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# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Zhongyuan Bank Co., Ltd.\*, you should at once hand this circular, together with the form(s) of proxy to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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This circular is for information purposes only and does not constitute an offer to issue or sell, or the solicitation of an offer to acquire, purchase or subscribe for the securities referred to in this circular.

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## 中原銀行股份有限公司\* ZHONGYUAN BANK CO., LTD.\*

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

**(Stock Code of H Shares: 1216)**

**(Stock Code of Preference Shares: 4617)**

**(ISIN: XS1898280711 / Common Code: 1898280711)**

- (1) PROPOSED H SHARE PLACEMENT UNDER SPECIFIC MANDATE;**
- (2) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE MERGER BY ABSORPTION OF EACH OF THE TARGET BANKS AND THE PROPOSED ISSUE OF THE CONSIDERATION SHARES;**
- (3) MAJOR TRANSACTION IN RELATION TO MANDATE FOR DISPOSAL OF ASSETS OF THE BANK;**
- (4) NOTICE OF EXTRAORDINARY GENERAL MEETING;**
- (5) NOTICE OF H SHARE CLASS MEETING;**
- (6) NOTICE OF DOMESTIC SHARE CLASS MEETING; AND**
- (7) NOTICE OF PREFERENCE SHARE CLASS MEETING**

**Independent Financial Adviser to the Independent Board Committee,  
the Independent Shareholders and the Preference Shareholders**



Capitalized terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular. A "Letter from the Board" is set out on pages 8 to 49 of this circular. A "Letter from the Independent Board Committee" containing its recommendation to the Independent Shareholders and the Preference Shareholders is set out on pages 50 to 51 of this circular. A "Letter from the Independent Financial Adviser" containing its advice to the Independent Board Committee, the Independent Shareholders and the Preference Shareholders is set out on pages 52 to 76 of this circular.

The EGM will be convened at 2:30 p.m. on 10 March 2022 (Thursday), the H Share Class Meeting will be convened at 3:00 p.m. (or immediately after the conclusion or adjournment of the EGM) on 10 March 2022 (Thursday), the Domestic Share Class Meeting will be convened at 3:30 p.m. (or immediately after the conclusion or adjournment of the H Share Class Meeting) on 10 March 2022 (Thursday) and the Preference Share Class Meeting will be convened at 4:00 p.m. (or immediately after the conclusion or adjournment of the Domestic Share Class Meeting) on 10 March 2022 (Thursday) at Sheraton Grand Zhengzhou Hotel, No. 33, Jinshui East Road, Zhengdong New District, Zhengzhou, Henan Province, the PRC. The notice of the EGM is set out on pages VII-1 to VII-4 of this circular, the notice of the H Share Class Meeting is set out on pages VIII-1 to VIII-4 of this circular, the notice of the Domestic Share Class Meeting is set out on pages IX-1 to IX-4 of this circular and the notice of the Preference Share Class Meeting is set out on pages X-1 to X-7 of this circular. Forms of proxy for each of the EGM, the H Share Class Meeting and the Domestic Share Class Meeting were despatched on 18 February 2022.

### **H Shareholders and Domestic Shareholders**

Whether or not you intend to attend and/or vote at the EGM, the H Share Class Meeting and/or the Domestic Share Class Meeting in person, you are requested to complete the relevant form(s) of proxy in accordance with the instructions printed thereon and return the form(s) of proxy to the H Share Registrar (for the H Shareholders) or to the office of the Board (for the Domestic Shareholders) as soon as possible and in any event not less than 24 hours before the scheduled time for the holding of the EGM, the H Share Class Meeting and/or the Domestic Share Class Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM, the H Share Class Meeting and/or the Domestic Share Class Meeting or any adjournment thereof should you so wish.

### **Preference Shareholders**

Details of attendance and voting procedures of the Preference Shareholders are set out in the notice of the Preference Share Class Meeting.

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

18 February 2022

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the meanings set out below:*

“Amendments to the Articles of Association in connection with the H Share Placement”	the proposed amendments to the Articles of Association to reflect the change of issued share capital of the Bank after the issuance of the Placing Shares pursuant to the H Share Placement
“Amendments to the Articles of Association in connection with the Merger by Absorption”	the proposed amendments to the Articles of Association to reflect the change of issued share capital of the Bank after the issuance of the Consideration Shares pursuant to the Merger and Absorption Agreement
“Articles of Association”	the articles of association of the Bank, as amended, supplemented or otherwise modified from time to time
“associate(s)”	has the meanings as ascribed thereto under the Listing Rules
“Bank”	Zhongyuan Bank Co., Ltd.* (中原銀行股份有限公司*), a joint stock company incorporated on December 23, 2014 in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange, and, if the context requires, includes its predecessors, branches, sub-branches and subsidiaries
“Bank of Luoyang”	Bank of Luoyang Co., Ltd.# (洛陽銀行股份有限公司), an enterprise mainly engaged in banking business
“Bank of Pingdingshan”	Bank of Pingdingshan Co., Ltd.# (平頂山銀行股份有限公司), an enterprise mainly engaged in banking business
“Bank of JZCTS”	Bank of Jiaozuo China Travel Service Co., Ltd.# (焦作中旅銀行股份有限公司), an enterprise mainly engaged in banking business
“Benchmark Date”	30 September 2021, the benchmark date for the purpose of the Merger and Absorption Agreement
“Board”	the board of Directors of the Bank
“CBIRC”	China Banking and Insurance Regulatory Commission and its local offices

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## DEFINITIONS

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“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this circular, Hong Kong, Macau Special Administrative Region and Taiwan
“Class Meetings”	the Domestic Share Class Meeting, the H Share Class Meeting and the Preference Share Class Meeting
“Consideration Shares”	a total of 13,324,823,322 Domestic Shares to be allotted and issued by the Bank to the Selling Shareholders to settle all the consideration for the Merger by Absorption pursuant to the Merger and Absorption Agreement
“CSDCC”	China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限公司), an enterprise incorporated in the PRC in 2001, with Shanghai Stock Exchange and Shenzhen Stock Exchange holding 50% and 50% of its equity interest, respectively
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Bank
“Disposal”	the proposed disposal of the Disposal Assets to potential purchaser(s) by the Bank and the transactions contemplated under the Disposal Mandate
“Disposal Assets”	certain credit assets and other financial assets held by the Bank, which shall be disposed of under the Disposal Mandate
“Disposal Mandate”	the general and conditional mandate to be granted by the Shareholders to the Bank at the EGM to dispose of the Disposal Assets during the Mandate Period

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## DEFINITIONS

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“Domestic Share Class Meeting”	the Domestic Share class extraordinary meeting to be convened to consider, and if thought fit, to approve, among other things, (a) the proposed H Share Placement (including the grant of the Specific Mandate for the allotment and issue of the Placing Shares and the proposed Amendments to the Articles of Association in connection with the H Share Placement) by the Domestic Shareholders, and (b) the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder by the Independent Domestic Shareholders
“Domestic Share(s)”	the ordinary share(s) issued by the Bank in the PRC with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in RMB
“Domestic Shareholder(s)”	the holder(s) of Domestic Share(s)
“EGM” or “Extraordinary General Meeting”	the extraordinary general meeting to be convened to consider, and if thought fit, to approve, among other things, (a) the proposed H Share Placement (including the grant of the Specific Mandate for the allotment and issue of the Placing Shares and the proposed Amendments to the Articles of Association in connection with the H Share Placement), and the Disposal under the Disposal Mandate and the transactions contemplated thereunder by the Shareholders, and (b) the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder by the Independent Shareholders
“Enlarged Group”	the Bank and its subsidiaries after completion of the Merger by Absorption
“Group”	the Bank and its subsidiaries
“H Share(s)”	the overseas-listed ordinary share(s) in the share capital of the Bank, which are listed on the Main Board of the Stock Exchange (stock code: 1216) and traded in Hong Kong dollars, and has a nominal value of RMB1.00 each

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## DEFINITIONS

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“H Share Class Meeting”	the H Share class extraordinary meeting to be convened to consider, and if thought fit, to approve, among other things, the proposed H Share Placement (including the grant of the Specific Mandate for the allotment and issue of the Placing Shares and the proposed Amendments to the Articles of Association in connection with the H Share Placement), and the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder by the H Shareholders
“H Share Placement”	proposed non-public issuance by the Bank of not less than 3,105,000,000 and not more than 3,205,000,000 H Shares to eligible subscribers as the Placees through the Specific Mandate
“H Shareholder(s)”	the holder(s) of the H Share(s)
“Henan Investment Group”	Henan Investment Group Co., Ltd. <sup>#</sup> (河南投資集團有限公司), a company incorporated in the PRC
“Henan Tianli”	Henan Tianli Energy Co., Ltd. <sup>#</sup> (河南天利能源股份有限公司), a company incorporated in the PRC
“HK\$” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee, comprising all of the independent non-executive Directors, namely Ms. Pang Hong, Mr. Li Hongchang, Mr. Jia Tingyu and Mr. Chan Ngai Sang Kenny, established for the purpose of advising the Independent Shareholders and the Preference Shareholders in respect of the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder
“Independent Domestic Shareholders”	the Domestic Shareholders other than Henan Investment Group, Mr. Li and their respective associates

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## DEFINITIONS

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“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited, a licensed corporation permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Bank to advise the Independent Board Committee, the Independent Shareholders and the Preference Shareholders in respect of the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder
“Independent Shareholders”	the Shareholders other than Henan Investment Group, Mr. Li and their respective associates
“independent third party(ies)”	a person who, as far as the Directors are aware after having made all reasonable enquiries, is not connected with the Bank (within the meaning of the Listing Rules)
“Independent Valuer”	Pan-CHINA Appraisal Co., Ltd. <sup>#</sup> (北京天健興業資產評估有限公司), an independent valuer of the net assets of the Bank and the Target Banks in connection with the Merger by Absorption
“Last Trading Day”	the last trading day of the H Shares immediately before the date of the announcement of the Bank dated 26 January 2022, being 25 January 2022
“Latest Practicable Date”	16 February 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mandate Period”	the 12-month period from the date of passing of the relevant resolution(s) approving the Disposal Mandate at the EGM

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## DEFINITIONS

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“Merger and Absorption Agreement”	the merger and absorption agreement dated 26 January 2022 entered into among the Bank, Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS, pursuant to which each of the Target Banks will be merged and absorbed into the Bank subject to the terms and conditions thereunder
“Merger by Absorption”	the merger by absorption of each of the Target Banks by the Bank and the transactions (including the issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated under the Merger and Absorption Agreement
“Mr. Li”	Mr. Li Wanbin (李萬斌), an existing supervisor of the Bank as at the Latest Practicable Date
“Placee(s)”	any qualified investor to subscribe for any of the Placing Shares pursuant to the H Share Placement
“Placing Shares”	the new H Shares to be issued under the H Share Placement
“PRC Company Law”	Company Law of the PRC (中華人民共和國公司法), as amended, supplemented or otherwise modified from time to time
“Preference Share(s)”	the 69,750,000 non-cumulative perpetual offshore preference shares of the Bank issued on 21 November 2018 in the total subscription amount of US\$1,395,000,000 with a par value of RMB100 each, which are listed on the Stock Exchange (stock code: 04617)
“Preference Share Class Meeting”	the Preference Share class meeting to be convened to consider, and if thought fit, to approve the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder by the Preference Shareholders
“Preference Shareholder(s)”	holder(s) of the Preference Share(s)

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## DEFINITIONS

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“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Selling Shareholder(s)”	the shareholders of each of the Target Banks as at the respective record dates of the shareholders’ meetings of each of the Target Banks convened to consider and approve the merger and absorption of the relevant Target Bank by the Bank
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the Domestic Share(s) and the H Share(s) of the Bank
“Shareholder(s)”	the shareholder(s) of the Share(s) of the Bank
“Specific Mandate”	a specific mandate to be sought from the Shareholders at the EGM, the H Share Class Meeting and the Domestic Share Class meeting to authorize the Bank to allot and issue the Placing Shares pursuant to the H Share Placement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Bank(s)”	collectively, Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS, and “Target Bank” means any of them
“Transitional Period”	transitional period from the date of entering into the Merger and Absorption Agreement and up to the date of completion of the Merger by Absorption
“US\$”	United States Dollars, the lawful currency of the United States of America
“Zhongyuan Trust”	Zhongyuan Trust Co., Ltd. <sup>#</sup> (中原信託有限公司), a company incorporated in the PRC
“%”	per cent

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

# *For identification purpose only*

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## LETTER FROM THE BOARD

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# 中原銀行股份有限公司\* ZHONGYUAN BANK CO., LTD.\*

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

(Stock Code of H Shares: 1216)

(Stock Code of Preference Shares: 4617)

**Executive Directors:**

Mr. Xu Nuojin (*Chairman*)  
Mr. Wang Jiong  
Mr. Li Yulin  
Mr. Wei Jie

**Non-executive Directors:**

Ms. Zhang Qiuyun  
Mr. Mi Hongjun

**Independent non-executive Directors:**

Ms. Pang Hong  
Mr. Li Hongchang  
Mr. Jia Tingyu  
Mr. Chan Ngai Sang Kenny

**Registered office in the PRC:**

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

**Principal place of business  
in Hong Kong:**

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

*To the Shareholders,*

Dear Sir or Madam,

- (1) PROPOSED H SHARE PLACEMENT UNDER SPECIFIC MANDATE;
- (2) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE MERGER BY ABSORPTION OF EACH OF THE TARGET BANKS AND THE PROPOSED ISSUE OF THE CONSIDERATION SHARES;
- (3) MAJOR TRANSACTION IN RELATION TO MANDATE FOR DISPOSAL OF ASSETS OF THE BANK;
- (4) NOTICE OF EXTRAORDINARY GENERAL MEETING;
- (5) NOTICE OF H SHARE CLASS MEETING;
- (6) NOTICE OF DOMESTIC SHARE CLASS MEETING; AND
- (7) NOTICE OF PREFERENCE SHARE CLASS MEETING

### I. INTRODUCTION

References are made to the announcements of the Bank dated 27 October 2021, 7 December 2021 and 26 January 2022, in connection with, among others, (i) the proposed H Share Placement (including the grant of the Specific Mandate for the allotment and issue of the Placing Shares and the proposed Amendments to the Articles of Association in connection with the H Share Placement), (ii) the Merger by Absorption (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association) and (iii) the Disposal Mandate.

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## LETTER FROM THE BOARD

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### II. THE PROPOSED H SHARE PLACEMENT

#### INTRODUCTION

On 26 January 2022 (after trading hours), the Board resolved to propose the H Share Placement, pursuant to which the Bank shall issue not less than 3,105,000,000 H Shares and not more than 3,205,000,000 H Shares to eligible subscribers, being not less than six independent Placees, so as to replenish core tier 1 capital of the Bank and continue to comply with regulatory requirements (including but not limited to the maintenance of minimum public float in compliance with the requirements of the Listing Rules). The H Share Placement will be conducted under the Specific Mandate, the completion of which shall be one of the conditions precedent to the completion of the Merger by Absorption so as to maintain the minimum public float in compliance with the requirements of the Listing Rules.

#### THE PROPOSED TERMS OF H SHARE PLACEMENT

On 26 January 2022, the Board approved the resolution on the proposed H Share Placement and proposed to seek approval from the Shareholders in relation to the granting of the Specific Mandate at the EGM, the H Share Class Meeting and the Domestic Share Class Meeting to consider, and if thought fit, to approve, among others, the proposed H Share Placement. The details of the proposed H Share Placement are set out below:

<b>Type and nominal value of Shares to be issued</b>	:	The type of the Shares to be issued under the H Share Placement is ordinary H Shares, with nominal value of RMB1.00 each.
<b>Number of Shares to be issued</b>	:	The aggregate number of H Shares to be issued under the H Share Placement will be not less than 3,105,000,000 H Shares and not more than 3,205,000,000 H Shares, accounting for approximately 81.82% and 84.45% of the number of H Shares issued by the Bank immediately before the completion of the H Share Placement respectively, and approximately 45% and 45.79% of the number of H Shares issued by the Bank immediately after the completion of the H Share Placement respectively. The actual issue number is to be determined with reference to the approval of the issuance plan by relevant regulatory authorities, market conditions and the actual situation of the Bank.

In addition, the final number of H Shares to be issued under the H Share Placement shall also be determined with reference to the actual number of the Consideration Shares to be issued under the Merger by Absorption, so as to maintain the minimum public float in compliance with the requirements of the Listing Rules upon completion of the issuance of the Consideration Shares. If the number of Placing Shares to be issued falls below 3,105,000,000 H Shares, the H Share Placement and the Merger by Absorption will not proceed.

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## LETTER FROM THE BOARD

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**Target placees** : The Placees of the Placing Shares shall be no less than six eligible investors who are independent of the Bank and its connected persons (except as restricted by laws). The selection of the Placees is subject to market conditions and the actual conditions of the Bank. None of the Placees will become a substantial shareholder of the Bank upon (i) the completion of the H Share Placement or (ii) the completion of the H Share Placement and the issuance of the Consideration Shares pursuant to the Merger by Absorption.

**Method of pricing** : In accordance with the relevant requirements under the PRC Company Law, the issue price of the Placing Shares shall not be less than the nominal value of the Shares, being RMB1.00 per Share. Accordingly, the minimum issue price under the H Share Placement is RMB1.00 per Share.

