
Derivative financial liabilities	269,287,887.53	185,135,970.31
Other liabilities	83,484,082.14	89,476,552.88
<b>Total</b>	<u>4,703,133,651.48</u>	<u>3,738,221,090.78</u>

The balance of the transactions with the related bodies of non-commercial bank and their corresponding percentage at 31 December are as follows:

	2020	Percentage (%)	2019	Percentage (%)
Other liabilities				
- Service fee payable	2,973,007.93	1.16%	7,144,395.96	2.23%

(c) As at 31 December, notional amount of the off-balance sheet derivatives with related parties is as follows:

	<i>2020</i>	<i>2019</i>
Interest rate swaps	10,433,999,701.61	12,207,234,456.51
Interest rate options	871,859,421.94	3,530,957,877.19
Foreign exchange swaps	3,476,673,938.56	6,312,554,881.49
Forward foreign exchange	63,236,000.01	75,044,951.52
Foreign exchange options	641,687,453.41	30,252,027.95
Gold forward	-	85,006,906.81
Platinum forward	155,481,808.09	178,134,911.41
Gold options	6,903,425.36	40,746,040.21
Complicated derivatives	967,238,017.25	423,699,199.78
	<hr/>	<hr/>
Total	<u>16,876,319,773.50</u>	<u>22,883,631,252.87</u>

(d) Relationship with the related parties referred in Note 42(3)(a), (b) and (c):

Name	Relationship with the Bank	Economic nature or type	Primary business	Legal representative	Registered location	Registered capital
ANZ and its branches	Parent bank and its fellow branches	Listed Company	Banking and financial services	David Gonski	Australia	AUD 26,531 million
ANZ Operation and Service (Chengdu) Ltd.	Fellow subsidiary	Company Limited (Wholly owned by foreign legal person)	Engaged in development, sales and maintenance of systems, software and information technologies and supports of related technologies	Steven Michael Harris	Chengdu city	AUD 23 million
Chongqing Liangping ANZ Rural Bank Co., Ltd.	Fellow subsidiary	Company Limited (Wholly owned by foreign legal person)	Absorbing public deposits and issuing loans	Jingdong Fan	Chongqing city	RMB 30 million
ANZ Support Services India Private Limited	Fellow subsidiary	Company Limited	IT enabled services	S V Venkataraman	India	INR 953 million
ANZ Global Services and Operations (Manila), Inc.	Fellow subsidiary	Company Limited	Engaged in maintenance of systems and supports of related technologies	Steve Harris	The Philippines	PHP 1,421 million

#### 43 Segment reporting

##### (1) Business segment

The Bank mainly engage in corporate banking, provides a range of financial products and services to corporations and financial institutions, including: corporate loans, trade finance, corporate deposits, payment and settlement services, security services, placements with banks and other financial institutions, customer-driven derivative financial instruments and customer-driven foreign exchange trading.

##### (2) Geographic information

The following table sets out information about the source of the Bank's gross revenue and non-current assets (excluding financial instruments, deferred tax assets) inside and outside of Mainland China. The geographical location of source of gross revenue (the total of interest income and fees) is based on the counterparty's registered location. The geographical location of the specified non-current assets is based on the physical location of the asset.

Total of the gross revenue:

	2020	2019
In Mainland China	812,754,631.81	1,124,446,152.42
Outside Mainland China	1,325,245.19	18,364,034.68
Total	<u>814,079,877.00</u>	<u>1,142,810,187.10</u>

As at 31 December 2020, the Bank does not hold any non-current assets that are located outside of Mainland China (31 December 2019: nil).

##### (3) Major customers

Interest income from each individual customer of the Bank is below 10% of the Bank's total interest income in both 2020 and 2019.

44 Assets pledged as security

Following assets of the Bank are pledged as security in respect of repurchase agreements:

	2020	2019
Trading bonds	1,770,395,522.84	2,101,210,471.80
Bonds investment at FVOCI	<u>1,436,975,757.43</u>	<u>1,926,667,925.75</u>
Total	<u><u>3,207,371,280.27</u></u>	<u><u>4,027,878,397.55</u></u>

45 Commitments and contingencies

(1) Credit commitments

The Bank has credit commitments at any time. These commitments include approved loans. The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

Acceptances are the Bank's commitments to honour the customer bills issued. The Bank expects most acceptances to be settled simultaneously when the customer settles payment.

The amounts reflected in the table for credit commitments represent the total amount when the loan is expended. The amounts reflected in the table for guarantees and letters of credit represent the maximum potential loss that would be recognised at the balance sheet date if counterparties failed to fulfil their contractual obligations.

	2020	2019
Irrevocable loan commitments		
- Original maturity within 1 year	201,281,809.85	133,195,834.64
- Original maturity over 1 year (inclusive)	71,610,554.93	162,479,159.58
	<u>272,892,364.78</u>	<u>295,674,994.22</u>
Letter of guarantees		
- Financing guarantees	1,848,348,444.34	4,691,649,176.00
- Non-financing guarantees	1,454,550,115.98	1,881,707,882.27
	<u>3,302,898,560.32</u>	<u>6,573,357,058.27</u>
Documentary letters of credit	<u>907,765,950.38</u>	<u>912,720,789.20</u>
Bank acceptance	<u>103,773,152.23</u>	<u>883,238,297.98</u>
Total	<u>4,587,330,027.71</u>	<u>8,664,991,139.67</u>
Impairment provision for financial guarantee contracts and credit commitments	<u>(13,796,354.08)</u>	<u>(32,000,497.51)</u>

The above credit businesses are the credit risks the Bank may undertake. The Bank periodically assesses and makes allowances for any probable losses if necessary. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash outflows.