The closing market price of the H Shares of the Bank as at the Last Trading Day was HK\$0.85, the closing market price of the H Shares of the Bank as at the Latest Practicable Date was HK\$0.84, and the net assets per Share attributable to ordinary Shareholders of the Bank was approximately RMB2.52 per Share as at 30 June 2021. The final issue price for the Placing Shares will be determined with reference to the following factors:

- (1) The interests of the Shareholders as a whole: in accordance with Article 127 of the PRC Company Law, the issue price of Shares shall be at or above the nominal value of Shares. Since the nominal value of the H Share of the Bank is RMB1 per Share, in view of the aforesaid regulations, and to safeguard the interests of minority Shareholders and avoid excessive dilution to the interests of the Shareholders as a whole due to lower issue price, the issue price for the H Share Placement will not be lower than RMB1 per share.

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## LETTER FROM THE BOARD

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- (2) The acceptability of the investors and the issuance risk: on one hand, as the H Shares to be issued under the H Share Placement will be no less than 3,105,000,000 Shares, the H Share Placement will not proceed if the number of Placing Shares have not satisfied the above requirement, therefore, it is crucial for the success of the H Share Placement to have sufficient investors to subscribe for the Placing Shares. On the other hand, investors will consider the yield and return ratio of their investment in the H Share Placement when deciding whether to participate in the H Share Placement. Accordingly, the issue price is the significant factor for the attractiveness of investors' participation into the H Share Placement, high issue price will likely result in a significant reduction in the incentive of the investors to subscribe for the Placing Shares. Generally, the issue price of the H Share Placement will make full consideration of the acceptability of the investors, so as to attract sufficient investors to subscribe for the Place Shares and to mitigate issuance risk, as well as to ensure the smooth implementation of the H Share Placement.
- (3) The international market practice and regulatory requirements and the then capital market conditions: the final issue price for the H Shares under the H Share Placement shall also be considered in conjunction with the then prevailing capital market conditions upon issuance (such as the share price of the Bank and the overall valuation of comparable banks upon issuance) comprehensively. As at the Latest Practicable Date, the price/book value ratio of the city commercial banks where their H Shares are listed ranged from 0.13 to 0.88 times, and such price/book value ratios will be one of the significant considerations for the Bank when the Bank determines the issue price under the H Share Placement.

The exchange rate of the final issue price will be the exchange rate of Hong Kong Dollars to Renminbi to be quoted by the People's Bank of China on the date when the issue price for the Placing Shares is determined.

**Method of Issuance**

- : The issuance of the Placing Shares will be conducted by way of non-public placement of the H Shares under the Specific Mandate.

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## LETTER FROM THE BOARD

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- Timing of Issuance** : The Board shall select an appropriate occasion and window to complete the H Share Placement according to market conditions after obtaining the approval of the H Share Placement from the Shareholders and the approval of the relevant regulatory authorities (including but not limited to CSRC and CBIRC Henan Office) and within the validity period of the issuance plan approved by the Shareholders at the EGM, the H Share Class Meeting and the Domestic Share Class Meeting. Given that the Bank will also proceed with the issuance of the Consideration Shares under the Merger by Absorption, the H Share Placement will be completed prior to the issuance of the Consideration Shares.
- Lock-up period** : The H shares issued by the Bank and subscribed by the placees pursuant to the H Share Placement are not subject to lock-up period. If the applicable domestic and overseas laws and regulations or relevant regulatory authorities contain any regulations or requirements on the lock-up period, such regulations or requirements shall apply.
- Use of proceeds** : The net proceeds raised from the H Share Placement after deducting related issuance costs will be entirely used to replenish core tier 1 capital of the Bank.
- In the event that the Placing Shares are issued in the minimum amount of 3,105,000,000 H Shares, the total proceeds raised from the H Share Placement will be no less than approximately RMB3,105 million, and in the event that the Placing Shares are issued in the maximum amount of 3,205,000,000 H Shares, the total proceeds raised from the H Share Placement will be no less than approximately RMB3,205 million, based on the minimum issue price under the H Share Placement of RMB1.00 per Placing Share.
- Distribution of retained profit** : The retained profit accrued before completion of the H Share Placement will be shared by existing and new Shareholders upon completion of the H Shares Placement (other than the final dividends of the Bank for the financial year ended 31 December 2021, if any) in proportion to their respective shareholdings.

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## LETTER FROM THE BOARD

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- Validity period** : The plan of the H Share Placement under the Specific Mandate shall remain valid for 12 months from the date on which resolutions are considered and approved at the EGM, the H Share Class Meeting and the Domestic Share Class Meeting. The Board may seek approval of the extension of the validity period for the H Share Placement under the Specific Mandate at general meetings depending on the circumstances.
- Listing arrangement** : Application will be made by the Bank for the listing and permission to deal in the Shares issued under the H Share Placement on the Stock Exchange.

The proposed H Share Placement shall be implemented subject to the consideration and approvals of the EGM, the H Share Class Meeting and the Domestic Share Class Meeting and the approvals of the relevant regulatory authorities (including but not limited to CSRC and CBIRC Henan Office) and ultimately subject to the final plan of the H Share Placement approved by relevant regulatory authorities.

### **GRANT OF AUTHORITY TO THE BOARD TO HANDLE MATTERS IN RELATION TO THE H SHARE PLACEMENT**

A proposal of the H Share Placement will be put forward at the EGM, the H Share Class Meeting, and the Domestic Share Class Meeting for the Shareholders to authorize the Board, who would in turn delegate such authority to the chairman of the Board, the president of the Bank and the secretary of the Board to handle matters in relation to the H Share Placement, the relevant authority will remain valid for 12 months from the date on which it is considered and approved at the EGM, the H Share Class Meeting, and the Domestic Share Class Meeting.

### **SPECIFIC MANDATE TO ISSUE THE PLACING SHARES**

The EGM, the H Share Class Meeting and the Domestic Share Class Meeting will be convened and held to consider and, if thought fit, approve, among other matters, the proposed H Share Placement (including the grant of the Specific Mandate for the allotment and issue of the Placing Shares and the proposed Amendments to the Articles of Association in connection with the H Share Placement) pursuant to the Articles of Association and Rule 19A.38 of the Listing Rules.

To the best knowledge of the Directors, none of the Shareholders has a material interest in the transactions contemplated under the proposed H Share Placement as at the Latest Practicable Date. Accordingly, none of the Shareholder will be required to abstain from voting at the EGM or the H Class Meeting or the Domestic Share Class Meeting in respect of the relevant resolution(s) relating to the proposed H Share Placement under the Specific Mandate.

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## **LETTER FROM THE BOARD**

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### **EFFECT ON SHAREHOLDING STRUCTURE OF THE BANK**

For the effect on the shareholding structure of the Bank under the proposed H Share Placement, please refer to the section headed “III. THE MERGER BY ABSORPTION OF EACH OF THE TARGET BANKS AND THE PROPOSED ISSUE OF THE CONSIDERATION SHARES – CHANGE IN THE SHAREHOLDING STRUCTURE OF THE BANK” in this circular.

### **FUND RAISING ACTIVITIES OF THE BANK IN THE PAST 12 MONTHS**

The Directors confirm that the Bank has not been involved in any fund-raising activities in relation to the issuance of its equity securities within the 12 months immediately preceding the Latest Practicable Date.

### **AMENDMENTS TO THE ARTICLES OF ASSOCIATION IN CONNECTION WITH THE H SHARE PLACEMENT**

As the registered capital of the Bank will change upon the completion of the H Share Placement, the Bank will submit the updated information to the CBIRC Henan Office in accordance with the requirements of PRC laws, regulations and other regulatory documents. Upon obtaining the approval, the Bank will amend the relevant articles in the Articles of Association and arrange for the change of registration particulars with the market supervision and administration authority.

The Board proposed to the Shareholders for approval at the EGM, the H Share Class Meeting and the Domestic Share Class Meeting to authorize the Board, who would in turn authorize the Chairman, the president of the Bank and the secretary of the Board to handle the approval or filing procedures in relation to the change of the registered capital of the Bank and apply for the change of the registration particulars with the market supervision and administration authority, the Registrar of Companies in Hong Kong and other competent government bodies in accordance with changes in domestic and foreign laws, regulations and other regulatory documents, and requirements and recommendations of domestic and overseas regulatory authorities and stock exchange where the Shares are listed.

### **III. THE MERGER BY ABSORPTION OF EACH OF THE TARGET BANKS AND THE PROPOSED ISSUANCE OF THE CONSIDERATION SHARES**

#### **INTRODUCTION**

On 26 January 2022 (after trading hours), the Bank, Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS (each a Target Bank), entered into the Merger and Absorption Agreement, pursuant to which each of the Target Banks will be merged and absorbed into the Bank in accordance with the PRC Company Law and other applicable PRC laws. Under the Merger and Absorption Agreement, the Bank has conditionally agreed to acquire for all the shares held by the Selling Shareholders in the Target Banks in the total consideration of approximately RMB28,470 million (equivalent to approximately HK\$34,164 million), all of which will be satisfied by the issuance of the Consideration Shares to the Selling Shareholders, respectively.

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## LETTER FROM THE BOARD

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### THE MERGER AND ABSORPTION AGREEMENT

Set out below are the principal terms of the Merger and Absorption Agreement.

<b>Date:</b>	26 January 2022 (after trading hours)
<b>Parties:</b>	The Bank;  Bank of Luoyang;  Bank of Pingdingshan; and  Bank of JZCTS
<b>Subject:</b>	Subject to the fulfillment of the conditions of the Merger and Absorption Agreement, the Bank will acquire for all the shares in each of the Target Banks from the Selling Shareholders in the consideration of issuance of the Consideration Shares.
<b>Consideration:</b>	The total consideration for the Merger by Absorption is approximately RMB28,470 million (equivalent to approximately HK\$34,164 million).
<b>Consideration Shares:</b>	The total consideration for the Merger by Absorption will be satisfied by the issuance of 13,324,823,322 Consideration Shares at an issue price of RMB2.1366 per Consideration Share (equivalent to approximately HK\$2.5639 per Consideration Share) to each of the Selling Shareholders in respect of their shareholdings in the Target Banks.
<b>Adjustment of the issue price per Consideration Share:</b>	The issue price per Consideration Share may be adjusted following any ex-right and/or ex-dividend event of the Bank and the Target Bank(s) which may occur during the period from the Benchmark Date to the date of completion of the Merger by Absorption, or any adjustment as requested by supervision department and in accordance with relevant PRC laws and regulations. Notwithstanding the above, as at the Latest Practicable Date, no such ex-right and/or ex-dividend event was expected to occur before the date of completion of the Merger by Absorption, and the Bank will use its best endeavor to ensure that no such ex-right and/or ex-dividend event will occur before the date of completion of the Merger by Absorption.

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## LETTER FROM THE BOARD

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### **Conditions to the Merger and Absorption Agreement**

The Merger and Absorption Agreement shall be effective upon the satisfaction of the following conditions:

- (1) The Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Associations in connection with the Merger by Absorption) contemplated thereunder being approved by the Independent Shareholders as special resolutions at the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting, respectively;
- (2) The Merger and Absorption Agreement and the transactions contemplated thereunder in respect of the merger by absorption of Bank of Luoyang by the Bank being approved by the shareholders of Bank of Luoyang as special resolution(s);
- (3) The Merger and Absorption Agreement and the transactions contemplated thereunder in respect of the merger by absorption of Bank of Pingdingshan by the Bank being approved by the shareholders of Bank of Pingdingshan as special resolution(s);
- (4) The Merger and Absorption Agreement and the transactions contemplated thereunder in respect of the merger by absorption of Bank of JZCTS by the Bank being approved by the shareholders of Bank of JZCTS as special resolution(s); and
- (5) The Merger and Absorption Agreement and the transactions contemplated thereunder being approved by CBIRC.

None of the above conditions can be waived. In case that any of the above conditions cannot be satisfied, the Merger and Absorption Agreement shall not become effective as a whole, and accordingly the Merger by Absorption will not proceed.

### **Conditions Precedent to the Completion of the Merger by Absorption**

After the Merger and Absorption Agreement becomes effective, the completion of the Merger by Absorption is subject to the fulfilment of the following conditions precedent:

- (1) The H Share Placement has been duly completed;
- (2) The anti-trust clearance in connection with the Merger by Absorption has been approved by relevant regulatory authorities; and
- (3) All the approvals, permissions, filings and registrations by relevant regulatory authorities currently known to be applicable to the Merger by Absorption have been obtained.

None of the conditions precedent can be waived by any party to the Merger and Absorption Agreement.

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## LETTER FROM THE BOARD

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If, due to reasons unrelated to any party to the Merger and Absorption Agreement, the aforementioned conditions precedent are not fully fulfilled by 31 December 2022, any party shall have the right to unilaterally terminate the Merger and Absorption Agreement in writing on the day following the aforementioned date without any liability.

### **Completion and Issuance of the Consideration Shares**

After the Merger and Absorption Agreement becomes effective, the completion of the Merger by Absorption shall take place within the valid period as prescribed in the approval by CBIRC, which is expected to be completed on or before 30 June 2022. According to relevant PRC laws, the valid period of the approval by CBIRC in respect of the Merger by Absorption shall usually last for six months from the date of the approval (the “**Valid Period**”). In the event that the Valid Period expires prior to the completion of the H Share Placement, the Bank will seek for CBIRC’s extension of the Valid Period or re-apply for CBIRC’s approval of the Merger by Absorption, so as to ensure that the H Share Placement will be completed prior to the completion of the Merger by Absorption.

Upon the completion date of the Merger by Absorption, the Bank shall assume all the assets, liabilities, business, employees, contracts and other rights and obligations of each of the Target Banks, and the Target Banks will be de-registered.

The Consideration Shares shall be issued and registered with CSDCC as soon as practicable after the completion date of the Merger by Absorption.

With respect to the matters in relation to the Shareholders under the Merger by Absorption, the Bank will comply with relevant provisions under the PRC Company Law and the Articles of Association.

### **Deregistration of the Target Banks**

After completion of the Merger by Absorption of the Target Banks by the Bank, each of the Target Banks will be de-registered in accordance with the PRC Company Law and other applicable PRC laws.

### **Arrangement during the Transitional Period**

Parties to the Merger and Absorption Agreement agree that during the Transitional Period, each of them shall conduct its ordinary daily operation of business, maintain good relationships with clients, conduct internal management, prepare and record financial information, and make payment of insurance and tax in a timely manner. During the period from the Benchmark Date to the date of completion of the Merger by Absorption, all the profit and loss of the Target Banks arising from their respective ordinary course of business shall be assumed by the Bank.

Each of the Target Banks further agrees that during the Transitional Period, they shall not conduct any of the following activities without obtaining any prior consent by the Bank in writing:

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## LETTER FROM THE BOARD

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- (1) Disposal of assets or equity: (i) transferring or otherwise disposing of any assets or equity interest, (ii) investing or establishing new subsidiaries, (iii) entering into any contract or arrangement with respect to asset acquisition, merger or restructure, or conducting any business negotiation in connection thereto, and (iv) conducting any joint venture, purchasing, selling, leasing or otherwise disposing of any material assets, or creating any right or encumbrance on the titles thereof;
- (2) Daily operation: (i) ceasing or changing the principal business of the relevant Target Bank or its subsidiaries, (ii) distributing or declaring to distribute dividends, and (iii) making adjustment to the remuneration policies or employee incentive plans of their staffs; and
- (3) Other matters which might bring about any material adverse change or effect to any of the Target Banks.

### **Governing Laws**

The Merger and Absorption Agreement shall be governed by PRC laws.

### **BASIS OF CONSIDERATION**

The total consideration for the Merger by Absorption payable by the Bank shall be approximately RMB28,470 million (equivalent to approximately HK\$34,164 million). The consideration was determined based on arm's length negotiation between the Bank and each of the Target Banks with reference to the appraisal reports of each of the Target Banks issued by the Independent Valuer.

As at the appraisal date of 30 September 2021, the appraised value of total assets of Bank of Luoyang was approximately RMB258,942 million, the appraised value of its total liabilities was approximately RMB239,363 million and the appraised value of its net assets was approximately RMB19,579 million (the appraisal results of net assets include perpetual bonds of approximately RMB2,000 million).

As at the appraisal date of 30 September 2021, the appraised value of total assets of Bank of Pingdingshan was approximately RMB114,694 million, the appraised value of its total liabilities was approximately RMB107,219 million and the appraised value of its net assets was approximately RMB7,474 million (the appraisal results of net assets include perpetual bonds of RMB2,000 million).

As at the appraisal date of 30 September 2021, the appraised value of total assets of Bank of JZCTS was approximately RMB92,738 million, the appraised value of its total liabilities was approximately RMB86,469 million and the appraised value of its net assets was approximately RMB6,270 million.

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There has not been any material change in the business operation and financial performance of the Target Banks since the appraisal date of 30 September 2021. In light of the above, the total amount of the appraised value of the net assets of the Target Banks was approximately RMB33,323 million.

However, the impact of deferred income tax liabilities arising from the appreciation of appraised assets had not been taken into account when arriving at the above appraisal results of the Target Banks. After deducting the (i) deferred income tax arising from the appraisal appreciation in the amount of approximately RMB853 million, and (ii) the perpetual bonds not attributable to the ordinary shareholders in the amount of RMB4,000 million, the total amount of the net assets attributable to the ordinary shareholders of the Target Banks is approximately RMB28,470 million.

The Independent Valuer is Pan-CHINA Appraisal Co., Ltd.<sup>#</sup> (北京天健興業資產評估有限公司), a company established in the PRC and principally engaged in asset appraisal services. The appraisers in charge of this appraisal obtain the “Professional Qualification Certificate for Asset Appraisers” and are registered by the China Appraisal Society to engage in asset appraisal with Pan-CHINA Appraisal Co., Ltd.

The asset-based approach was applied by the Independent Valuer for appraisal of net assets of the Target Banks. The asset-based approach is an appraisal method by which the value of the appraisal target is determined by reasonably assessing the values of all assets and liabilities items on the basis of the balance sheet, and the book value of credit assets, investment-type assets, other non-physical assets and liabilities are adopted as the appraised value. For appraisal of real estate assets, the market approach is mainly adopted. For appraisal of equipment assets, the replacement cost approach is mainly adopted. For debt-paying assets, their appraisal is determined based on the realizable value. For subsidiaries which are village and town banks, their appraisal is determined by multiplying the net assets in the accounts of the village and town banks by the percentage of shareholding, and for appraisal of financial leasing and consumer finance subsidiaries, the market comparison approach is adopted.

The above appraisal approaches are in line with The Assets Appraisal Law of the People’s Republic of China (《中華人民共和國資產評估法》) and Interim Measures for Supervision and Administration of State-owned Assets Appraisal of Financial Enterprises (《金融企業國有資產評估監督管理暫行辦法》) as the legal basis, the Basic Standards on Assets Appraisal (《資產評估基本準則》) and relevant practice standards as the criteria, and the detailed list of assets and relevant title documents provided by the Bank as evidence of asset ownership. In addition, the Board has also conducted the following due diligence and analysis:

1. The Independent Valuer is a chartered asset valuer with years of valuation experience in China and was engaged in the mergers by absorption of city commercial banks in Liaoning and mergers and acquisitions of city commercial banks in Shanxi from 2020 to 2021. The Board considers the Independent Valuer has extensive experience in the industry and is competent for this valuation engagement;

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2. The Board has understood the approaches, bases and assumptions adopted in the valuation reports and steps and measures taken to carry out relevant valuations by obtaining the work plan of the Independent Valuer. In addition, after understanding and comparing the valuation work of comparable assets with this valuation engagement, the Board considers the approaches, bases and assumptions adopted in this valuation are reasonable;
3. The Board has held work meetings on a regular basis, at which the Independent Valuer reported the work procedures and preliminary results and questions of concern were brought to the attention of the Independent Valuer, and it was confirmed that the Independent Valuer had conducted on-site inspections and market researches for the preparation of these valuation reports. As such, the Board considers the fundamental work of this valuation is adequate; and
4. The Board has arranged full discussion and communication at the Board meeting with all parties regarding the valuation results of the Independent Valuer, raised questions thereon, and then the Independent Valuer would fully answer such questions. As such, the Board considers the results of this valuation are reliable.

In light of the above, the Board considers the valuation reports of the Target Banks (including the valuation methods and key assumptions used) are fair and reasonable.

### THE CONSIDERATION SHARES

The consideration for the Merger by Absorption will be satisfied solely by the issuance of 13,324,823,322 Consideration Shares to the Selling Shareholders in accordance with their respective shareholdings in the Target Banks (subject to adjustment as detailed above). Among the total Consideration Shares, (i) an aggregate of 7,954,505,000 Consideration Shares (representing approximately 59.70% of the total Consideration Shares) shall be issued to the Selling Shareholders of Bank of Luoyang, (ii) an aggregate of 2,476,318,322 Consideration Shares (representing approximately 18.58% of the total Consideration Shares) shall be issued to the Selling Shareholders of Bank of Pingdingshan, and (iii) an aggregate of 2,894,000,000 Consideration Shares (representing approximately 21.72% of the total Consideration Shares) shall be issued to the Selling Shareholders of Bank of JZCTS.

The issue price of RMB2.1366 per Consideration Share (equivalent to approximately HK\$2.5639 per Consideration Share) was determined following arm's length negotiation between the Bank and each of the Target Bank with reference to the net assets per Share attributable to the shareholders/equity holders of the Bank based on the appraisal report of the Bank issued by the Independent Valuer. The issue price of RMB2.1366 per Consideration Share (equivalent to approximately HK\$2.5639 per Consideration Share) represents:

- a premium of 205.23% to closing price of the H Shares of the Bank as quoted on the Stock Exchange for the Latest Practicable Date;
- a premium of 201.64% to closing price of the H Shares of the Bank as quoted on the Stock Exchange for the Last Trading Day;

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- a premium of 192.27% to the volume weighted average price (“VWAP”) of the H Shares of the Bank as quoted on the Stock Exchange for the 5 trading days prior to and including the Last Trading Day;
- a premium of 188.43% to the VWAP of the H Shares of the Bank as quoted on the Stock Exchange for the 10 trading days prior to and including the Last Trading Day;
- a premium of 191.79% to the VWAP of the H Shares of the Bank as quoted on the Stock Exchange for the 30 trading days prior to and including the Last Trading Day;
- a premium of 155.98% to the VWAP of the H Shares of the Bank as quoted on the Stock Exchange for the 90 trading days prior to and including the Last Trading Day; and
- a discount of 15.21% to the latest published net assets per Share attributable to shareholders/equity holders of the Bank, being RMB2.52 per Share.

The Consideration Shares include the Domestic Shares only, which will be issued as fully paid, and will rank pari passu in all respects with the Domestic Shares of the Bank in issue on the completion date of the Merger by Absorption.

The issue price of the Consideration Shares has been determined based on the appraisal results of the net assets of the Bank issued by the Independent Valuer. As at the appraisal date of 30 September 2021, the appraised value of the total assets of the Bank was approximately RMB683,171 million, the appraised value of the total liabilities of the Bank was approximately RMB629,984 million, and the appraised value of the net assets of the Bank was approximately RMB53,188 million (including the appraisal value of the preferred shares of the Bank in the amount of approximately RMB9,633 million, but having not taken into account the effect of deferred income tax liabilities arising from the appreciation of appraised assets of the Bank).

Accordingly, the net assets attributable to the ordinary Shareholders per Share based on the above appraised value is RMB2.1696 per Share. As disclosed above, the impact of deferred income tax liabilities arising from the appreciation of appraised assets had not been taken into account when arriving the appraisal results of the net assets of the Bank. After taking into account of the impact of deferred income tax liabilities arising from the appreciation of appraised assets, the above appraised value per Share of RMB2.1696 has been adjusted to RMB2.1366, which is in the same amount of the issue price per Consideration Share.

The appraisal approaches adopted by the Independent Valuer in respect of the appraisal of the net assets of the Bank are consistent with those adopted in recent market practice. Under the asset-based approach, the appreciation in the appraisal results only represents the appreciation of the property assets owned by the Bank without considering the prices of intangible assets such as operating network, client resources and goodwill which may have potential value but the amount of which is difficult to determine.

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Further, the appraisal reports in respect of the Merger by Absorption are also subject to the approval of Henan Provincial Finance Department and other competent state-owned assets regulatory authorities. In addition, the issue price of the Consideration Shares representing the price/book value ratio of approximately 1 time is similar to the average price/book value ratios of recent market precedents of the similar transactions.

In light of the above, the Consideration Share of RMB2.1366 is fair and reasonable as compared to the net assets per Share attributable to the ordinary Shareholders appraised by the Independent Valuer.

Notwithstanding that the Bank's net assets per Share attributable to the ordinary Shareholders as at 30 June 2021 was approximately RMB2.52, considering (i) the backdrop of slowing growth in global economy, and (ii) the adverse impact of the COVID-19 pandemic, recent torrential rains in Henan Province and other factors on the operating performance and financial position of the Bank, the Bank prudently adopts the appraised value of the net assets attributable to the ordinary Shareholders per Share as at 30 September 2021 as the basis of the issue price of the Consideration Shares.

### CALCULATION OF THE NUMBER OF CONSIDERATION SHARES TO BE ISSUED TO SELLING SHAREHOLDERS

Pursuant to the Merger and Absorption Agreement, the number of the Consideration Shares to be issued to a Selling Shareholder shall be calculated as follows:

$$A = B \times C$$

- **A** represents the number of the Consideration Shares to be issued to a Selling Shareholder (the “**Person**”)
- **B** represents the number of shares held by the Person in a relevant Target Bank
- **C** represents the share swap price being divided by the share price of the Bank, which shall be rounded up with four decimals. The share swap price represents the agreed net assets of a Target Bank (exclusive of any perpetual debt securities thereof) being divided by the number of total issued shares of that Target Bank. The share price of the Bank represents the agreed net assets value of the Bank (exclusive of any perpetual debt securities thereof) being divided by the number of total issued shares of the Bank

For any fractional Consideration Shares arising from the above calculation, the Selling Shareholders will be ranked in descending order based on the decimal number of the fractional Consideration Shares to be issued to them respectively, if the decimal number of their fractional Consideration Shares is the same, they will be randomly ranked, and the relevant

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Selling Shareholders will register one allotted Consideration Share based on the ranking order, until the actual number of the Consideration Shares issued equals to the total number of the Consideration Shares proposed to be issued under the Merger by Absorption.

### INFORMATION OF THE PARTIES OF THE MERGER BY ABSORPTION

#### The Bank

The Bank is an enterprise mainly engaged in banking business. It is the first provincial corporate bank in Henan Province, which was established on December 23, 2014, and headquartered in Zhengzhou City, Henan Province, China. On July 19, 2017, the Bank was listed on the main board of the Stock Exchange. The Bank is mainly engaged in absorbing public deposits, issuing short-term, medium-term and long-term loans, handling domestic and international settlement, bills acceptance and discounting and other businesses.

#### Bank of Luoyang

Bank of Luoyang is an enterprise mainly engaged in banking business. It was formerly known as Luoyang City Cooperative Bank<sup>#</sup> (洛陽城市合作銀行), was established in 1997, which was renamed as Luoyang Commercial Bank Company Limited<sup>#</sup> (洛陽市商業銀行股份有限公司) in May 1998. It changed its name to Bank of Luoyang Co., Ltd.<sup>#</sup> (洛陽銀行股份有限公司) in March 2009 with the approval of the former China Banking Regulatory Commission and its headquarters located in Luoyang City, Henan Province. The bank is mainly engaged in absorbing public deposits, issuing short-term, medium-term and long-term loans, handling domestic settlement, bills acceptance and discounting and other businesses.

As at the Latest Practicable Date, the largest single ultimate beneficial owner of Bank of Luoyang was Finance Bureau of Luoyang City (洛陽市財政局) as to 17.12% of the share capital of Bank of Luoyang. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save that (i) Zhongyuan Trust holds 306,800,000 shares in Bank of Luoyang (representing approximately 4.45% of the total issued share capital of Bank of Luoyang) and (ii) Henan Tianli holds 104,000,000 shares in Bank of Luoyang (representing approximately 1.51% of the total issued share capital of Bank of Luoyang), Bank of Luoyang and its ultimate beneficial owners were third parties independent of the Bank and connected person(s) of the Bank as at the Latest Practicable Date.

#### Bank of Pingdingshan

Bank of Pingdingshan is an enterprise mainly engaged in banking business. It was formerly known as Pingdingshan Commercial Bank<sup>#</sup> (平頂山市商業銀行), changed its name to Bank of Pingdingshan Co., Ltd.<sup>#</sup> (平頂山銀行股份有限公司) on November 17, 2010 with the approval of the former China Banking Regulatory Commission and its headquarters located in Pingdingshan City, Henan Province. The bank is mainly engaged in absorbing public deposits, issuing short-term, medium-term and long-term loans, handling domestic settlement, bills acceptance and discounting and other businesses.

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As at the Latest Practicable Date, the largest single ultimate beneficial owner was Pingdingshan Development & Investment Holding Group Co., Ltd.<sup>#</sup> (平頂山發展投資控股集團有限公司) as to 9.72% of the share capital of Bank of Pingdingshan. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Bank of Pingdingshan and its ultimate beneficial owners were third parties independent of the Bank and connected person(s) of the Bank as at the Latest Practicable Date.

### Bank of JZCTS

Bank of JZCTS is an enterprise mainly engaged in banking business. It was formerly known as Jiaozuo City Commercial Bank<sup>#</sup> (焦作市商業銀行), introduced China National Travel Service (HK) Group Corporation<sup>#</sup> (中國港中旅集團公司) as a strategic investor in 2012. It changed its name to Bank of Jiaozuo China Travel Service CO., Ltd.<sup>#</sup> (焦作中旅銀行股份有限公司) in 2015 with the approval of the former China Banking Regulatory Commission and its headquarters located in Jiaozuo City, Henan Province. The bank is mainly engaged in absorbing public deposits, issuing short-term, medium-term and long-term loans, handling domestic settlement, bills acceptance and discounting and other businesses.

As at the Latest Practicable Date, the largest single ultimate beneficial owner of Bank of JZCTS was China Tourism Group Corporation Limited<sup>#</sup> (中國旅遊集團有限公司) as to 36.68% of the share capital of Bank of JZCTS. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save that Zhongyuan Trust holds 144,060,556 shares in Bank of JZCTS (representing approximately 2.88% of the total issued share capital of Bank of JZCTS), Bank of JZCTS and its ultimate beneficial owners were third parties independent of the Bank and connected person(s) of the Bank as at the Latest Practicable Date.

### The Selling Shareholders

As at the Latest Practicable Date, there were approximately 2,442 Selling Shareholders (comprising 34 state-owned enterprises, 138 non state-owned enterprises, and 2,270 individuals), among which (i) Zhongyuan Trust is a non-wholly owned subsidiary of Henan Investment Group (a substantial shareholder of the Bank) and (ii) Henan Tianli is a company beneficially controlled by Mr. Li (an existing supervisor of the Bank), and therefore both Zhongyuan Trust and Henan Tianli are connected persons of the Bank.

Save for the above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of other Selling Shareholders or their respective ultimate beneficial owners constitutes a connected person of the Bank.

As at the Latest Practicable Date, Finance Bureau of Luoyang City (洛陽市財政局) held 1,179,360,000 shares in Bank of Luoyang, representing approximately 17.12% of the total issued share capital of Bank of Luoyang. Upon completion of the issuance of the Consideration Shares, Finance Bureau of Luoyang City (洛陽市財政局) will become the largest single Selling Shareholder, holding approximately 1,361,571,120 Domestic Shares, representing (i) approximately 4.60% of the then total issued Domestic Shares of the Bank upon completion of

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the issuance of the Consideration Shares, (ii) approximately 3.73% of the then total issued Shares of the Bank upon completion of the H Share Placement (assuming the Placing Shares are subscribed for in minimum) and the issuance of the Consideration Shares in full, and (iii) approximately 3.72% of the then total issued Shares of the Bank upon completion of the H Share Placement (assuming the Placing Shares are subscribed for in maximum) and the issuance of the Consideration Shares in full.

As at the Latest Practicable Date, Finance Bureau of Luoyang City (洛陽市財政局) was a department of People's Government of Luoyang City (洛陽市人民政府).

### FINANCIAL INFORMATION OF THE TARGET BANKS

Set out below is the consolidated net profit/loss (both before and after taxation) of the Target Banks for the two financial years ended 31 December 2019 and 31 December 2020 and the nine months ended 30 September 2021 and the consolidated total assets and net assets value of the Target Banks as at 31 December 2019, 31 December 2020 and 30 September 2021, which are prepared in accordance with International Financial Reporting Standards.

Unit: RMB million

	<b>For the year ended 31 December 2019/As at 31 December 2019</b>	<b>For the year ended 31 December 2020/As at 31 December 2020</b>	<b>For the nine months ended 30 September 2021/As at 30 September 2021</b>
<b>Bank of Luoyang</b>			
Net profit before taxation	2,096	2,075	1,137
Net profit after taxation	1,654	1,593	979
Total Assets	268,699	270,346	289,820
Net Assets	16,283	17,783	21,227
	<b>For the year ended 31 December 2019/As at 31 December 2019</b>	<b>For the year ended 31 December 2020/As at 31 December 2020</b>	<b>For the nine months ended 30 September 2021/As at 30 September 2021</b>
<b>Bank of Pingdingshan</b>			
Net profit (loss) before taxation	116	53	(101)
Net profit (loss) after taxation	129	103	(11)
Total Assets	98,874	110,624	115,524
Net Assets	4,692	5,740	6,662

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	For the year ended 31 December 2019/As at 31 December 2019	For the year ended 31 December 2020/As at 31 December 2020	For the nine months ended 30 September 2021/As at 30 September 2021
<b>Bank of JZCTS</b>			
Net profit before taxation	329	214	110
Net profit after taxation	259	190	117
Total Assets	91,240	99,422	92,394
Net Assets	5,677	5,835	5,925

### REASONS AND BENEFITS OF THE MERGER BY ABSORPTION

The Bank has always committed to the development goal of “developing Zhongyuan Bank into a leading commercial bank” advocated by the Henan Provincial Committee and the Provincial Government, fully supports regional economic construction and serves the local community and people. Accordingly, in order to deepen the reform in the financial sector, optimize and strengthen local finance, as well as to strive to build a first-class urban commercial bank and enhance the ability of financial services for the economic and social development of the province, the Group expects to optimize the Bank through the Merger by Absorption, so that the Bank can continue to expand into a first-class commercial bank and achieve high-quality development of its overall business.