(2) Credit risk weighted amounts of off-balance sheet assets

	2020	2019
Credit risk weighted amounts of off-balance sheet assets	<u>2,821,388,345.13</u>	<u>6,223,967,511.64</u>

The credit risk weighted amounts of off-balance sheet assets refer to the amounts as computed in accordance with the Administrative Measures on Capitals of Commercial Bank (For Trial Implementation) as set out by the former CBRC and depends on the status of the counterparty and the maturity characteristics.

(3) Operating lease commitments

As at 31 December, the future minimum lease payments under non-cancellable operating lease contracts of the leasing of properties are as follows:

	2019
Within 1 year (inclusive)	31,768,196.46
Over 1 year but within 2 years (inclusive)	26,420,188.79
Over 2 years but within 3 years (inclusive)	25,821,966.89
Over 3 years	19,187,060.49
	<hr/>
Total	103,197,412.63

(4) Capital commitments

As at the balance sheet date, the Bank has no significant capital commitment.

46 Fiduciary activities

Entrusted loans and deposits

The Bank had the following entrusted loans and deposits as at balance sheet date:

	2020	2019
Entrusted loans and deposits	<u>31,468,688,653.78</u>	<u>27,391,889,428.31</u>



## 47 Risk management

Financial instruments are fundamental to the Bank's business, constituting one of the core elements of the operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Bank. Financial instruments create, modify or reduce the credit, market (including trading or fair value risks and non-trading or interest and foreign currency related risks) and liquidity risks of the Bank's balance sheet. These risks and the policies and objectives for managing such risks are outlined below. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance.

Risk management function for the Bank is centralised in the Head Office in Shanghai, covering credit risks, market risks, liquidity risks and operational risks and capital management.

### (1) Credit risk

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual obligations. The credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury and international trade activities.

The credit risk objectives are set by the Bank's Board of Directors and are implemented and monitored within a tiered structure of delegated authority, designed to oversee multiple aspects of credit risk, including asset writing strategies, credit policies and controls, single customer exposures, portfolio monitoring and risk concentrations.

Most of the Bank's credit customers are multinational enterprises and their subsidiaries in China, large state-owned enterprises and private enterprises. All credit limits applications should be approved by authorized person of the business department, and then delivered to and approved by the Head Office's Credit Risk Management Department located in Shanghai. For trade related credits, the Bank only accepts bills negotiation under letter of credit and with no discrepancies. As such, the risks are more bank risks.

The Bank's daily credit risk functions are segregated into credit risk management, client relationship management and loan administration.

The Credit Risk Management Department in Head Office is responsible for the credit risk management and credit limits applications approval of the Bank.

Client relationship management is carried out by front desk departments. Their responsibilities include planning and executing business development and marketing activities, maintaining relationship with both existing and new clients; and recommending or approving credit applications under the delegated authority based on client needs and the market environment.

The Loan Administration Department in Head Office located in Shanghai is responsible for loan disbursement provided all approval conditions have been satisfied. The Credit Risk Management Department is independent from the front desk departments, reporting directly to Chief Operation Officer of the Bank.

Every month, the head of Institution Business ("IB") Department and the head of GSG send a consolidated Early Alert Review ("EAR") list to the Credit Risk Management Department for the accounts identified by the relationship managers in the month. Once the EAR list is agreed with the Credit Risk Management Department, the list is to be sent to the regional centralised co-ordinating department of ANZ. The centralised co-ordinating department will send the consolidated Asia Pacific EAR report to General Manager Institutional Credit - APEA. Each month in the Bank's Management Risk Committee meeting, the EAR list and the mitigation measures taken or to be taken are reported to the committee. The outcomes of the meeting would be documented and the action items around the same would be followed up and presented in the meeting.

In addition, a monthly Control and Watch List Return is prepared by IB and GSG and forwarded to the Credit Risk Management Department and to General Manager Institutional Credit - APEA. The report provides the current status of the borrowers with potential downgrade possibilities, the non-performing borrowers, change of guarantees status and comments made by the Bank. The Credit Risk Management Department and credit officers closely monitor and follow up the credits in accordance with the comments and the status of the borrowers noted in the Control and Watch List Return. The Bank's Credit Risk Management Department will discuss and analyse the status of credits which have high risk or require attentions, follow up and determine the appropriate course of action.

#### Risk reporting

Credit portfolios are actively monitored at each layer of the risk structure to ensure credit deterioration is quickly detected and mitigated through the implementation of remediation strategies. All businesses incurring credit risk undertake regular and comprehensive analysis of their credit portfolios. Issue identification and adherence to performance benchmarks are reported to risk and business executives through a series of reporting processes.

#### Collateral management

The credit principles specify to only lend what the counterparty has the capacity and ability to repay and the Bank sets limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations (i.e. interest and principal repayments). Obtaining collateral is only used to mitigate credit risk.

Customer Manager re-evaluates the collateral in accordance with Credit Risk Management Department's requirements, and forward Corporate Customer Credit Department/Credit Issuance Department of the Branch to review and archive the new security agreements, new certificate of collateral, new insurance agreements. Corporate Customer Credit Department assumes responsibility for taking physical control of security documents.