In addition, the benefits of the Merger by Absorption also include the followings:

- (1) excessive competition may be avoided to certain extent and local city commercial banks in Henan Province could have a healthy competition environment for their growth and development;
- (2) the capital fund of local city commercial banks could be centralized and scaled, which can increase the capacity to safeguard against the risk of defaulting loans, improve asset quality, and better serve the regional economy;
- (3) it can strengthen and make full use of the city commercial banks’ initiative roles and their provision of high-quality financial services in the development and improvement of the local financial system in Henan Province; and
- (4) it can also leverage on the existing network and branches, optimize the customer base, and increase the market share of the Bank in Henan Province, which would in turn increase the profitability of the Group.

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## LETTER FROM THE BOARD

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Taking into consideration the aforesaid, the Directors consider that the terms of the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder are fair and reasonable and in the interests of the Bank and the Shareholders as a whole.

### PROSPECTS AND FUTURE PLAN

Upon completion of the Merger by Absorption, in the near term, the Bank will (i) further improve its modern corporate governance structure, complete the integration of organizations, personnel and businesses, boost market confidence in its business, consolidate its position in Henan, (ii) focus on developing its local business, extend its services at basic levels of society and accelerate its business development, and (iii) optimize the management of its subsidiaries and continue to enhance the ability to support the economic and social development in Henan Province. In the medium term, the Bank will further improve its financial service capabilities and service standards to provide comprehensive financial services for the urban economy, intra-county economy, private economy, key projects, small and medium-sized enterprises and urban and rural residents in Henan Province. In the long term, the Bank will (i) optimize its management mechanism on an on-going basis, build an intensive and efficient operation system and actively innovate business products and technology-driven development models, (ii) further enhance its core competitiveness and stimulate its internal driving force and vitality, and (iii) foster its brand strength of local bank in Henan and construct an open, co-operative and win-win landscape with aims to become a modern joint-stock commercial bank with core competitiveness as well as first-class capital strength, internal control management, financial services, operating performance and reputation in the industry, building a “century bank” brand.

### FINANCIAL EFFECTS OF THE MERGER BY ABSORPTION

Based on preliminary assessment, the total asset scale and the equity attributable to the ordinary Shareholders of the Bank would increase significantly upon completion of the Merger by Absorption. Based on the financial information as at 30 September 2021, the total assets of the Bank would increase to the amount of more than one trillion in RMB and the equity attributable to the ordinary Shareholders of the Bank would exceed RMB70 billion upon completion of the Merger by Absorption, which in turn make the improvement of the Bank’s ranking from 12th to 8th in terms of assets size among the city commercial banks in China.

The actual effects on the total equity of the Shareholders and the Shareholders of the Bank after the Merger by Absorption will be subject to change because the calculation of the amount will be based on the carrying amounts of the assets and liabilities of the merged parties as at the completion date of the Merger by Absorption.

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## LETTER FROM THE BOARD

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Based on the unaudited pro forma financial information of the Enlarged Group disclosed in Appendix III to this Circular, (i) if the Merger by Absorption were completed on 1 January 2020, the revenue of the Bank for the year of 2020 would increase by RMB12,073 million, namely the revenue increasing from RMB19,428 million to RMB31,501 million; the net profit would increase by RMB1,801 million, namely the net profit increasing from RMB3,355 million to RMB5,156 million; and (ii) if the Merger by Absorption were completed on 30 June 2021, the total assets of the Bank would increase by RMB496,410 million, namely increasing from RMB753,002 million to RMB1,249,412 million; the total liabilities of the Bank would increase by RMB461,311 million, namely increasing from RMB691,626 million to RMB1,152,937 million.

# CHANGE IN THE SHAREHOLDING STRUCTURE OF THE BANK

Name of Shareholders	Class of Shares	Immediately after the completion of the issuance of the Placing Share in minimum				Immediately after the completion of the issuance of the Placing Shares in maximum				Immediately after the completion of the issuance of the Placing Shares in minimum and the Consideration Shares in full				Immediately after the completion of the issuance of the Placing Shares in maximum and the Consideration Shares in full			
		As at the Latest Practicable Date	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>	Approximately percentage of issued shares of the relevant class of the Bank <sup>(1)</sup>
		Number of Shares	Number of Shares	Number of Shares	Number of Shares	Number of Shares	Number of Shares	Number of Shares	Number of Shares	Number of Shares	Number of Shares	Number of Shares	Number of Shares	Number of Shares	Number of Shares	Number of Shares	Number of Shares
Henan Investment Group <sup>(2)</sup> Mr. Li <sup>(3)</sup> Other Selling Shareholders <sup>(4)</sup>	Domestic Shares	2,274,982,405	11.33%	2,274,982,405	13.97%	9.81%	2,274,982,405	13.97%	9.77%	2,712,565,255	9.16%	7.43%	2,712,565,255	9.16%	7.41%	2,712,565,255	9.16%
	Domestic Shares	490,396,271	2.45%	490,396,271	3.02%	2.12%	490,396,271	3.02%	2.11%	611,064,271	2.06%	1.67%	611,064,271	2.06%	1.67%	611,064,271	2.06%
	Domestic Shares	Nil	-	Nil	-	-	Nil	-	-	12,767,172,472	43.13%	34.97%	12,767,172,472	43.13%	34.88%	12,767,172,472	43.13%
Other Domestic Shareholders	Domestic Shares	13,514,021,324	67.32%	13,514,021,324	83.01%	58.30%	13,514,021,324	83.01%	58.05%	13,514,021,324	45.65%	37.03%	13,514,021,324	45.65%	36.92%	13,514,021,324	45.65%
<b>Sub-total</b>		16,280,000,000	81.10%	16,280,000,000	100.00%	70.23%	16,280,000,000	100.00%	69.93%	29,604,823,322	100.00%	81.10%	29,604,823,322	100.00%	80.88%	29,604,823,322	100.00%
Places of the Placing Shares	H Shares	Nil	-	3,105,000,000	45.00%	13.40%	3,205,000,000	45.79%	13.77%	3,105,000,000	45.00%	8.51%	3,205,000,000	45.79%	8.76%	3,205,000,000	45.79%
Other Public Shareholders of H Shares	H Shares	3,795,000,000	18.90%	3,795,000,000	55.00%	16.37%	3,795,000,000	54.21%	16.30%	3,795,000,000	55.00%	10.39%	3,795,000,000	54.21%	10.36%	3,795,000,000	54.21%
<b>Sub-total</b>		3,795,000,000	18.90%	6,900,000,000	100.00%	29.77%	7,000,000,000	100.00%	30.07%	6,900,000,000	100.00%	18.90%	7,000,000,000	100.00%	19.12%	7,000,000,000	100.00%
<b>Total</b>		20,075,000,000	100.00%	23,180,000,000	100.00%	100.00%	23,280,000,000	100.00%	100.00%	36,504,823,322	100.00%	100.00%	36,604,823,322	100.00%	100.00%	36,604,823,322	100.00%

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## LETTER FROM THE BOARD

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### *Notes:*

1. As at the Latest Practicable Date, the number of total issued Shares of the Bank is 20,075,000,000, comprising 16,280,000,000 Domestic Shares and 3,795,000,000 H Shares. To avoid any doubt, the 69,750,000 issued Preference Shares of the Bank have not been taken into account for the purpose of illustrating the change in the shareholding structure of the Bank due to the H Share Placement and the issuance of the Consideration Shares.
2. Henan Investment Group is wholly owned by the Finance Department of Henan Province (河南省財政廳). As at the Latest Practicable Date, Henan Investment Group directly holds 2,057,285,479 Domestic Shares of the Bank and indirectly holds 17,696,926 Domestic Shares and 200,000,000 Domestic Shares through its controlled corporations, i.e. Henan Investment Group Guarantee Co., Ltd. (河南投資集團擔保有限公司) and Zhongyuan Trust, respectively. Upon completion of the issuance of the Consideration Shares, the Bank will issue approximately 437,582,850 Consideration Shares to Zhongyuan Trust, and therefore Henan Investment Group will be deemed to be interested in a total of 2,712,565,255 Domestic Shares under Part XV of the SFO.
3. Mr. Li is an existing supervisor of the Bank. As at the Latest Practicable Date, Mr. Li indirectly holds 490,996,271 Domestic Shares through his beneficially controlled companies (including Henan Tianli). Upon completion of the issuance of the Consideration Shares, the Bank will issue approximately 120,068,000 Consideration Shares to Henan Tianli, and therefore Mr. Li will be deemed to be interested in a total of 611,064,271 Domestic Shares under Part XV of the SFO.
4. Among other Selling Shareholders (i.e. the Selling Shareholders other than Zhongyuan Trust and Henan Tianli), the largest single Selling Shareholder (i.e. Finance Bureau of Luoyang City (洛陽市財政局)) would hold approximately 1,361,571,120 Domestic Shares, representing (i) approximately 4.60% of the total issued Domestic Shares of the Bank upon completion of the issuance of the Consideration Shares, (ii) approximately 3.73% of the total issued Shares of the Bank upon completion of the H Share Placement (assuming the Placing Shares are subscribed for in minimum) and the issuance of the Consideration Shares in full, and (iii) approximately 3.72% of the total issued Shares of the Bank upon completion of the H Share Placement (assuming the Placing Shares are subscribed for in maximum) and the issuance of the Consideration Shares in full.

### **Scope of Authority**

Proposals of the Merger by Absorption will be put forward at the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting for the Shareholders to authorize the Board, who would in turn delegate such authority to the chairman of the Board, the president of the Bank and the secretary of the Board to handle matters in relation to the Merger by Absorption, the relevant authority will remain valid for 12 months from the date on which it is considered and approved at the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting, and if the Bank has obtained the approval or approval document from the CBIRC for the Merger by Absorption within the validity period, the validity period of the authorization will be automatically extended to the completion date of the Merger by Absorption.

### **AMENDMENTS TO THE ARTICLES OF ASSOCIATION IN CONNECTION WITH THE MERGER BY ABSORPTION**

As the registered capital of the Bank will change upon the completion of the issuance of the Consideration Shares, the Bank will submit the updated information to the CBIRC Henan Office in accordance with the requirements of PRC laws, regulations and other regulatory documents. Upon obtaining the approval, the Bank will amend the relevant articles in the Articles of Association and arrange for the change of registration particulars with the market supervision and administration authority.

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## LETTER FROM THE BOARD

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The Board proposed to the Shareholders for approval at the EGM, the H Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting to authorize the Board, who would in turn authorize the Chairman, the president of the Bank and the secretary of the Board to handle the approval or filing procedures in relation to the change of the registered capital of the Bank and apply for the change of the registration particulars with the market supervision and administration authority, the Registrar of Companies in Hong Kong and other competent government bodies in accordance with changes in domestic and foreign laws, regulations and other regulatory documents, and requirements and recommendations of domestic and overseas regulatory authorities and stock exchange where the Shares are listed.

### **IV. MAJOR TRANSACTION IN RELATION TO THE MANDATE FOR DISPOSAL OF ASSETS OF THE BANK**

#### **INTRODUCTION**

On 7 December 2021 (after trading hours), the Board resolved to propose the Disposal Mandate and propose to seek approval for the Disposal Mandate from the Shareholders at the EGM in advance to allow the Directors to dispose of the Disposal Assets of the Bank during the Mandate Period.

#### **DETAILS OF THE DISPOSAL UNDER THE DISPOSAL MANDATE**

The Disposal under the Disposal Mandate shall be on the following terms:

##### **Mandate Period**

The Disposal Mandate is for the Mandate Period, i.e., a period of 12 months from the date of passing of the relevant resolution(s) in respect of the Disposal under the Disposal Mandate at the EGM.

##### **Subject of the Disposal**

Subject to obtaining the approval from the Shareholders at the EGM and the fulfillment of any condition precedent of the specific disposal agreement(s) to be entered into in respect of the Disposal, the Bank will dispose of, and the purchaser(s) will purchase the Disposal Assets, being certain credit assets and other financial assets held by the Bank. The original book value of such Disposal Assets (including principals and interests accrued thereof) was approximately RMB25.9 billion (equivalent to approximately HK\$31.1 billion) as at 30 September 2021. The parties shall further enter into specific disposal agreements within the scope of the Disposal Mandate, and the Bank will in due course make further announcement(s) with respect to the material progress of the Disposal under the Disposal Mandate.

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## LETTER FROM THE BOARD

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### **Scope of Authority**

A proposal of the Disposal under the Disposal Mandate will be put forward at the EGM for the Shareholders to authorize the Board, who would in turn delegate such authority to the chairman of the Board to execute all documents, exercise the powers of the Bank, do such acts and things and to take all steps as they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Disposal under the Disposal Mandate and the transactions contemplated thereunder, the relevant authority will remain valid for 12 months from the date on which it is considered and approved at the EGM. The Board may seek approval of the extension of the validity period for the Disposal Mandate at general meetings depending on the circumstances.

### **Consideration and Payment of Consideration**

The preliminary total consideration for the Disposal Assets is no less than RMB9.0 billion (equivalent to approximately HK\$10.8 billion) and no more than RMB10.0 billion (equivalent to approximately HK\$12.0 billion), and the final amount of the total consideration for the Disposal Assets shall be subject to the specific disposal agreement(s) to be entered into between the Bank and potential purchaser(s) within the scope of the Disposal Mandate.

The total consideration for the Disposal Assets shall be settled by cash only, and the payment schedule for the sale and purchase of each relevant Disposal Assets shall be governed by each specific disposal agreement to be entered into between the Bank and potential purchaser(s).

### **Completion**

Upon completion of the Disposal under the Disposal Mandate, the interests in, benefits and obligations in relation to such assets, rights to request, demand, obtain and accept the receivables arising therefrom, sum of any loan repayment, and the rights and power in relation to the execution and realization of the value of the Disposal Assets, shall thereby be transferred from the Bank to the relevant purchaser(s).

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## LETTER FROM THE BOARD

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### Compliance with the Listing Rules

According to relevant PRC laws, bulk disposal of risk-bearing assets shall be conducted by bidding, auction and other public transfer methods. Further, pursuant to the Articles of Association of the Bank, the Disposal shall be approved by the Shareholders' meeting(s), after which the Disposal shall be materialized in the manner of public transfer such as bidding or competitive bidding in accordance with the principles of transparency, fairness and competition selection. In essence, the Bank, as the seller of the Disposal Assets, will send invitation letters to not less than three potential purchasers and tender or competitive bidding will be held after the approval by the Shareholders in respect of the Disposal, and the potential purchaser with the highest bid shall win the bidding. Therefore, in order to comply with the aforesaid regulatory requirement, and meanwhile to shorten the period of obtaining internal approval(s) of the Bank, the Board proposed to seek for the Shareholders' approval(s) in respect of the Disposal Mandate, pursuant to which the Board would be authorized to conduct necessary actions to materialize the Disposal within the scope of the Disposal Mandate approved by the Shareholders, including but not limited to the selection of the qualified purchaser(s) through public transfer methods such as tender or competitive bidding, and the execution of specific disposal agreements and other relevant legal documents.

The Disposal under the Disposal Mandate shall comply with relevant applicable laws and regulations, including any applicable trading regulations in Hong Kong. The Bank will also report the progress of the Disposal under the Disposal Mandate in the relevant interim report as well as the annual report of the Bank in compliance with the Listing Rules. Upon the Disposal becoming materialized, the Bank will publish further announcement(s) to disclose the information of, among others, the identity and a description of the principal business of the purchaser(s) of the Disposal and its(their) ultimate beneficial owner(s), as well as the payment terms of the Disposal.

The Bank will re-comply with the Listing Rules requirements and seek another shareholders' approval for the Disposal under the Disposal Mandate in the event that the Disposal under the Disposal Mandate cannot be completed within the Disposal Mandate.

To the best knowledge of the Directors, none of the Shareholders had a material interest in the transactions contemplated under the Disposal under the Disposal Mandate as at the Latest Practicable Date. Accordingly, none of the Shareholders will be required to abstain from voting at the EGM in respect of the relevant resolution(s) relating to the Disposal under the Disposal Mandate.

To the best knowledge of the Bank, none of the potential purchasers to whom the Bank intends to send invitation letters are connected persons of the Bank as at the Latest Practicable Date. In addition, the Bank will also state clearly in the invitation letters that if the potential purchaser of the Disposal Assets constitutes a connected person of the Bank under the Listing Rules, such potential purchaser shall not be entitled to join the tender or competitive bidding, to ensure that the potential purchaser who wins the bidding is not a connected person of the Bank.

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## LETTER FROM THE BOARD

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### BASIS OF CONSIDERATION

The preliminary total consideration for the Disposal under the Disposal Mandate payable by the Bank shall be no less than RMB9.0 billion (equivalent to approximately HK\$10.8 billion) and no more than RMB10.0 billion (equivalent to approximately HK\$12.0 billion). The consideration shall be determined based on arm's length negotiation between the Bank and potential purchaser(s) with reference to (i) the principal and interest accrued (i.e. the original book value before deducting any provision for impairment thereof) of the Disposal Assets as at 30 September 2021 in the amount of approximately RMB25.9 billion (equivalent to approximately HK\$31.1 billion); (ii) the marketability of the Disposal Assets among its potential purchasers; (iii) the prerequisite requirements for potential purchaser(s) to satisfy in order to participate in the Disposal and purchase the Disposal Assets; and (iv) the general market price of assets similar to the Disposal Assets purchased by financial asset management companies.