## Concentration management of credit risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The strategy is to maintain well-diversified low risk credit portfolios focused on achieving the best risk-return balance. Credit risk portfolios are actively monitored and frequently reviewed to identify, assess and guard against unacceptable risk concentrations. Concentration analysis will typically include geography, industry, credit product and risk grade. Risk management also applies single customer counterparty limits ("SCCLs") to protect against unacceptably large exposures to single name risk. These limits are established based on a combination of factors including nature of counter party, probability of default and collateral provided.

The risk grade profile changes dynamically through new counterparty lending acquisitions and/or existing counterparty movements in either risk or volume. All counterparty risk grades are subject to frequent review at least annually.

The Bank uses a two-dimensional risk grading system, which measures both the customer's ability to repay (probability of default ("PD")) and the loss in the event of default ("LGD"). The Bank also uses financial and statistical tools to assist in the risk grading of customers. Customer risk grades are actively reviewed and monitored to ensure the risk grade accurately reflects the credit risk of the customer and the prevailing economic conditions. Similarly, the performance of risk grading tools used in the risk grading process is reviewed periodically by the Bank to ensure the tools remain statistically valid.

According to the Bank's credit policy, the risk grading criteria consist of the following two components:

- (1) Customer Credit Rating ("CCR"); and
- (2) Security Indicator ("SI") that measures the nature of security and level of security coverage held against individual credit or group credit facilities.

CCR ranges from 0+ to 10, and each of grades from 1-8 consists of 3 sub-grades, such as 2+, 2= and 2-. 0+ represents the loans of the best organisations. 9 and 10 represent non-performing loans and loans with principal or interest overdue more than 90 days. 8-represents that the borrower has repayment capacity problem, but the collateral is sufficient. 9 represents that the borrower has repayment capacity problem and the collateral is not sufficient, but full recovery of the loan principal is possible. 10 represents that the borrower has repayment capacity problem and the collateral is not sufficient, meanwhile full recovery of the loan principal is impossible.

SI includes A to G, I, K and S, with A representing more than 130% tangible security coverage, B representing 100% to 130% tangible security coverage, and G representing zero tangible security coverage but that may have a parent company guarantee. I, K, and S represent intra-group guarantees, cash collateral and sovereign borrowings respectively.

According to the *Notice of China Banking Regulatory Commission on Printing and Distributing the Measures for the Classification of Loan Risks* (Yin Jian Fa [2007] No. 54) (the "Notice"), the Bank maps its internal credit grading to the five-tier credit grading monthly.

(a) Maximum exposure to credit risk

Without considering the collaterals or other credit enhancements corresponding assets, the maximum exposure to credit risk is represented by the carrying amount of financial assets minus provisions. Except for the financial guarantee contracts and credit commitments given by the Bank as set out in Note 45(1), the Bank does not provide any other contracts and commitments which would expose the Bank to credit risk.

(b) Financial instruments analysed by credit quality

As of 31 December 2020, the risk levels for the Bank's financial instruments are set as below:

	31 December 2020					
	Book value		Total	ECL allowance		Total
Level 1	Level 2	Level 3		Level 1	Level 2	
<b>Financial assets at amortised cost</b>						
Cash on hand and deposit with central bank	3,260,665,112.29	-	-	-	-	-
Deposits from banks and other financial institutions	2,480,788,200.89	-	-	994,505.54	-	994,505.54
Placements with banks and other financial institutions	4,985,579,006.89	-	-	9,974,502.01	-	9,974,502.01
Loans and advances to customers	7,220,522,668.51	198,329,393.08	-	39,482,059.81	739,515.89	40,221,575.70
Other assets	1,247,074,006.28	-	-	2,646,771.34	-	2,646,771.34
<b>Total</b>	<b>19,194,628,994.86</b>	<b>198,329,393.08</b>	<b>-</b>	<b>53,097,838.70</b>	<b>739,515.89</b>	<b>53,837,354.59</b>
<b>Financial assets measured at FVOCI</b>						
Other debt investment	5,415,219,780.47	-	-	2,017,160.64	-	2,017,160.64
<b>Financial guarantee and credit commitment</b>	<b>4,106,254,120.36</b>	<b>481,075,907.35</b>	<b>-</b>	<b>12,777,342.66</b>	<b>1,019,011.42</b>	<b>13,796,354.08</b>

31 December 2019

	Original book value			Allowance for ECL				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Financial assets measured at amortised cost</b>								
Cash and deposits with central bank	3,268,716,154.38	-	-	3,268,716,154.38	-	-	-	-
Deposit with banks and other financial institutions	1,579,301,440.97	-	-	1,579,301,440.97	1,637,896.23	-	-	1,637,896.23
Placements with banks and other financial institutions	9,454,365,990.01	149,888,070.17	-	9,604,254,060.18	20,697,200.75	889,132.37	-	21,586,333.12
Loans and advances to customers	9,637,763,305.62	104,514,304.50	5,819,616.11	9,748,097,226.23	45,310,798.66	263,086.34	116,392.31	45,680,279.31
Other assets	590,694,649.25	-	-	590,694,649.25	2,049,731.13	-	-	2,049,731.13
<b>Total financial assets measured at amortised cost</b>	<b>24,530,841,540.23</b>	<b>254,402,374.67</b>	<b>5,819,616.11</b>	<b>24,791,063,531.01</b>	<b>69,695,626.77</b>	<b>1,142,220.71</b>	<b>116,392.31</b>	<b>70,954,239.79</b>
<b>Financial assets measured at FVOCI</b>								
Other debt investments	4,936,937,616.74	-	-	4,936,937,616.74	1,929,356.12	-	-	1,929,356.12
<b>Financial guarantee contracts and credit commitment</b>	<b>8,055,040,475.76</b>	<b>609,950,663.91</b>	<b>-</b>	<b>8,664,991,139.67</b>	<b>30,400,195.68</b>	<b>1,600,297.83</b>	<b>-</b>	<b>32,000,497.51</b>

(c) Receivables from inter-banks analysed by credit rating

Receivables from inter-banks include deposits with banks and other financial institutions, and placements with banks and other financial institutions. Credit quality of receivables from inter-banks (excluding interest accrued) mainly based on external ratings agency – Standard & Poor's analysed as follows:

	2020	2019
A to AAA	6,117,216,194.06	5,669,554,604.88
B to BBB	26,191,401.53	5,449,041.33
Non-graded	<u>1,311,556,156.06</u>	<u>5,476,947,162.00</u>
Total	<u>7,454,963,751.65</u>	<u>11,151,950,808.21</u>

The above amounts (excluding interest accrued) are presented without deducting the allowance for impairment losses.

(d) Debt instruments analysed by credit rating

As at the balance sheet date, according to the external rating agency – Standard & Poor's, the credit quality of debt instruments has been assessed as follows:

	2020	2019
A to AAA	<u>7,413,719,487.58</u>	<u>7,087,217,095.50</u>
Total book value	<u>7,413,719,487.58</u>	<u>7,087,217,095.50</u>

The Bank holds financial assets for trading and other debt investment as debt instruments investment (See Notes 11 and 12).

(2) Market risk

Market risk is the risk of decline in earnings due to adverse changes in interest rates, foreign exchange rates, equity prices, and commodity prices. Market risk arises when changes and volatilities in market rates and prices lead to a decline in the value of assets and liabilities, including financial derivatives. The main source of the Bank's market risk is the transactions driven by customers and self-operated business. The objective of the Bank's market risk policy and procedure is to control the potential loss within an acceptable range via independent identification, assessment and monitoring of the Bank's inherent market risk, thus the stability of earnings can be maintained.

The Bank has a detailed risk management and control framework to support the business development. The Board of Directors of the Bank has the ultimate responsibility for risk management. The Risk Management Committee/Asset and Liability Committee ("ALCO"), which is under the Board, is responsible for the governance of overall risk management and control, including supervision of risk management strategies, policies and procedures. These strategies, policies and processes have a significant impact on the Bank's performance, reputation and capital protection. The Bank's market risk management department should monitor market risk on a daily basis and report to the Chief Risk Officer. The report should be submitted to the management of the Risk Management Sub-Committee/ALCO for review at least on a monthly basis. ALCO and the Risk Management Sub-Committee are responsible for the monthly market risk management oversight.

To facilitate the management, measurement and reporting of market risk, the Bank has grouped market risk into two broad categories.

(a) Trading market risk

Trading activities are the activities mainly driven by trading (such as to meet the needs of customers) or by hedging transactions, usually for short-term but not long-term holding. The principal asset classes include foreign exchange, interest rate, and commodity markets. The trading market risk is the risk of loss from changes in the value of financial instruments due to movements in interest rates, foreign exchange rates and commodity prices.

(b) Non-trading market risk (bank account risk)

All activities which are not included in the trading activities are non-trading activities. Non-traded interest rate risk is the risk that market interest rates are likely to move against the direction of the future net interest margin changes. Non-traded market risk management methods, including value-at-risk ("VaR"), the earnings at risk and sensitivity measurement.

Market risk measurement methods are mainly VaR. VaR is the value of financial assets within a specific period of time in the future the maximum possible loss at a certain confidence level. VaR is measured within the 99% confidence interval. The Bank's VaR model is based on the historical simulation method, with market interest and the price rates by 500 historical trading days. The trading market risk and non-trading market risk are calculated with a one-day holding period.



Meanwhile, the Bank estimates the maximum loss of extreme market events through stress testing to complement the VaR model.

VaR analysis of trading and non-trading market risk of the Bank as at the balance sheet date is as follows: (expressed in RMB'000)

	<i>2020</i>			
	<i>31 December</i>	<i>Average value</i>	<i>Maximum value</i>	<i>Minimum value</i>
Trading market risk	15,090	7,936	15,611	3,518
Level of confidence: 99%				
Foreign currency risk and interest rate risk	13,555	6,526	14,532	2,773
Precious metals trading	3,919	4,082	14,819	1,431
Foreign exchange options trading	397	412	1,462	97
Non-trading market risk Level of confidence: 99%				
Value of risk in banking book	7,199	6,575	9,058	4,919
Income from risk in banking book	13,957	12,345	22,255	3,093
	<i>2019</i>			
	<i>31 December</i>	<i>Average value</i>	<i>Maximum value</i>	<i>Minimum value</i>
Trading market risk	7,458	9,552	19,066	4,734
Level of confidence: 99%				
Foreign currency risk and interest rate risk	4,581	7,961	16,219	3,565
Precious metals trading	5,557	4,645	9,491	1,722
Foreign exchange options trading	1,120	592	2,242	121
Non-trading market risk Level of confidence: 99%				
Value of risk in banking book	6,568	5,813	8,351	5,050
Income from risk in banking book	9,554	5,863	14,047	2,476

### (3) Liquidity risk

Liquidity risk is the risk that the Bank has insufficient capacity to fund increases in assets, or are unable to meet their payment obligations as they fall due, including repaying depositors or maturing wholesale debt. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations, and may be affected by both internal and external events, including: credit or operational risks, bank-specific rumours, market disruptions and systemic shocks.