The Bank has assessed the value of the Disposal Assets in the following ways:

- (1) Conducting post-lending review and appraisal of asset classification and recoverable amount. Through on-site review and off-site review, the Bank regularly conducts post-lending review of loans and investment projects, and through review of the basic operating conditions of the borrower, the use of credit funds, major operating matters, financial conditions, progress of project implementation, settlement records, conditions of the guarantor and the collateral, the risk classification and stage division of the loan and investment assets are reviewed, and the recoverable amounts of the loan and investment assets are estimated;
- (2) Conducting due diligence work on assets to be disposed of. In accordance with the relevant requirements of the regulatory authorities on the bulk transfer of assets, and adhering to the principles of compliance with laws and regulations, openness and transparency, competitive selection and value maximization, the Bank conducted a seller's due diligence on the credit and non-credit assets to be transferred, and cleared up archives for conditions of assets and asset risks by reviewing files on asset and on-site investigations; and
- (3) Estimating the value of the Disposal Assets. Based on a seller's due diligence, the Bank adopted a scientific and reasonable appraisal plan to predict the recovery of assets on a case-by-case basis, and estimate the asset value as the pricing basis for asset transfer.

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## LETTER FROM THE BOARD

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When determining the consideration for the Disposal, the Bank has also considered the factors and conducted the actions as follows:

- (1) Under the overlaying effects from the downtrend in China's economic growth, the COVID-19 pandemic and the torrential rains in Henan Province, the Bank has to proactively optimize its credit policy and asset structure, as well as improve its capital operation efficiency to confront any adverse impact arising from the change in macro economy. In order to quickly recover its funds for investment in other potential high- quality assets and optimize its structure of asset investment, the Bank intends to strip off these assets by bulk disposal to qualified asset management companies. Such method is commonly used in the banking industry, which facilitates a quick transfer of banks' low-quality assets with standardized procedures and high transparency, but may result in a relatively large discount compared to the original book value of the relevant disposal assets;
- (2) Taking into account the factors such as the downtrend in China's economic growth and the COVID-19 pandemic, the consideration for the Disposal Assets has been determined by the Bank with reference to, among others, (i) the price discount range of bulk disposal of assets by the Bank and by other banks to qualified asset management companies in recent years, and (ii) the current supply and demand in respect of non- performing assets in the open market, which shows that the discount rate of the estimated disposal price of the Disposal Assets to their book value is in line with current market practice; and
- (3) The Bank has engaged third-party professional institutions to conduct preliminary due diligence on the Disposal Assets in accordance with the relevant requirements of the CBIRC on the bulk disposal of assets, including but not limited to (i) checking the current conditions of the Disposal Assets (such as the status of the pledges, the guarantee ability of the guarantors and other basic information), and (ii) analyzing the recoverable value of the Disposal Assets on a case-by-case basis. Based on the preliminary results of the above due diligence work, the Bank reasonably estimated the value of the Disposal Assets, and considered the market conditions of bulk disposal of assets by commercial banks, as well as determined the scope of consideration for the Disposal Assets, which is in line with current market practice.

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## LETTER FROM THE BOARD

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When determining the consideration of the Disposal Assets, the Bank has considered the following factors quantitatively:

- (1) The net book value of the Disposal Assets. As at 30 September 2021, the original book value (i.e. the original book value before deducting any provision for impairment thereof) of the Disposal Assets was RMB25.9 billion in total, and the net book value (after deducting the provision for impairment) of the Disposal Assets was RMB11.8 billion.
- (2) Price discount for bulk disposal of financial assets and restoration of lending quota. In common market practice, under the model of the bulk disposal of assets, taking into consideration of its capital occupation and financing costs, reasonable profit margins and other costs, the consideration for such bulk disposal that is acceptable to asset management companies is generally lower than the net book value of the assets to be disposed of in bulk.

Although the sales price is expected to be closer to the net book value of the assets to be disposed of under the model of recovering on an account-by-account basis, it is commonly reasonable and acceptable for banks as the bulk disposal enables banks to re-collect such capital in a rapid manner and use such re-collected capital to participate in other investment activities for better returns. In respect of the Disposal, considering the number and period of assets disposed by the Bank in the past years, it is expected that the Bank will take approximately three to five years to complete, on an account-by-account basis, the disposal of all the Disposal Assets. In contrast, the Disposal would immediately restore a lending quota of RMB25.9 billion for the Bank under the bulk disposal, which is expected to generate incremental interest income of approximately RMB1 billion per year with reference to the Bank's annualized yield on interest-earning assets from January to June 2021. Therefore, the discount loss under the Disposal could be substantially covered.

In light of the above, the Bank is of the view that the total consideration of the Disposal Assets in the amount of approximately RMB9.0 billion to RMB10.0 billion, is fair and reasonable.

## LETTER FROM THE BOARD

### INFORMATION ON THE DISPOSAL ASSETS

The Disposal Assets of the Bank include certain loans, investment and other assets held by the Bank. The loans to be disposed of are corporate loans with a total original value of RMB15.2 billion in principal and interest accrued, accounting for 59% of the total Disposal Assets. Investment and other assets mainly include trust plans managed by trust companies, and beneficiary rights to asset management plans issued or managed by securities companies or asset management companies and receivables with a total original value of RMB10.7 billion in principal and interest accrued, accounting for 41% of the total Disposal Assets. The breakdown by industry and overdue status of the Disposal Assets are as below:

#### 1. Breakdown of the Disposal Assets by Industry as at 30 September 2021

Breakdown of the Disposal Assets by industry as at 30 September 2021 are as below:

*Unit: RMB million*

	Corporate loans		Investments and other assets		Total	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Renting and business activities	920.18	6.04%	568.36	5.31%	1,488.54	5.74%
Manufacturing	4,913.51	32.26%	493.65	4.62%	5,407.16	20.86%
Real estate	2,032.53	13.34%	3,735.35	34.94%	5,767.88	22.25%
Wholesale and retail trade	2,499.08	16.41%	–	–	2,499.08	9.64%
Construction	962.48	6.32%	–	–	962.48	3.71%
Water, environment and public utility	278.32	1.83%	846.18	7.92%	1,124.50	4.34%
Production and supply of electric power, gas and water	358.94	2.36%	–	–	358.94	1.38%
Transportation, storage and postal services	70.29	0.46%	–	–	70.29	0.27%
Agriculture, forestry, animal husbandry and fishery	843.59	5.54%	315.47	2.95%	1,159.06	4.47%
Education	9.28	0.06%	–	–	9.28	0.04%
Accommodation and catering	1,309.67	8.60%	544.66	5.10%	1,854.33	7.15%
Mining	88.59	0.58%	–	–	88.59	0.34%
Others	945.18	6.20%	4,186.29	39.16%	5,131.47	19.81%
<b>Total</b>	<b>15,231.64</b>	<b>100.00%</b>	<b>10,689.96</b>	<b>100.00%</b>	<b>25,921.60</b>	<b>100.00%</b>

## LETTER FROM THE BOARD

### 2. Overdue Status of the Disposal Assets as at 30 September 2021

Overdue status of the Disposal Assets of the Bank as at 30 September 2021 are as below:

*Unit: RMB million*

	Corporate loans		Investments and other assets		Total	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Not Overdue	9,060.43	59.48%	293.67	2.74%	9,354.10	36.09%
Overdue within three months (inclusive)	2,029.39	13.32%	279.91	2.62%	2,309.30	8.91%
Overdue more than three months to one year (inclusive)	1,836.79	12.06%	1,979.84	18.52%	3,816.63	14.72%
Overdue more than one year	2,305.03	15.14%	8,136.54	76.12%	10,441.57	40.28%
<b>Total</b>	<b>15,231.64</b>	<b>100.00%</b>	<b>10,689.96</b>	<b>100.00%</b>	<b>25,921.60</b>	<b>100.00%</b>

As stated above, the principal and interest accrued (before deducting any provision for impairment thereof) of the Disposal Assets was approximately RMB25.9 billion as at 30 September 2021. The impairment provision of the Disposal Assets made by the Bank was approximately RMB14.1 billion as at 30 September 2021. The provision for impairment made by the Bank was based on the following considerations:

- (1) The Bank operates mainly in Henan Province. In the third quarter of 2021, some of the Bank's assets have been under certain pressure. To be specific, in the third quarter of 2021, due to the impact of torrential rains and the COVID-19 pandemic in Henan Province, some borrowers of the Bank have encountered challenges in operation, finance and liquidity. Their solvency has been reduced, resulting in loan principals/interests overdue. Therefore, the Bank shall actively optimize its credit policy and asset structure, and improve the Bank's capital operation efficiency to respond to changes in the economic environment.
- (2) For loans and investment assets to be disposed of, the Bank conducted post-loan checks in accordance with the Bank's system, assessed the recoverable amount of the relevant assets on an ongoing basis, and made provision for impairment based on the recoverable amount of the relevant assets.

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## LETTER FROM THE BOARD

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Based on the above factors, the Bank made provisions for impairment of the Disposal Assets to be sold in accordance with relevant requirements of IFRS 9-Financial Instruments based on the expected credit loss model. In determining the impairment provision, on the basis of the expected credit loss model, the Bank has taken into consideration factors including the probability of default, the loss given default and the exposure at default of such financial assets, and has estimated the provision for impairment of the Disposal Assets as at 30 September 2021.

### **FINANCIAL EFFECT OF THE DISPOSAL UNDER THE DISPOSAL MANDATE ON THE BANK**

Upon completion of the Disposal under the Disposal Mandate, the Bank will receive the consideration of no less than RMB9.0 billion and no more than RMB10.0 billion, and the principal and interest accrued of the Disposal Assets will be reduced by approximately RMB25.9 billion, of which the principal and interest accrued of loans will be reduced by approximately RMB15.2 billion, and the principal and interest accrued of investments and other assets will be reduced by RMB10.7 billion. Disposal of these assets will release the amount of loans and improve the bank's asset structure and quality.

As the net book value of the Disposal Assets was approximately RMB11.8 billion as at 30 September 2021 and the consideration is expected to be no less than RMB9.0 billion and no more than RMB10.0 billion, the expected loss from the Disposal would be (i) around RMB1.8 billion to RMB2.8 billion (excluding the impact of income tax); and (ii) around RMB1.3 billion to RMB2.1 billion (including the impact of income tax). The actual loss from the Disposal will be finalized after the entering into of the specific disposal agreement(s) between the Bank and the purchaser(s) of the Disposal Assets, and the actual loss amount may be different from the above estimated amount.

Shareholders should note that the results of the transaction will be subject to certain factors such as asset status on the closing date, relevant transaction costs, therefore the actual results may be different from the amount mentioned above.

Upon the completion of the Disposal, the net profit for the period during which the Disposal occurs will reduce by RMB1.3 billion to RMB2.1 billion, and the total assets of the Bank will reduce by RMB1.3 billion to RMB2.1 billion; while the Disposal will have no impact on the liabilities of the Bank.

### **USE OF PROCEEDS**

The proceeds from the Disposal under the Disposal Mandate will be no less than RMB9.0 billion and no more than RMB10.0 billion. The proceeds after deduction of the small-amount taxes and fees such as stamp duty and handling fees are intended to be used for the general working capital of the Bank, improving assets quality and reducing the use of capital. In particular, 80% of the net proceeds from the Disposal will be used as loans to support local economic development, and 20% thereof will be invested in high-quality liquid assets such as

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## LETTER FROM THE BOARD

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bonds, thereby improving the capital adequacy ratio and liquidity of the Bank. 60% of the loan to be used to support local economic development will be used to grant loans to individuals and micro and small businesses which have relatively low occupation of funds and high overall yields in order to provide more supports for inclusive services, and the remaining 40% will be used to grant loans to governments and enterprises. The granting of loans will focus on areas including advanced manufacturing, modern service and projects in relation to green economy and rural revitalization.

The Bank does not consider using the proceeds from the Disposal under the Disposal Mandate to finance the Merger by Absorption, which are primarily for the following reasons:

- (1) Based on preliminary assessments, if the consideration for the Merger by Absorption is paid in cash, the core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of the Bank would decrease to approximately 4.39%, 5.62% and 7.94%, respectively, which are far below the regulatory level; and
- (2) Based on preliminary assessments, even if the consideration for the Merger by Absorption is fully settled by the issuance of the Consideration Shares, upon completion of the Merger by Absorption and the Disposal under the Disposal Mandate, the core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of the Bank after the Merger by absorption will be 7.89%, 9.63% and 12.36% respectively, which are slightly higher than the regulatory level but still lower than the industry average level. Therefore, it is infeasible for the Bank to settle the consideration for the Merger by Absorption by cash.

### REASONS FOR AND BENEFITS OF THE DISPOSAL UNDER THE DISPOSAL MANDATE

The Disposal will enable the Bank to improve its asset quality, effectively enhance its risk resistance capacity and increase its profitability in the future, which can provide the foundation for the Bank to realize the overall stable operation and so as to further improve its comprehensive competitiveness and promote its sustainable development. The detailed reasons are as follows:

- (1) Among the Disposal Assets, the original value of principal and interest accrued of corporate loans was approximately RMB15.2 billion, and the original value of principal and interest accrued of investment and other assets was approximately RMB10.7 billion, approximately RMB25.9 billion in total. Stripping off such assets will release the amount of loans, improve the Bank's asset structure and quality, and further enhance the Bank's ability to resist risks.
- (2) The proposed consideration for the Disposal under the Disposal Mandate is not less than RMB9.0 billion and no more than RMB10.0 billion. The consideration received will be used to replenish the working capital of the Bank, a portion of which will be used for granting loans to facilitate the development of the real economy, and the

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## LETTER FROM THE BOARD

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remaining portion will be used for investment in highly liquid assets such as bonds, in order to further optimize the asset-liability structure of the Bank, improve its various regulatory indicator and increase its profitability.

In light of the above analysis, after the Disposal under the Disposal Mandate, the stripping off of certain loans and investment assets of the Bank will be completed, the operational efficiency will be further improved, and the availability of economic capital will be enhanced, so that the asset-liability structure and asset quality of the Bank will be optimized and risk resistance capacity of the Bank will be continuously enhanced. Under the backdrop of the prudent risk management policy, it is expected that the amount of impairment provisions to be made by the Bank will be reduced in the future, thus releasing more profits and enhancing its profitability of the Bank.

Taking into consideration the aforesaid, the Directors consider that the terms of the Disposal under the Disposal Mandate are fair and reasonable and in the interests of the Bank and the Shareholders as a whole.

### **INFORMATION ON THE PARTIES OF THE DISPOSAL UNDER THE DISPOSAL MANDATE**

#### **The Bank**

The Bank is an enterprise mainly engaged in banking business. It is the first provincial corporate bank in Henan province, which was established on December 23, 2014, and headquartered in Zhengzhou City, Henan Province, China. On July 19, 2017, the Bank was listed on the main board of the Stock Exchange. The Bank is mainly engaged in absorbing public deposits, issuing short-term, medium-term and long-term loans, handling domestic and international settlement, bills acceptance and discounting and other businesses.

The Bank will be the seller under the Disposal under the Disposal Mandate.

### **V. LISTING RULE IMPLICATION**

#### **The H Share Placement**

The H Share Placement to independent third parties will be conducted under the Specific Mandate. Pursuant to the Articles of Association and Rule 19A.38 of the Listing Rules, the Bank will convene the EGM, the H Share Class Meeting and the Domestic Share Class Meeting to seek approvals from the Shareholders in relation to the H Share Placement under the Specific Mandate.

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## LETTER FROM THE BOARD

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To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, no existing Shareholder had any material interest in the H Share Placement, therefore no Shareholder is required to abstain from voting in the resolution(s) to be proposed at the EGM, the H Share Class Meeting and the Domestic Share Class Meeting to approve the H Share Placement under the Specific Mandate.

### **The Merger by Absorption**

As one or more of the applicable percentage ratios of the Merger by Absorption exceed 100%, the Merger by Absorption constitutes a very substantial acquisition for the Bank under Chapter 14 of the Listing Rules. Accordingly, the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder are subject to the reporting, announcement and the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, (i) Zhongyuan Trust, one of the Selling Shareholders, was a non-wholly owned subsidiary of Henan Investment Group (a substantial shareholder of the Bank), and (ii) Henan Tianli, one of the Selling Shareholders, was a company beneficially controlled by Mr. Li (an existing supervisor of the Bank). Therefore, both Zhongyuan Trust and Henan Tianli are connected persons of the Bank. Under the Merger by Absorption, the Bank will issue approximately 437,582,850 Consideration Shares to Zhongyuan Trust and approximately 120,068,000 Consideration Shares to Henan Tianli upon completion of the issuance of the Consideration Shares. Therefore, the entering into of the Merger and Absorption Agreement constitutes a connected transaction of the Bank under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular (including the letter from the Independent Financial Adviser) and the Independent Shareholders' approval requirements.

Henan Investment Group directly holds 2,057,285,479 Domestic Shares and indirectly holds 17,696,926 Domestic Shares and 200,000,000 Domestic Shares through its controlled corporations, i.e. Henan Investment Group Guarantee Co., Ltd. (河南投資集團擔保有限公司) and Zhongyuan Trust, respectively. Therefore, Henan Investment Group and its associates were entitled to exercise control over the voting rights in respect of 2,274,982,405 Domestic Shares, representing approximately 13.97% of the total issued Domestic Shares, and approximately 11.33% of the total issued shares of the Bank as at the Latest Practicable Date.