The liquidity risk and funding gap are overseen by the Parent Bank's Financial Market Department, the Bank's Risk Management Department, and ALCO. The following principles outline the Bank's approach to liquidity risk management, including:

- Ensuring that the liquidity management framework is compatible with local regulatory requirements;
- Calculation of liquidity ratio and market liquidity scenario analysis is performed to quantify the liquidity risk;
- Targeting a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency;
- Holding a portfolio of high-quality liquid assets to protect against adverse funding conditions and to support day-to-day operations; and
- Establishing detailed contingency plans to cover different liquidity crisis events.

All assumptions for scenarios modelling are made based a combination of external data and professional judgement, according to ANZ Banking Group standards and actual market liquidity conditions in China, and adjusted according to the actual parameters of the Chinese market. The Bank perform "Bank LCR" test on a daily basis to ensure that the Bank held enough liquid assets to meet cash flow needs in the next 30 days in severe market liquidity stress situations. The reports are generated by the Head Office's Market Risk Reporting Department and results are reported to relevant senior management. Any breaches are escalated to the appropriate senior management, the Chief Risk Officer and the Risk Management Committee for review and resolution.

The Bank maintains the liquidity crisis contingency plans defining an approach for analysing and responding to a liquidity threatening event. The framework includes:

- Establishment of crisis severity/stress levels;
- Clearly assigned crisis roles and responsibilities;
- Early warning signals indicative of an approaching crisis, and mechanisms to monitor and report these signals;
- Outlined action plans, and courses of action for altering asset and liability behaviour;
- Procedures for crisis management reporting, and making up cash flow shortfalls;
- Guidelines determining the priority of customer relationships in the event of liquidity problems; and
- Assigned responsibilities for internal and external communications.

The following tables analyse the estimated undiscounted cash flows for the Bank's financial assets and liabilities by the remaining contractual maturity at the balance sheet date:

	Note	2020					Total undiscounted cash flows	Carrying amount
		Overdue/ no contractual maturity	On demand	Due within 3 months	Due between 3 months to 1 year	Due between 1 year to 5 years		
<b>Assets</b>								
Cash and deposits with central bank		2,233,716,617.49	1,026,948,494.80	-	-	-	3,260,665,112.29	3,260,665,112.29
Deposits with banks and other financial institutions	(a)	-	2,480,788,200.89	-	-	-	2,480,788,200.89	2,480,788,200.89
Placements with banks and other financial institutions	(a)	-	4,229,802,189.40	379,492,465.28	424,404,500.00	-	5,033,699,154.68	4,985,579,006.89
Derivative financial assets	(b)	-	8,793,659,508.82	-	-	-	8,793,659,508.82	8,793,659,508.82
Loans and advances to customers	(c)	-	645,892,782.40	723,929,647.46	1,321,997,600.80	14,471,655.14	7,650,345,152.54	7,418,852,061.59
Financial investment		-	1,998,499,707.11	-	-	-	1,998,499,707.11	1,998,499,707.11
- Financial asset held for trading	(b)	-	1,126,774,589.17	1,161,565,387.23	3,391,720,740.56	24,291,346.66	5,704,352,073.62	5,415,219,780.47
- Other debt investment	(a)	-	65,850,546.11	20,150,960.21	-	-	2,389,720,148.81	2,389,720,148.81
Other assets		1,178,443,460.12	11,425,905,427.68	2,285,138,470.18	5,138,122,841.36	38,763,001.80	37,311,729,058.76	36,742,983,526.87
<b>Total</b>		<b>3,412,160,077.61</b>	<b>15,011,639,240.13</b>	<b>11,425,905,427.68</b>	<b>2,285,138,470.18</b>	<b>5,138,122,841.36</b>	<b>37,311,729,058.76</b>	<b>36,742,983,526.87</b>
<b>Liabilities</b>								
Deposits from banks and other financial institutions		-	(1,011,173,598.18)	(41,409,567.19)	-	-	(1,052,583,265.37)	(1,052,577,563.06)
Placements from banks and other financial institutions		-	-	(632,259,352.53)	(2,305,114,778.00)	-	(2,937,373,130.53)	(2,933,171,696.48)
Financial liabilities held for trading	(b)	-	-	(1,966,190,660.47)	-	-	(1,966,190,660.47)	(1,966,190,660.47)
Derivative financial liabilities		-	-	-	-	-	(8,951,257,160.98)	(8,951,257,160.98)
Financial assets sold under repurchase agreements		-	-	(2,941,298,472.86)	-	-	(2,941,298,472.86)	(2,939,965,337.99)
Deposits from customers		-	(9,095,679,737.25)	(2,301,411,362.47)	(338,568,170.63)	-	(11,724,941,169.37)	(11,724,941,169.37)
Employee benefits payable		-	-	(1,302,789.23)	(18,851,650.72)	-	(20,154,439.95)	(20,154,439.95)
Debt securities issued		-	-	(149,160,176.71)	-	-	(149,160,176.71)	(149,160,176.71)
Lease liability		-	-	(8,079,714.79)	(20,319,812.51)	(66,338,529.30)	(95,738,056.60)	(89,801,090.55)
Other liabilities		(132,638,697.92)	(101,144,922.00)	(16,954,435.48)	-	-	(250,738,055.40)	(250,738,055.40)
<b>Total</b>		<b>(132,638,697.92)</b>	<b>(19,159,255,418.41)</b>	<b>(8,059,065,631.73)</b>	<b>(2,682,854,411.86)</b>	<b>(66,338,529.30)</b>	<b>(30,100,152,689.22)</b>	<b>(30,077,957,340.96)</b>
<b>Net position</b>		<b>3,279,521,379.69</b>	<b>(4,147,616,178.28)</b>	<b>3,366,839,795.95</b>	<b>(97,715,941.68)</b>	<b>5,071,784,312.06</b>	<b>7,211,576,369.54</b>	<b>6,665,026,185.91</b>

2019

Assets	Note	Overdue/ no contractual maturity	On demand	Due within 3 months	Due between 3 months to 1 year	Due between 1 year to 5 years	Due after 5 years	Total undiscounted cash flows	Carrying amount
Cash and deposits with central bank		1,964,702,123.09	1,304,014,031.29	-	-	-	-	3,268,716,154.38	3,268,716,154.38
Deposits with banks and other financial institutions	(a)	-	1,368,985,863.97	210,529,513.80	-	-	-	1,579,515,377.77	1,579,301,440.97
Placements with banks and other financial institutions	(a)	-	-	6,896,583,592.21	2,371,479,589.44	433,154,541.67	-	9,701,217,723.32	9,604,254,060.18
Derivative financial assets	(b)	-	4,228,136,075.11	-	-	-	-	4,228,136,075.11	4,228,136,075.11
Loans and advances to customers	(c)	-	292,577,816.33	7,770,189,009.49	1,000,882,361.69	877,163,947.63	20,704,919.39	9,951,518,064.53	9,748,087,226.23
Financial investment		-	-	-	-	-	-	-	-
- Financial asset held for trading	(b)	-	2,199,171,777.55	83,394,781.15	1,731,236,948.98	-	-	2,199,171,777.55	2,150,279,478.76
- Other debt investment	(a)	-	-	1,521,885,278.92	473,260,150.70	3,380,825,212.64	-	5,195,456,942.77	4,938,937,616.74
Other assets	(a)	457,611,364.29	152,726.19	-	-	-	-	2,452,909,520.10	2,452,972,704.22
<b>Total</b>		<b>2,422,313,487.38</b>	<b>9,393,038,290.44</b>	<b>16,482,582,175.57</b>	<b>5,576,859,050.81</b>	<b>4,691,143,701.94</b>	<b>20,704,919.39</b>	<b>38,586,641,625.53</b>	<b>37,988,694,756.59</b>
<b>Liabilities</b>									
Deposits from banks and other financial institutions		-	(366,382,043.17)	(664,214,355.56)	-	-	-	(1,230,596,398.73)	(1,230,063,108.46)
Placements from banks and other financial institutions		-	-	(551,137,653.40)	(1,630,231,777.25)	-	-	(2,181,369,430.65)	(2,175,093,079.78)
Financial liabilities held for trading		-	-	(1,371,991,571.19)	-	-	-	(1,371,991,571.19)	(1,371,991,571.19)
Derivative financial liabilities	(b)	-	(4,198,981,861.21)	-	-	-	-	(4,198,981,861.21)	(4,198,981,861.21)
Financial assets sold under repurchase agreements		-	-	(3,693,818,926.14)	-	-	-	(3,693,818,926.14)	(3,691,877,310.81)
Deposits from customers		-	(10,731,330,134.51)	(3,881,004,167.11)	(2,004,853,190.08)	(714,334.00)	-	(16,617,901,825.70)	(16,572,752,058.29)
Employee benefits payable		-	-	(2,235,386.03)	(24,791,428.93)	-	-	(27,026,824.96)	(27,026,824.96)
Debt securities issued		-	(487,564,416.83)	(879,078,403.82)	-	-	-	(1,376,642,820.65)	(1,376,642,820.65)
Other liabilities		-	(16,743,784.86)	(213,853,547.83)	(82,332,156.92)	-	-	(312,929,489.61)	(312,929,489.61)
<b>Total</b>		<b>-</b>	<b>(15,811,002,240.58)</b>	<b>(11,457,334,021.08)</b>	<b>(3,742,208,553.18)</b>	<b>(714,334.00)</b>	<b>-</b>	<b>(31,011,259,148.84)</b>	<b>(30,957,358,124.96)</b>
<b>Net position</b>		<b>2,422,313,487.38</b>	<b>(6,417,963,950.14)</b>	<b>5,025,248,154.49</b>	<b>1,834,650,497.63</b>	<b>4,690,429,367.94</b>	<b>20,704,919.39</b>	<b>7,575,382,476.69</b>	<b>7,011,336,631.63</b>

- (a) Deposits with banks and other financial institutions, placements with banks and other financial institutions and other assets are presented without deducting the allowance for impairment losses.
- (b) The Bank recognised financial assets held for trading and derivative financial assets/liabilities measured at fair value as "payable on demand" to reflect the short-term nature of these trading activities.
- (c) The overdue loans in the category of "overdue" of loans and advances to the customers are those of which all or part of principal or interest is overdue for more than a day. Loans and advances to customers are presented without deducting the allowance for impairment losses.
- (4) Operational risk

Operational risk is the risk arising from improper or failed internal processes, people, systems or external events. This definition includes legal risk, the risk of loss, or damage to reputation due to improper or failed internal processes, people, systems, but does not include strategic risks or reputational risks.