Mr. Li indirectly holds 490,996,271 Domestic Shares through his beneficially controlled companies (including Henan Tianli). Therefore, Mr. Li and his associates are entitled to exercise control over the voting rights in respect of 490,996,271 Domestic Shares, representing approximately 3.02% of the total issued Domestic Shares, and approximately 2.45% of the total issued shares of the Bank as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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Accordingly, Henan Investment Group, Mr. Li and their respective associates will be required to abstain from voting on the relevant resolutions in respect of the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder at the EGM and the Domestic Share Class Meeting.

Save as disclosed above, to the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, no other Shareholder has a material interest in the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder and will be required to abstain from voting on the relevant resolutions to approve the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder at the EGM, the H Share Class Meeting and the Domestic Share Class Meeting.

According to the PRC Company Law and the Articles of Association, at the EGM, the H Share Class Meeting and the Domestic Share Class Meeting, the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder must be approved by more than two-thirds of the votes attaching to the relevant Shares held by the attending Independent Shareholders that are cast either in person or by proxy.

In addition, according to the Trial Administrative Measures on Preference Shares 《(優先股試點管理辦法)》 and Article 305 of the Articles of Association of the Bank, any merger, split, dissolution or change in the corporate form of the Bank shall also be subject to the approval of the Preference Shareholders, the Bank shall notify the Preference Shareholders and convene a Preference Share class meeting in the same procedures with those for the ordinary Shareholders' general meetings of the Bank.

Therefore, the Preference Share Class Meeting shall be convened to consider, and if thought fit, to approve the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder by the Preference Shareholders.

According to the PRC Company Law and the Articles of Association, at the Preference Share Class Meeting, the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder must be approved by more than two-thirds of the votes attaching to the relevant Shares held by the

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## LETTER FROM THE BOARD

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attending Preference Shareholders that are cast either in person or by proxy. For details of the attendance and voting procedures of the Preference Share Class Meeting, please refer to the notice of the Preference Share Class Meeting set out on pages X-1 to X-7 of this circular.

To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, no Preference Shareholder has a material interest in the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder and will be required to abstain from voting on the relevant resolutions to approve the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder at the Preference Share Class Meeting.

### **The Disposal under the Disposal Mandate**

As one or more of the applicable percentage ratios of the Disposal under the Disposal Mandate exceed 25% but are all less than 75%, the Disposal under the Disposal Mandate constitutes a major transaction for the Bank under Chapter 14 of the Listing Rules. Accordingly, the Disposal under the Disposal Mandate and the transactions contemplated thereunder are subject to the reporting, announcement and the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, no existing Shareholder had any material interest in the Disposal under the Disposal Mandate, therefore no Shareholder is required to abstain from voting in the resolution(s) to be proposed at the EGM to approve the Disposal under the Disposal Mandate.

### **Directors' Confirmation**

The non-executive Director, namely, Ms. Zhang Qiuyun, as a Director nominated by Henan Investment Group (a substantial shareholder of the Bank), has abstained from voting on the resolution of the Board approving the Merger by Absorption (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association) pursuant to the Articles of Association.

Save as disclosed above, none of the Directors has a material interest in (i) the proposed H Share Placement, (ii) the Merger by Absorption (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association), and (iii) the Disposal Mandate and was required to abstain from voting on the relevant resolutions for the approval by the Board according to the Articles of Association.

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## LETTER FROM THE BOARD

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### **VI. THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER**

Pursuant to the Listing Rules, the Independent Board Committee has been set up, consisting all independent non-executive Directors to advise the Independent Shareholders and the Preference Shareholders in respect of the relevant terms of the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder. Maxa Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee, the Independent Shareholders and the Preference Shareholders on whether the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) under the Merger and Absorption Agreement are fair and reasonable and whether such transactions are in the interests of the Bank and its Shareholders as a whole.

### **VII. EGM AND SHAREHOLDERS' CLASS MEETINGS**

The Bank will convene the EGM at 2:30 p.m. on 10 March 2022 (Thursday) at Sheraton Grand Zhengzhou Hotel, No. 33, Jinshui East Road, Zhengdong New District, Zhengzhou, Henan Province, the PRC, to consider and approve, if thought fit, the resolutions as set out in the notice of the EGM. The notice of the EGM is set out on pages VII-1 to VII-4 of this circular, and was despatched by the Bank on 18 February 2022.

The Bank will convene the H Share Class Meeting at 3:00 p.m. (or immediately after the conclusion or adjournment of the EGM) on 10 March 2022 (Thursday) at Sheraton Grand Zhengzhou Hotel, No. 33, Jinshui East Road, Zhengdong New District, Zhengzhou, Henan Province, the PRC, to consider and approve, if thought fit, the resolutions as set out in the notice of the H Share Class Meeting. The notice of the H Share Class Meeting is set out on pages VIII-1 to VIII-4 of this circular, and was despatched by the Bank on 18 February 2022.

The Bank will convene the Domestic Share Class Meeting at 3:30 p.m. (or immediately after the conclusion or adjournment of the H Share Class Meeting) on 10 March 2022 (Thursday) at Sheraton Grand Zhengzhou Hotel, No. 33, Jinshui East Road, Zhengdong New District, Zhengzhou, Henan Province, the PRC, to consider and approve, if thought fit, the resolutions as set out in the notice of the Domestic Share Class Meeting. The notice of the Domestic Share Class Meeting is set out on pages IX-1 to IX-4 of this circular, and was despatched by the Bank on 18 February 2022.

The Bank will convene the Preference Share Class Meeting at 4:00 p.m. (or immediately after the conclusion or adjournment of the Domestic Share Class Meeting) on 10 March 2022 (Thursday) at Sheraton Grand Zhengzhou Hotel, No. 33, Jinshui East Road, Zhengdong New District, Zhengzhou, Hena Province, the PRC, to consider and approve, if thought fit, the resolutions as set out in the notice of the Preference Share Class Meeting. The notice of the Preference Share Class Meeting is set out on pages X-1 to X-7 of this circular, and was despatched by the Bank on 18 February 2022.

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## LETTER FROM THE BOARD

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Whether or not you intend to attend and/or vote at the EGM, the H Share Class Meeting and/or the Domestic Share Class Meeting in person, you are requested to complete the relevant form(s) of proxy in accordance with the instructions printed thereon. Completion and return of the form(s) of proxy will not preclude you from attending in person or voting at the EGM, the H Share Class Meeting or the Domestic Share Class Meeting, or any adjournment thereof should you so wish. The forms of proxy for each of the EGM, the H Share Class Meeting and the Domestic Share Class Meeting were despatched on 18 February 2022 (Friday) in accordance with the Listing Rules.

Details relating to the record date for the Preference Shareholders, and the procedures for attending and voting at the Preference Share Class Meeting are set out in the notice of the Preference Share Class Meeting on pages X-1 to X-7 of this circular.

### **Voting by Poll**

Pursuant to Rule 13.39(4) of the Listing Rules, all resolutions to be proposed at the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting must be taken by poll. The chairman of the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting will therefore demand a poll for every such resolution put to the vote at the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting. On a poll, every Shareholder present in person or by proxy or (being a corporation) by its duly authorized representative shall have one vote for each Share registered in his or her name in the register of Shareholders. A Shareholder entitled to more than one vote needs not use all his or her votes or casts all the votes he or she uses in the same way.

The H Share Placement and the transactions contemplated thereunder will be proposed by way of special resolution at the EGM, the H Share Class Meeting and the Domestic Share Class Meeting for approval by the Shareholders.

The Merger and Absorption Agreement and the transactions contemplated thereunder (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection to the Merger by Absorption) will be proposed by way of special resolution at the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting to be approved by more than two-thirds of the votes attaching to the relevant Shares held by the Independent Shareholders and the attending Preference Shareholders that are cast either in person or by proxy.

The Disposal Mandate and the transactions contemplated thereunder will be proposed by way of ordinary resolution at the EGM for approval by the Shareholders.

As at the Latest Practicable Date, (i) Zhongyuan Trust, one of the Selling Shareholders, was a non-wholly owned subsidiary of Henan Investment Group (a substantial shareholder of the Bank), and (ii) Henan Tianli, one of the Selling Shareholders, was a company beneficially controlled by Mr. Li (an existing supervisor of the Bank). Therefore, both Zhongyuan Trust and

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## LETTER FROM THE BOARD

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Henan Tianli are connected persons of the Bank. Under the Merger by Absorption, the Bank will issue approximately 437,582,850 Consideration Shares to Zhongyuan Trust and approximately 120,068,000 Consideration Shares to Henan Tianli upon completion of the issuance of the Consideration Shares. Therefore, the entering into of the Merger and Absorption Agreement constitutes a connected transaction of the Bank under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular (including the letter from the Independent Financial Adviser) and the Independent Shareholders' approval requirements.

Henan Investment Group directly holds 2,057,285,479 Domestic Shares and indirectly holds 17,696,926 Domestic Shares and 200,000,000 Domestic Shares through its controlled corporations, i.e. Henan Investment Group Guarantee Co., Ltd. (河南投資集團擔保有限公司) and Zhongyuan Trust, respectively. Therefore, Henan Investment Group and its associates are entitled to exercise control over the voting rights in respect of 2,274,982,405 Domestic Shares, representing approximately 13.97% of the total issued Domestic Shares, and approximately 11.33% of the total issued shares of the Bank as at the Latest Practicable Date.

Mr. Li indirectly holds 490,996,271 Domestic Shares through his beneficially controlled companies (including Henan Tianli). Therefore, Mr. Li and his associates are entitled to exercise control over the voting rights in respect of 490,996,271 Domestic Shares, representing approximately 3.02% of the total issued Domestic Shares, and approximately 2.45% of the total issued shares of the Bank as at the Latest Practicable Date.

Accordingly, Henan Investment Group, Mr. Li and their respective associates will be required to abstain from voting on the relevant resolutions in respect of the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder at the EGM and the Domestic Share Class Meeting.

Save as disclosed above, to the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, no other Shareholder has a material interest in (i) the proposed H Share Placement, (ii) the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder, or (iii) the Disposal Mandate, and will be required to abstain from voting on the relevant resolutions at the EGM, the H Share Class Meeting, the Domestic Share Class Meeting, and the Preference Share Class Meeting.

The voting results of the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting will be published on both the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Bank ([www.zybank.com.cn](http://www.zybank.com.cn)) in accordance with the Listing Rules.

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## LETTER FROM THE BOARD

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### **Closure of Register of Members and the Eligibility for Attending and Voting at the EGM and Shareholders' Class Meetings**

#### ***H Shareholders and Domestic Shareholders***

The Bank's register of members will be closed from 7 March 2022 (Monday) to 10 March 2022 (Thursday), both days inclusive, during which period no transfer of Shares will be effected. The Shareholders whose names appear in the Bank's register of members on 9 March 2022 (Wednesday) shall be entitled to attend and vote at the EGM, the H Share Class Meeting and the Domestic Share Class Meeting.

To be eligible for attending and voting at the EGM, the H Share Class Meeting and the Domestic Share Class Meeting, all transfer documents together with the relevant share certificates and other appropriate documents must be lodged with the H Share Registrar, namely, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for the H Shareholders) or the office of the Board at Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, the PRC (for the Domestic Shareholders) not later than 4:30 p.m., 4 March 2022 (Friday) for registration.

#### ***Preference Shareholders***

For details of the closure of register of members of the Preference Share Class Meeting, please refer to the notice of the Preference Share Class Meeting set out on pages X-1 to X-7 of this circular.

#### **Recommendation**

The Board (including the independent non-executive Directors) considers that the resolutions to be proposed at the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting are in the interests of the Bank and the Shareholders as a whole. Accordingly, the Board recommends that Shareholders vote in favor of the resolutions to be proposed at the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting.

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## LETTER FROM THE BOARD

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### Additional Information

Your attention is also drawn to the additional information set out in other sections of and the appendices to this circular including (i) the letter from the Independent Board Committee, (ii) the letter from the Independent Financial Adviser, (iii) financial information of the Group, (iv) financial information of the Target Banks, (v) unaudited pro forma financial information of the Group upon completion of the Merger by Absorption, (vi) valuation report of the Bank, (vii) valuation report of the Target Banks, (viii) notices of the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting.

The exchange rate used for reference purpose in this circular is RMB1.00 to HK\$1.20.

**The proposed H Share Placement, and the Merger by Absorption are subject to a number of conditions precedent, including the approvals from the Shareholders, the Independent Shareholders and the Preference Shareholders (in respect of the Merger by Absorption only), the approvals from the shareholders of each of the Target Banks, and approvals from relevant regulatory bodies, which may or may not be fulfilled. There is no assurance that the Bank will proceed with the Disposal after obtaining the Disposal Mandate, and whether and when the Bank will proceed with the Disposal or not will depend on a number of factors including without limitation the prevailing market sentiments and market conditions at the proposed time of executing the Disposal. The Shareholders and potential investors of the Bank should exercise caution when they deal or contemplate dealing in the Shares or other securities (if any) of the Bank.**

**The Shareholders and potential investors of the Bank are advised to exercise caution when dealing in the shares of the Bank, and are recommended to consult their stockbroker, bank manager, solicitor or other professional adviser if they are in any doubt about their position and as to actions they should take.**

By Order of the Board  
**Zhongyuan Bank Co., Ltd.\***  
**XU Nuojin**  
*Chairman*

Zhengzhou, the PRC  
18 February 2022

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

# *For identification purpose only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the letter of advice from the Independent Board Committee to the Independent Shareholders and the Preference Shareholders, which has been prepared for the purpose of inclusion in this circular.*

**中原銀行股份有限公司\***  
**ZHONGYUAN BANK CO., LTD.\***

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

**(Stock Code of H Shares: 1216)**

**(Stock Code of Preference Shares: 4617)**

18 February 2022

To the Independent Shareholders and Preference Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED  
TRANSACTION IN RELATION TO THE MERGER BY  
ABSORPTION OF EACH OF THE TARGET BANKS AND  
THE PROPOSED ISSUE OF THE CONSIDERATION SHARES**

We refer to the circular of the Company dated 18 February 2022 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders and the Preference Shareholders as to whether, in our opinion, the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) are in the ordinary and usual course of business of the Group, are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders and the Preference Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders and the Preference Shareholders how to vote at the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting.

Maxa Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee, the Independent Shareholders and the Preference Shareholders as to the foregoing matters. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 52 to 76 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 8 to 49 of the Circular and the additional information set out in the appendixes of the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the terms of the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) and taking into account the advice and recommendation of Maxa Capital, we are of the opinion that the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption), though not in the ordinary and usual course of business of the Group, are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders and the Preference Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders and the Preference Shareholders to vote in favour of the relevant resolution(s) as set out in the notice of the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting.

Yours faithfully,  
Independent Board Committee of  
**Zhongyuan Bank Co., Ltd.**

Pang Hong  
*Independent non-executive Director*

Li Hongchang  
*Independent non-executive Director*

Jia Tingyu  
*Independent non-executive Director*

Chan Ngai Sang Kenny  
*Independent non-executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the letter of advice from Maxa Capital, the Independent Financial Adviser, to the Independent Board Committee, the Independent Shareholders and the Preference Shareholders, which has been prepared for the purpose of inclusion in this circular.*



Unit 1908, Harbour Center  
25 Harbour Road  
Wan Chai  
Hong Kong

18 February 2022

*To the Independent Board Committee, the Independent Shareholders and the Preference Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED  
TRANSACTION IN RELATION TO THE MERGER BY  
ABSORPTION OF EACH OF THE TARGET BANKS AND  
THE PROPOSED ISSUE OF THE CONSIDERATION SHARES**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board of Committee and the Independent Shareholders in relation to the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 18 February 2022 issued by the Bank (“the **Circular**”) of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 26 January 2022 (after trading hours), the Bank, Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS, entered into the Merger and Absorption Agreement, pursuant to which each of the Target Banks will be merged and absorbed into the Bank in accordance with the PRC Company Law and other applicable PRC laws. Under the Merger and Absorption Agreement, the Bank has conditionally agreed to acquire all the shares held by the Selling Shareholders in the Target Banks in the total consideration of approximately RMB28,470 million (equivalent to approximately HK\$34,164 million), all of which will be satisfied by the issuance of the Consideration Shares to the Selling Shareholders, respectively.

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As the highest applicable percentage ratios of the Merger by Absorption exceeds 100%, the Merger by Absorption constitutes a very substantial acquisition for the Bank under Chapter 14 of the Listing Rules. Accordingly, the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder are subject to the reporting, announcement and the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, (i) Zhongyuan Trust, one of the Selling Shareholders, is a non-wholly owned subsidiary of Henan Investment Group (a substantial shareholder of the Bank), and (ii) Henan Tianli, one of the Selling Shareholders, is a company beneficially controlled by Mr. Li (an existing supervisor of the Bank). Therefore, both Zhongyuan Trust and Henan Tianli are connected persons of the Bank. Under the Merger by Absorption, the Bank will issue approximately 437,582,850 Consideration Shares to Zhongyuan Trust and approximately 120,068,000 Consideration Shares to Henan Tianli upon completion of the issuance of the Consideration Shares. Therefore, the entering into the Merger and Absorption Agreement constitutes a connected transaction of the Bank under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular (including the letter from the Independent Financial Adviser) and the Independent Shareholders' approval requirements.

Henan Investment Group directly holds 2,057,285,479 Domestic Shares and indirectly holds 17,696,926 Domestic Shares and 200,000,000 Domestic Shares through its controlled corporations, i.e. Henan Investment Group Guarantee Co., Ltd. (河南投資集團擔保有限公司) and Zhongyuan Trust, respectively. Therefore, Henan Investment Group and its associates are entitled to exercise control over the voting rights in respect of 2,274,982,405 Domestic Shares, representing approximately 13.97% of the total issued Domestic Shares, and approximately 11.33% of the total issued shares of the Bank as at the Latest Practicable Date.

Mr. Li indirectly holds 490,996,271 Domestic Shares through his beneficially controlled companies (including Henan Tianli). Therefore, Mr. Li and his associates are entitled to exercise control over the voting rights in respect of 490,996,271 Domestic Shares, representing approximately 3.02% of the total issued Domestic Shares, and approximately 2.45% of the total issued shares of the Bank as at the Latest Practicable Date.

Accordingly, Henan Investment Group, Mr. Li and their respective associates will be required to abstain from voting on the relevant resolutions in respect of the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder at the EGM and the Domestic Share Class Meeting.

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In addition, according to the Trial Administrative on Preference Shares (《優先股試點管理辦法》) and Article 305 of the Articles of Association of the Bank, any merger, split, dissolution or change in the corporate form of the Bank shall also be subject to the approval of the Preference Shareholders, the Bank shall notify the Preference Shareholders and convene a Preference Share class meeting in the same procedures with those for the ordinary Shareholders' general meetings of the Bank. Therefore, the Preference Share Class Meeting shall be convened to consider, and if thought fit, to approve the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder by the Preference Shareholders.

To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, no Preference Shareholder has a material interest in the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder and will be required to abstain from voting on the relevant resolutions to approve the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder at the Preference Share Class Meeting.

The Independent Board Committee comprising of all independent non-executive Directors has been established to advise the Independent Shareholders and the Preference Shareholders in respect of the relevant terms of the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder. We, Maxa Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee, the Independent Shareholders and the Preference Shareholders in this regard.

### OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Bank in accordance with Rule 13.84 of the Listing Rules and accordingly, are qualified to give independent advice to the Independent Board Committee, the Independent Shareholders and the Preference Shareholders in respect of the terms of Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder. Save for our appointment as the Independent Financial Adviser in respect of the Merger by Absorption, there was no other engagement between the Bank and us in the last two years. Apart from the normal advisory fee payable to us in connection with this appointment, no arrangement exists whereby we shall receive any other fees or benefits from the Bank.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Bank (the “**Management**”). We have reviewed, inter alia, the statements, the information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the Management. We consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have assumed that (i) all statements, information and representations provided by the Directors and the Management; and (ii) the information referred to in the Circular, for which they are solely responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such information and representations before the EGM. We have also assumed that all statements of belief, opinion, intention and expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration.

The Bank confirmed that they have, at our request, provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the representation and opinions expressed by the Bank, its advisers, the Directors and the Management. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the Management nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Bank, the Target Banks, the Selling Shareholders and each of their respective subsidiaries or associates.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

#### **1. Background information of the Group**

The Bank is principally engaged in banking services. It is the first provincial corporate bank in Henan Province, which was established on 23 December 2014 and headquartered in Zhengzhou City, Henna Province, PRC. On 19 July 2017, the Bank was listed on the main board of the Stock Exchange. The Bank is mainly engaged in absorbing public deposits, issuing short-term, medium-term and long-term loans, handling domestic and international settlement, bills acceptance and discounting and other businesses.

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Set out below is the summarised financial information of the Bank for the three years ended 31 December 2020 and the six months ended 30 June 2020 and 2021 extracted from the 2019 annual report, the 2020 annual report and the 2021 interim report of the Bank, respectively:

	For the year ended			For the six months	
	31 December			ended 30 June	
	2018	2019	2020	2020	2021
	(audited)	(restated)	(audited)	(unaudited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Interest income</b>	25,241,459	29,352,469	30,946,025	15,362,353	15,995,221
<b>Net interest income</b>	13,744,188	15,707,741	16,564,992	8,312,634	8,448,591
<b>Net profit attributable to shareholders</b>	2,414,576	3,163,849	3,300,822	1,972,018	2,079,477

	As at 31 December			As at
	2018			30 June
	2018	2019	2020	2021
	(audited)	(audited)	(audited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Total assets</b>	620,444,269	709,885,029	757,482,472	753,001,498
<b>Total liabilities</b>	564,766,513	652,053,965	698,127,211	691,625,984
<b>Total equity</b>	55,677,756	57,831,064	59,355,261	61,375,514

As shown in the table above, the Bank recorded steady growth in the interest income during the three years ended 31 December 2020 and the six months ended 30 June 2021 (“1H2021”). For the year ended 31 December 2019 (“FY2019”), the Group’s interest income amounted to approximately RMB29,352.5 million, representing an increase of approximately 16.3% as compared to that for the year ended 31 December 2018 (“FY2018”), and it is mainly attributable to the increase in the interest income from loans and advances to customers by approximately RMB3,932.3 million to RMB17,679.0 million due to the increase in the granting of loans by the Bank resulting from the enhancement on the marketing effort and the product development of the Bank. For the year ended 31 December 2020 (“FY2020”), the Bank recorded an interest income of approximately RMB30,946.0 million, representing an increase of approximately 5.4% as compared to that for FY2019, and it is mainly attributable to the increase in the volume of loans and advances to customers as a result of the gradual resumption of work and production and the active effort in promoting product innovation. For 1H2021, the Bank recorded an interest income of approximately RMB15,995.2 million, representing an increase of approximately 4.1% as compared to that for the six months ended 30 June 2020 (“1H2020”), and it is mainly attributable to the increase in the interest income of loans and advances to customers by approximately RMB596.6 million to RMB9,702.8 million due to the increase in the granting of loans by the Bank. The Bank recorded net profit attributable to

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shareholders of approximately RMB3,163.8 million in FY2019, representing an increase of approximately 31.0% as compared to that for FY2018. The Group's net profit attributable to shareholders for FY2020 amounted to approximately RMB3,300.8 million, representing an increase of approximately 4.3% in comparison with that for FY2019. The Group's net profit attributable to shareholders for 1H2021 amounted to approximately RMB2,079.5 million, representing an increase of approximately 5.5% in comparison with that for 1H2020.

The Group's total equity has been increasing stably during FY2018, FY 2019, FY2020 and 1H2021. The Group's total equity as at 30 June 2021 increased by approximately 3.4% as compared to that as at 31 December 2020. The Group's total equity as at 31 December 2020 increased by approximately 2.6% as compared to that as at 31 December 2019. The Group's total equity as at 31 December 2019 increased by approximately 3.9% as compared to that as at 31 December 2018.

## 2. Background information of the Target Banks

### 2.1 *Bank of Luoyang*

Bank of Luoyang is an enterprise mainly engaged in the banking business with its headquarter located in Luoyang City, Henan Province, PRC. It was established in 1997 and was formerly known as Luoyang City Cooperative Bank<sup>#</sup> (洛陽城市合作銀行), which was renamed as Luoyang Commercial Bank Company Limited<sup>#</sup> (洛陽市商業銀行股份有限公司) in May 1998. In March 2009, it changed its name to Bank of Luoyang Co., Ltd.<sup>#</sup> (洛陽銀行股份有限公司) with the approval of the former China Banking Regulatory Commission. The bank is primarily engaged in absorbing public deposits, issuing short-term, medium-term and long-term loans, handling domestic settlement, bills acceptance and discounting and other businesses.

As at the Latest Practicable Date, the largest single ultimate beneficial owner of Bank of Luoyang is Finance Bureau of Luoyang City (洛陽市財政局) as to 17.12% of the share capital of Bank of Luoyang. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save that (i) Zhongyuan Trust holds 306,800,000 shares in Bank of Luoyang (representing approximately 4.45% of the total issued share capital of Bank of Luoyang) and (ii) Henan Tianli holds 104,000,000 shares in Bank of Luoyang (representing approximately 1.51% of the total issued share capital of Bank of Luoyang), Bank of Luoyang and its ultimate beneficial owners are third parties independent of the Bank and connected person(s) of the Bank as at the Latest Practicable Date.

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Set out below is the financial information of Bank of Luoyang prepared in accordance with the International Financial Reporting Standards for FY2018, FY2019, FY2020, the nine months ended 30 September 2020 (“9M2020”) and 2021 (“9M2021”), respectively:

	For the year ended			For the nine months	
	31 December			ended 30 September	
	2018	2019	2020	2020	2021
	(audited)	(audited)	(audited)	(unaudited)	(audited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Interest income</b>	12,161,007	13,477,147	13,405,187	9,959,372	10,185,006
<b>Net profit</b>					
<b>attributable to the</b>					
<b>shareholders of</b>					
<b>Bank of Luoyang</b>	1,031,879	1,358,175	1,269,279	893,547	750,636
	As at 31 December			As at	
	31 December			30 September	
	2018	2019	2020	2020	2021
	(audited)	(audited)	(audited)	(audited)	(audited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Total assets</b>	248,558,424	268,698,523	270,346,117	289,820,221	
<b>Total liabilities</b>	233,512,465	252,415,292	252,563,430	268,593,696	
<b>Total equity</b>	15,045,959	16,283,231	17,782,687	21,226,525	

As shown in the table above, for FY2019 and 9M2021, Bank of Luoyang recorded a growth in interest income of approximately 10.8% and 2.3% as compared to that of the previous year/period, respectively, and recorded a marginal decrease of approximately 0.5% for FY2020 as compared to that of the previous year. For FY2019, Bank of Luoyang recorded a growth in net profit attributable to shareholders of approximately 31.6% as compared to that of the previous year. For FY2020 and 9M2021, Bank of Luoyang recorded a decrease of net profit attributable to shareholders of approximately 7.1% and 16.0% as compared to that of the previous year/period, respectively.

As at 31 December 2019 and 2020, Bank of Luoyang's total equity recorded a growth of approximately 8.2% and 9.2% as compared to that as at 31 December 2018 and 2019, respectively. As at 30 September 2021, Bank of Luoyang's total equity recorded a significant growth of approximately 19.4% as compared to that as at 31 December 2020.

### 2.2 Bank of Pingdingshan

Bank of Pingdingshan is an enterprise mainly engaged in banking business with its headquarters located in Pingdingshan City, Henan Province, PRC. It was formerly known as Pingdingshan Commercial Bank<sup>#</sup> (平頂山市商業銀行), changed its name to Bank of

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pingdingshan Co., Ltd.<sup>#</sup> (平頂山銀行股份有限公司) on 17 November 2010 with the approval of the former China Banking Regulatory Commission. The bank is mainly engaged in absorbing public deposits, issuing short-term, medium-term and long-term loans, handling domestic settlement, bills acceptance and discounting and other businesses.

As at the Latest Practicable Date, the largest single ultimate beneficial owner of Bank of Pingdingshan is Pingdingshan Development & Investment Holding Group Co., Ltd.<sup>#</sup> (平頂山發展投資控股集團有限公司), holding 9.72% of the share capital of Bank of Pingdingshan. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Bank of Pingdingshan and its ultimate beneficial owners are third parties independent of the Bank and connected person(s) of the Bank as at the Latest Practicable Date.

Set out below is the financial information of Bank of Pingdingshan prepared in accordance with the International Financial Reporting Standards for FY2018, FY2019, FY2020, 9M2020 and 9M2021, respectively:

	For the year ended			For the nine months	
	31 December			ended 30 September	
	2018	2019	2020	2020	2021
	(audited)	(audited)	(audited)	(unaudited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Interest income</b>	3,279,722	3,898,315	5,337,411	3,946,918	4,121,640
<b>Net profit</b>					
<b>attributable to the</b>					
<b>shareholders of</b>					
<b>Bank of</b>					
<b>Pingdingshan</b>	(24,967)	129,522	99,725	68,955	102,770
	As at 31 December			As at	
	31 December			30 September	
	2018	2019	2020	2021	2021
	(audited)	(audited)	(audited)	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Total assets</b>	68,824,954	98,874,044	110,623,592	115,524,278	
<b>Total liabilities</b>	64,296,409	94,181,672	104,883,984	108,862,545	
<b>Total equity</b>	4,528,545	4,692,372	5,739,608	6,661,733	

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As shown in the table above, for FY2019, FY2020 and 9M2021, Bank of Pingdingshan recorded a growth in interest income of approximately 18.9%, 36.9% and 4.4% as compared to that of the previous year/period, respectively. For FY2019, Bank of Pingdingshan recorded a turnaround from net loss to net profit. For FY2020, Bank of Pingdingshan recorded a decrease of net profit attributable to shareholders of approximately 23.0% as compared to that of the previous year. For 9M2021, Bank of Pingdingshan recorded an increase of net profit attributable to shareholders of approximately 49.0% as compared to that of the previous period.

As at 31 December 2019, Bank of Pingdingshan's total equity recorded a marginal growth of approximately 3.6% as compared to that as at 31 December 2018. As at 31 December 2020 and 30 September 2021, its total equity recorded a significant growth of approximately 22.3% and 16.1% as compared to that as at 31 December 2019 and 2020, respectively.

### 2.3 Bank of JZCTS

Bank of JZCTS is an enterprise mainly engaged in banking business with its headquarters located in Jiaozuo City, Henan Province, PRC. It was formerly known as Jiaozuo City Commercial Bank<sup>#</sup> (焦作市商業銀行). After introducing China National Travel Service (HK) Group Corporation<sup>#</sup> (中國港中旅集團公司) as a strategic investor in 2012, it changed its name to Bank of Jiaozuo China Travel Service Co., Ltd.<sup>#</sup> (焦作中旅銀行股份有限公司) in 2015 with the approval of the former China Banking Regulatory Commission. The bank is mainly engaged in absorbing public deposits, issuing short-term, medium-term and long-term loans, handling domestic settlement, bills acceptance and discounting and other businesses.

As at the Latest Practicable Date, the largest single ultimate beneficial owner of Bank of JZCTS is China Tourism Group Corporation Limited<sup>#</sup> (中國旅遊集團有限公司) as to 36.68% of the share capital of Bank of JZCTS. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save that Zhongyuan Trust holds 144,060,556 shares in Bank of JZCTS (representing approximately 2.88% of the total issued share capital of Bank of JZCTS), Bank of JZCTS and its ultimate beneficial owners are third parties independent of the Bank and connected person(s) of the Bank as at the Latest Practicable Date.

Set out below is the financial information of Bank of JZCTS prepared in accordance with the International Financial Reporting Standards for FY2018, FY2019, FY2020, 9M2020 and 9M2021, respectively:

	For the year ended 31 December			For the nine months ended 30 September	
	2018 (audited) RMB'000	2019 (audited) RMB'000	2020 (audited) RMB'000	2020 (unaudited) RMB'000	2021 (audited) RMB'000
<b>Interest income</b>	3,391,027	4,069,111	4,306,210	3,204,355	3,151,125
<b>Net profit for the year/period</b>	269,048	259,099	190,265	223,821	117,098

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	As at 31 December			As at 30 September
	2018	2019	2020	2021
	(audited)	(audited)	(audited)	(audited)
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Total assets</b>	76,718,266	91,239,981	99,422,064	92,393,969
<b>Total liabilities</b>	71,352,592	85,562,998	93,587,459	86,468,679
<b>Total equity</b>	5,392,674	5,676,983	5,834,605	5,925,290

As shown in the table above, for FY2019 and FY2020, Bank of JZCTS recorded a growth in interest income of approximately 20.0% and 5.8% as compared to that of the previous year, respectively. For 9M2021, Bank of JZCTS recorded a marginal decrease in interest income of approximately 1.7% as compared to that of the previous period. For FY2019, FY2020 and 9M2021, Bank of JZCTS recorded a decrease of net profit attributable to shareholders of approximately 3.7%, 26.6% and 47.7% as compared to that of the previous year/period, respectively.

As at 31 December 2019, 31 December 2020 and 30 September 2021, Bank of JZCTS's total equity recorded a steady growth of approximately 5.3%, 2.8% and 1.6% as compared to that as at 31 December 2018, 2019 and 2020, respectively.

### 3. Background information on the Selling Shareholders

As at the Latest Practicable Date, there are approximately 2,442 Selling Shareholders (comprising 34 state-owned enterprises, 138 non state-owned enterprises, and 2,270 individuals), among which (i) Zhongyuan Trust is a non-wholly owned subsidiary of Henan Investment Group (a substantial shareholder of the Bank) and (ii) Henan Tianli is a company beneficially controlled by Mr. Li (an existing supervisor of the Bank), and therefore both Zhongyuan Trust and Henan Tianli are connected persons of the Bank.

Save as the above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of other Selling Shareholders or their respective ultimate beneficial owners constitutes a connected person of the Bank.