The Bank classifies operation risk based on the following seven categories of loss in accordance with local regulatory requirements and internal procedures:

- Internal fraud events
- External fraud events
- Employment policies and workplace safety events
- Customer, product and business events
- Damage to physical assets events
- Business interruption events
- Execution, delivery and process management events

Management Operational Risk Committee assists the Board to supervise, establish, implement and review the management system and policy of the operational risk. This is supported by an independent operational risk function which provides oversight, direction, the operational framework, policies and processes.

Front office and back office are the first line of defence, with the main responsibilities of operational risk control, and continuously identify, implement and monitor related daily tasks ("I.AM Framework") of the operational risk policies. As the second line of defence, the risk control department of the Bank is responsible for developing and updating the operational risk policy of the Bank, and provides oversight and guidance for the operational risk management. Internal audit (specialised in operational risk) is the third line of defence, its responsibility is to independently assess and assure the effectiveness and adequacy of the operational risk management.

The I.AM Framework is composed by several operational risk policies and procedures. The effectiveness of risk control is tested by risk control department and assessed independently by internal control.

The Bank uses the "Basic Management Approach" to measure the level of operational risk and to determine and allocate operational risk capital.

Business continuity is viewed as a critical management responsibility within the overall Operational Risk Framework, which seeks to minimise the likelihood of a disruption to normal operations, constrain the impact were an event to occur and achieve efficient and effective recovery.

Crisis management planning supplements business continuity plans in the event of a broader country crisis. Crisis management plans include risk team organisational charts, roles, responsibilities and contact information, and are tested regularly.

#### (5) Capital Management

The Bank's capital management includes capital adequacy ratio management and leverage ratio management. The capital adequacy reflects the Bank's abilities of prudently operating and withstanding risks. The Bank's objective of capital adequacy management is to meet legal and regulatory requirements and to prudently determine the capital adequacy target according to the actual risks faced, with referencing the parent bank and the international advanced level peers' adequacy and own operating conditions. The objective of the Bank's capital management is to:

- Protect business continuity and the interests of the Bank's creditors and shareholder;
- Maintain adequate capital to avoid breaching the former CBRC's Capital Rules, including in a stressed environment;
- Align capital levels to the Board's risk appetite; and
- Establish a capital structure that provides an efficient and effective use of funds within the Bank while at all times meeting the former CBRC's regulatory requirements

The Bank manages its capital structure and restructuring in accordance with the economic environment and the risk characteristics of business activities. In order to maintain or adjust the capital structure, the Bank may adjust the profit distribution policy, issue Tier 1 capital instruments, qualified Tier 2 capital instruments, etc.

The Board and ALCO take full responsibility for the management of capital to ensure the bank's capital adequacy consistent with the provisions of the former CBRC, and they are also responsible for determining the objectives of the management of capital adequacy, to review the risk tolerance, to make and monitor the implementation of capital planning, and to disclose the information of the Bank's capital adequacy.

Management of the Bank monitors the capital adequacy and the use of the regulatory capital in accordance with the method prescribed by the former CBRC. The Bank submits the required information to the China Banking and Insurance Regulatory Commission ("CBIRC") in half-yearly and quarterly.

The capital adequacy ratio and leverage ratio of the Bank has been calculated in accordance with *Administrative Measures on Capitals of Commercial Bank (For Trial Implementation)* and *Administrative Measures on Leverage Ratio of Commercial Bank (For Trial Implementation)* issued by the former CBRC and other related laws and regulations.

The former CBRC requires commercial banks to comply with the regulatory requirements on the capital adequacy ratio, for the Bank, common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should reach or exceed 7.50%, 8.50% and 10.50% respectively before 31 December 2020. Leverage ratio held by a commercial bank which complies with the relevant provisions to the adjusted balance of balance sheet assets and off-balance-sheet assets shall not be less than 4%.

The on-balance-sheet risk weighted asset is calculated using different risk weights, which are determined by the risk of specific assets and trading counterparties, as well as market risks and other relevant risks, taking into consideration the impact of eligible collaterals and guarantees. The off-balance-sheet exposures are calculated in similar ways, and adjusted according to the nature of the contingent losses. The counterparty credit risk ("CCR") risk-weighted assets for OTC derivatives transactions include the risk-weighted assets for counterparty default risks and the risk-weighted assets for the credit value adjustment ("CVA"). The risk-weighted assets for market risks are calculated using a standardised approach, while the risk-weighted assets for operational risks are calculated as per the basic indicator approach.

The Bank is in compliance with the regulatory capital requirements during the year.

As at 31 December 2020, common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated as per *the Administrative Measures on Capitals of Commercial Banks (For Trial Implementation)* issued by the former CBRC and other relevant regulations are as follows:

	2020 RMB 0'000	2019 RMB 0'000
Common equity tier 1 capital		
Paid-in capital	622,500	622,500
Other comprehensive income	700	4,392
Surplus reserve	23,286	22,648
General reserve	20,003	20,003
Retained earnings	69,838	90,804
	<u>736,327</u>	<u>760,347</u>
Common equity tier 1 capital deductions		
Intangible assets net of the relevant deferred tax liability	(331)	(792)
	<u>735,996</u>	<u>759,555</u>
Net common equity tier 1 capital	735,996	759,555
Net tier 1 capital	735,996	759,555
Tier 2 capital		
Surplus allowance for impairment losses	18,407	24,086
	<u>754,403</u>	<u>783,641</u>
Net total capital	754,403	783,641
Credit risk-weighted assets	2,422,023	3,354,350
Market risk-weighted assets	533,850	711,088
Operational risk-weighted assets	176,620	199,497
	<u>3,132,493</u>	<u>4,264,935</u>
Total risk assets	3,132,493	4,264,935
Common equity tier 1 capital adequacy ratio	<u>23.50%</u>	<u>17.81%</u>
Tier 1 capital adequacy ratio	<u>23.50%</u>	<u>17.81%</u>
Capital adequacy ratio	<u>24.08%</u>	<u>18.37%</u>



48 Fair value

(1) Fair value measurement

(a) Fair value hierarchy

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Bank's assets and liabilities which are measured at fair value at each balance sheet date on a recurring or non-recurring basis. In the reporting period, the Bank does not hold assets and liabilities which are measured at fair value on non-recurring basis.

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement. The levels of inputs are defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;

Level 3: inputs for the asset or liability that are not based on observable market data.

The following table presents the three levels of fair value for financial instruments:

	2020			Total
	Level 1	Level 2	Level 3	
Assets				
Derivative financial assets	-	8,793,659,508.82	-	8,793,659,508.82
Financial assets - financial assets held for trading	-	1,998,499,707.11	-	1,998,499,707.11
Financial assets - other debt investments	-	5,415,219,780.47	-	5,415,219,780.47
Other assets				
Gold leased-out receivable designated at FVTPL	-	1,142,646,142.53	-	1,142,646,142.53
Total	-	17,350,025,138.93	-	17,350,025,138.93

	2020			
	Level 1	Level 2	Level 3	Total
<b>Liabilities</b>				
Financial liabilities held for trading	-	(1,966,190,660.47)	-	(1,966,190,660.47)
Derivative financial assets	-	(8,951,257,160.98)	-	(8,951,257,160.98)
<b>Total</b>	-	(10,917,447,821.45)	-	(10,917,447,821.45)

	2019			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Derivative financial assets	-	4,228,136,075.11	-	4,228,136,075.11
Financial assets - financial assets held for trading	-	2,150,279,478.76	-	2,150,279,478.76
Financial assets - other debt investments	-	4,936,937,616.74	-	4,936,937,616.74
Other assets				
Gold leased-out receivable designated at FVTPL	-	1,862,278,054.97	-	1,862,278,054.97
<b>Total</b>	-	13,177,631,225.58	-	13,177,631,225.58

	2019			
	Level 1	Level 2	Level 3	Total
<b>Liabilities</b>				
Financial liabilities held for trading	-	(1,371,991,571.19)	-	(1,371,991,571.19)
Derivative financial assets	-	(4,198,981,861.21)	-	(4,198,981,861.21)
Other liabilities				
Gold leased-in payable designated at FVTPL	-	(171,608,139.65)	-	(171,608,139.65)
<b>Total</b>	-	(5,742,581,572.05)	-	(5,742,581,572.05)

During 2020, there were no transfers between Level 1 and Level 2, of the Bank's above assets and liabilities which are measured at fair value on a recurring basis. The Bank recognises transfers between different levels at the end of the current reporting period during which such transfers are made (2019: nil).

For financial assets and liabilities that are traded in an active market, the Bank determines the fair value based on quoted market prices or counterparty's price. For all other financial instruments, the Bank determines the fair value by valuation mode.

Valuation models include the net present value model, discounted cash flow model, referring to the market price quotations of similar tools, options valuation models, etc. Assumptions and input parameters used in the valuation model include risk-free rate, the benchmark interest rate, credit spread, the estimated discount rate, bond and stock prices, exchange rates, price index, expected volatility, correlations, etc. The purpose of using a valuation model is to get the fair price that can be received to sell an asset or need to pay to transfer a liability in an orderly transaction occurred in the measurement date.

The Bank uses valuation models widely used in the industry to determine the fair value of the general and relatively simple financial instruments, such as referencing only observable market prices or interest rate and currency swaps requiring less management judgments and estimations. Its valuation model parameters required can be generally obtained from debt or equity market, derivatives market, or simple OTC derivatives market such as interest rate swaps.

(b) Level 2 fair value

The valuation tools of Level 2 fair value include the following ways: reference quoted market price of similar instruments in active markets; reference quoted market price of similar instruments in inactive markets made; or using a valuation model, which input parameters are directly or indirectly observable market data.

During 2020, the Bank did not change the valuation techniques used in Level 2 fair value measurement.

(c) Level 3 fair value

During 2020, there are no instruments measured at Level 3 of the fair value hierarchy (2019: nil).

(2) Fair value of other financial instruments (items not measured by fair value at year end)

The other financial instruments of the Bank include deposits with central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, loans and advances to customers, deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued. There is no significant difference between the book value and the fair value of the financial assets and financial liabilities.