As at the Latest Practicable Date, Finance Bureau of Luoyang City (洛陽市財政局) holds 1,179,360,000 shares in Bank of Luoyang, representing approximately 17.12% of the total issued share capital of Bank of Luoyang. Upon completion of the issuance of the Consideration Shares, Finance Bureau of Luoyang City (洛陽市財政局) will become the largest single Selling Shareholder, holding approximately 1,361,571,120 Domestic Shares, representing (i) approximately 4.60% of the then total issued Domestic Shares of the Bank upon completion of the issuance of the Consideration Shares, (ii) approximately 3.73% of the then total issued Shares of the Bank upon completion of the H Share Placement (assuming the Placing Shares are subscribed for in minimum) and the issuance of the Consideration Shares in full, and (iii)

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approximately 3.72% of the then total issued Shares of the Bank upon completion of the H Share Placement (assuming the Placing Shares are subscribed for in maximum) and the issuance of the Consideration Shares in full.

As at the Latest Practicable Date, Finance Bureau of Luoyang City (洛陽市財政局) is a department of People's Government of Luoyang City (洛陽市人民政府).

#### **4. Reasons for and benefits of the Merger by Absorption**

As mentioned in the Letter from the Board, the Bank has always committed to the development goal of “developing Zhongyuan Bank into a leading commercial bank” advocated by the Henan Provincial Committee and the Provincial Government, fully supports regional economic construction and serves the local community and people. Accordingly, in order to deepen the reform in the financial sector, optimize and strengthen local finance, as well as to strive to build a first-class urban commercial bank and enhance the ability of financial services for the economic and social development of the province, the Group expects to optimize the Bank through the Merger by Absorption, so that the Bank can continue to expand into a first-class commercial bank and achieve high-quality development of its overall business.

In addition, the benefits of the Merger by Absorption also include the followings:

- (1) excessive competition may be avoided to certain extent and local city commercial banks in Henan Province could have a healthy competition environment for their growth and development;
- (2) the capital fund of local city commercial banks could be centralized and scaled, which can increase the capacity to safeguard against the risk of defaulting loans, improve asset quality, and better serve the regional economy;
- (3) it can strengthen and make full use of the city commercial banks' initiative roles and their provision of high-quality financial services in the development and improvement of the local financial system in Henan Province; and
- (4) it can also leverage on the existing network and branches, optimize the customer base of customers, and increase the market share of the Bank in Henan Province, which would in turn increase the profitability of the Group.

In view of the abovementioned, we are of the view that the transactions contemplated under the Merger and Absorption Agreement (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) are in the interests of the Bank and the Shareholders as a whole.

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### 5. Principal Terms of the Merger and Absorption Agreement

Set out below are the principal terms of the Merger and Absorption Agreement.

<b>Date:</b>	26 January 2022 (after trading hours)
<b>Parties:</b>	The Bank; Bank of Luoyang; Bank of Pingdingshan; and Bank of JZCTS
<b>Subject:</b>	Subject to the fulfillment of the conditions of the Merger and Absorption Agreement, the Bank will acquire for all the shares in each of the Target Banks from the Selling Shareholders in the consideration of issuance of the Consideration Shares.
<b>Consideration:</b>	The total consideration for the Merger and Absorption is approximately RMB28,470 million (equivalent to approximately HK\$34,164 million).
<b>Consideration Shares:</b>	<p>The total consideration for the Merger and Absorption will be satisfied by the issuance of 13,324,823,322 Consideration Shares at an issue price of RMB2.1366 per Consideration Share (equivalent to approximately HK\$2.5639 per Consideration Share) to each of the Selling Shareholders in respect of their shareholdings in the Target Banks.</p> <p>The Consideration Shares include the Domestic Shares only, which will be issued as fully paid, and will rank <i>pari passu</i> in all respects with the Domestic Shares of the Bank in issue on the completion date of the Merger by Absorption.</p>
<b>Adjustment of the issue price per Consideration Share:</b>	<p>The issue price per Consideration Share may be adjusted following any ex-right and/or ex-dividend event of the Bank and the Target Bank(s) which may occur during the period from the Benchmark Date to the date of completion of the Merger by Absorption, or any adjustment as requested by supervision department and in accordance with relevant PRC laws and regulations. Notwithstanding the above, as at the Latest Practicable Date, no such ex-right and/or ex-dividend event was expected to occur before the date of completion of the Merger by Absorption, and the Bank will use its best endeavor to ensure that no such ex-right and/or ex-dividend event will occur before the date of completion of the Merger by Absorption.</p>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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**Conditions to the  
Merger and  
Absorption  
Agreement:**

The Merger and Absorption Agreement shall be effective upon the satisfaction of the following conditions:

- (1) The Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder being approved by the Independent Shareholders as special resolutions at the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting, respectively;
- (2) The Merger and Absorption Agreement and the transactions contemplated thereunder in respect of the merger by absorption of Bank of Luoyang by the Bank being approved by the shareholders of Bank of Luoyang as special resolution(s);
- (3) The Merger and Absorption Agreement and the transactions contemplated thereunder in respect of the merger by absorption of Bank of Pingdingshan by the Bank being approved by the shareholders of Bank of Pingdingshan as special resolution(s);
- (4) The Merger and Absorption Agreement and the transactions contemplated thereunder in respect of the merger by absorption of Bank of JZCTS by the Bank being approved by the shareholders of Bank of JZCTS as special resolution(s); and
- (5) The Merger and Absorption Agreement and the transactions contemplated thereunder being approved by CBIRC.

None of the above conditions can be waived. In case that any of the above conditions cannot be satisfied, the Merger and Absorption Agreement shall not become effective as a whole, and accordingly the Merger by Absorption will not proceed.

**Conditions  
Precedent to the  
Completion of  
the Merger by  
Absorption:**

After the Merger and Absorption Agreement becomes effective, the completion of the Merger by Absorption is subject to the fulfilment of the following conditions precedent:

- (1) The H Share Placement has been duly completed;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (2) The anti-trust clearance in connection with the Merger by Absorption has been approved by relevant regulatory authorities; and
- (3) All the approvals, permissions, filings and registrations by relevant regulatory authorities currently known to be applicable to the Merger by Absorption have been obtained.

None of the conditions precedent can be waived by any party to the Merger and Absorption Agreement.

If, due to reasons unrelated to any party to the Merger and Absorption Agreement, the aforementioned conditions precedent are not fully fulfilled by 31 December 2022, any party shall have the right to unilaterally terminate the Merger and Absorption Agreement in writing on the day following the aforementioned date without any liability.

**Completion and  
Issuance of the  
Consideration  
Shares:**

After the Merger and Absorption Agreement becomes effective, the completion of the Merger and Absorption shall take place within the valid period as prescribed in the approval by CBIRC, which is expected to be completed on or before 30 June 2022. According to relevant PRC laws, the valid period of the approval by CBIRC in respect of the Merger by Absorption shall usually last for six months from the date of the approval (the “Valid Period”). In the event that the Valid Period expires prior to the completion of the H Share Placement, the Bank will seek for CBIRC’s extension of the Valid Period or re-apply for CBIRC’s approval of the Merger by Absorption, so as to ensure that the H Share Placement will be completed prior to the completion of the Merger by Absorption.

Upon the completion date of the Merger by Absorption, the Bank shall assume all the assets, liabilities, business, employees, contracts and other rights and obligations of each of the Target Banks, and the Target Banks will be de-registered.

The Consideration Shares shall be issued and registered with CSDCC as soon as practicable after the completion date of the Merger by Absorption.

With respect to the matters in relation to the Shareholders under the Merger by Absorption, the Bank will comply with relevant provisions under the PRC Company Law and the Articles of Association.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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<b>Deregistration of the Target Banks:</b>	After completion of the Merger by Absorption of the Target Banks by the Bank, each of the Target Banks will be de-registered in accordance with the PRC Company Law and other applicable PRC laws.
<b>Arrangement during the Transitional Period:</b>	<p>Parties to the Merger and Absorption Agreement agree that during the Transitional Period, each of them shall conduct its ordinary daily operation of business, maintain good relationships with clients, conduct internal management, prepare and record financial information, and make payment of insurance and tax in a timely manner. During the period from the Benchmark Date to the date of completion of the Merger by Absorption, all the profit and loss of the Target Banks rising from their respective ordinary course of business shall be assumed by the Bank.</p> <p>Each of the Target Banks further agrees that during the Transitional Period, they shall not conduct any of the following activities without obtaining any prior consent by the Bank in writing:</p> <ol style="list-style-type: none"><li>(1) Disposal of assets or equity: (i) transferring or otherwise disposing of any assets or equity interest, (ii) investing or establishing new subsidiaries, (iii) entering into any contract or arrangement with respect to asset acquisition, merger or restructure, or conducting any business negotiation in connection thereto, and (iv) conducting any joint venture, purchasing, selling, leasing or otherwise disposing of any material assets, or creating any right or encumbrance on the titles thereof;</li><li>(2) Daily operation: (i) ceasing or changing the principal business of the relevant Target Bank or its subsidiaries, (ii) distributing or declaring to distribute dividends, and (iii) making adjustment to the remuneration policies or employee incentive plans of their staffs; and</li><li>(3) Other matters which might bring about any material adverse change or effect to any of the Target Banks.</li></ol>
<b>Governing Laws:</b>	The Merger and Absorption Agreement shall be governed by PRC laws.

### 6. Scope of Authority

Proposals of the Merger by Absorption will be put forward at the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting for the Shareholders to authorize the Board, who would in turn delegate such authority to the chairman of the Board, the president of the Bank and the secretary of the Board to handle matters in relation to the Merger by Absorption, the relevant authority will remain valid for 12 months from the date on which it is considered and approved at the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting, and if the Bank has obtained the approval or approval document from the CBIRC for the Merger by Absorption within the validity period, the validity period of the authorization will be automatically extended to the completion date of the Merger by Absorption.

### 7. Assessment of the Consideration

The total consideration for the Merger by Absorption payable by the Bank shall be approximately RMB28,470 million (equivalent to approximately HK\$34,164 million), which was determined based on arm's length negotiation between the Bank and each of the Target Banks with reference to the appraisal reports of each of the Target Banks issued by the Independent Valuer.

There has not been any material change in the business operation and financial performance of the Target Banks since the appraisal date of 30 September 2021. The total amount of the appraised value of the net assets of the Target Banks was approximately RMB33,323 million. However, the impact of deferred income tax liabilities arising from the appreciation of appraised assets had not been taken into account when arriving at the above appraisal results of the Target Banks. After deducting the (i) deferred income tax arising from the appraisal appreciation in the amount of approximately RMB853 million, and (ii) the perpetual bonds not attributable to the ordinary shareholders in the amount of RMB4,000 million, the total amount of the net assets attributable to the ordinary shareholders of the Target Banks was approximately RMB28,470 million.

#### *7.1 Assessment on the valuation of the Target Banks*

The Bank and the Target Banks have engaged the Independent Valuer to prepare appraisal reports on the net asset value of each of the Target Banks and the Bank as at 30 September 2021. We have reviewed such appraisal reports and noted that as at the appraisal date of 30 September 2021, the appraised value of net assets of Bank of Luoyang was approximately RMB19,579 million (including perpetual bonds of approximately RMB2,000 million); the appraised value of net assets of Bank of Pingdingshan was approximately RMB7,474 million (including perpetual bonds of RMB2,000 million); the appraised value of net assets of Bank of JZCTS was approximately RMB6,270 million.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In order to assess the expertise and independence of the Independent Valuer, we have obtained and reviewed the engagement letter of the Independent Valuer and the relevant licenses, qualifications and experience of the Independent Valuer and its working team. We have also conducted telephone interview with the working team of the Independent Valuer to understand its previous experiences on related valuation projects, the methodologies, basis and assumptions they have adopted in the appraisal reports as well as the steps and measures taken by them in conducting such valuation. We noted that the working team of the Independent Valuer are chartered asset appraisers in the PRC. The two responsible persons of the working team have appraisal experience of 17 years and over 20 years, respectively, and both of them have been involved in the merger by absorption among city commercial banks in Liaoning province and the merger and acquisition among city commercial banks in Shanxi province in 2020 and 2021. We understood that the Independent Valuer has carried out on-site inspections and made relevant enquiries and searches for preparing such appraisal reports and no irregularities were noted. The Independent Valuer confirmed that it is independent from the Bank, the Target Banks and their respective associates. Based on the above, we consider that the Independent Valuer is qualified and possesses relevant experience in conducting the valuations, and the terms and scope of the engagement between the Bank, the Target Banks and the Independent Valuer are appropriate to the opinion the Independent Valuer is required to give.

We have reviewed the appraisal reports of the Target Banks and noted that asset-based approach has been adopted by the Independent Valuer in respect of the appraisal of the net assets of the Target Banks. The asset-based approach is an appraisal method by which the value of the appraisal target is determined by reasonably assessing the values of all assets and liabilities items on the basis of the balance sheet. We have discussed with the Independent Valuer and understood that based on the current condition of assets of the Target Banks, the management has difficulty in providing the future forecast of the Target Banks and the Independent Valuer has difficulty in sorting out market comparable that matches the assets condition of the Target Banks, and hence the income approach and market approach are not applicable. Therefore, we concur with the Independent Valuer that the adoption of asset-based approach is fair and reasonable. The appreciation in the appraisal results of the Target Banks is mainly attributable to the appreciation of the property assets owned by the Target Banks. In this regard, we have discussed with the Independent Valuer, reviewed certain working documents and understood that (i) the property assets are mainly comprised of office buildings and branches of banks; (ii) the procedures have been conducted for the selection of market comparable to assess the value of subject properties; (iii) adjustments have been made by the Independent Valuer when evaluating the subject properties based on the market comparable from multiple perspectives, such as environment factors and property condition; and (iv) the appreciation of the property assets reflects the difference between the historical costs of such long term held property assets deducting depreciation and their current market value. Taking the above into consideration and in view of the sample working documents provided by the Independent Valuer covering all types of property assets of the Target Banks, we are of the view that the appreciation amount of the property assets is fair and reasonable. We also understood that the appraisal reports in respect of the Merger by Absorption are also subject to the approval of Henan Provincial Finance Department and other competent state-owned assets regulatory authorities.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Taking into account the above work and steps we have conducted in relation to the relevant valuation reports, including but not limited to (i) interviewing the Independent Valuer as to its expertise and its independence; (ii) reviewing the terms of engagement of Independent Valuer and assessing the appropriateness of its scope of work; (iii) assessment on the reasonableness of the valuation methodologies, basis and assumptions being adopted, we consider the valuation of the Target Companies is fair and reasonable.

### 7.2 Comparable company analysis

In order to assess the fairness and reasonableness of the total consideration of the Merger by Absorption, we have searched for companies listed on Stock Exchange, Shenzhen Stock Exchange and Shanghai Stock Exchange which are city commercial banks in Mainland China. On the best effort basis, we have identified an exhaustive list of 32 comparable banks (the “**Comparable Banks**”). As Comparable Banks consist of all listed city commercial banks which operate in Mainland China and have similar business nature with the Target Banks’, we consider that the Comparable Banks are fair and representative samples. The price-to-book ratio (“**PB Ratio**”) is a commonly used benchmark in valuing an asset-intensive company. Given that the Target Banks are principally engaged in banking business, we believe that the PB ratio is an appropriate ratio to assess the fairness and reasonableness of the total consideration of the Merger by Absorption.

Stock Code	Company Name	PB Ratio <sup>2</sup>
0416.HK	Bank of Jinzhou Co., Ltd.	0.31
1216.HK	The Bank	0.28
1578.HK	Bank of Tianjin Co., Ltd.	0.18
1916.HK	Jiangxi Bank Co., Ltd.	0.30
1963.HK	Bank of Chongqing Co., Ltd.	0.33
1983.HK	Luzhou Bank Co., Ltd.	0.55
2066.HK	Shengjing Bank Co., Ltd.	0.61
2139.HK	Bank of Gansu Co., Ltd.	0.41
2558.HK	Jinshang Bank CO., Ltd.	0.32
3698.HK	Huishang Bank Corporation Limited	0.29
3866.HK	Bank of Qingdao Co., Ltd.	0.79
6138.HK	Harbin Bank Co., Ltd.	0.13
6190.HK	Bank of Jiujiang Co., Ltd.	0.62
6196.HK	Bank of Zhengzhou Co., Ltd.	0.30
6199.HK	Bank of Guizhou Co., Ltd.	0.80
9668.HK	China Bohai Bank Co., Ltd.	0.25
9677.HK	Weihai City Commercial Bank Co., Ltd	0.88
002142.SZ	Bank of Ningbo Co., Ltd	2.21
002936.SZ	Bank of Zhengzhou Co., Ltd.	0.54
002948.SZ	Bank of Qingdao Co., Ltd.	1.01
002966.SZ	Bank of Suzhou Co., Ltd.	0.75
600908.SH	Wuxi Rural Commercial Bank Co., Ltd	0.88

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Stock Code	Company Name	PB Ratio <sup>2</sup>
600919.SH	Bank of Jiangsu Co., Ltd.	0.68
600926.SH	Bank of Hangzhou Co., Ltd.	1.26
600928.SH	Bank of Xi'an Co., Ltd.	0.72
601009.SH	Bank of Nanjing Co., Ltd.	0.95
601128.SH	Jiangsu Changshu Rural Commercial Bank Co., Ltd.	1.09
601169.SH	Bank of Beijing Co., Ltd.	0.46
601187.SH	Xiamen Bank Co., Ltd.	0.95
601229.SH	Bank of Shanghai Co., Ltd.	0.57
601577.SH	Bank of Changsha Co., Ltd.	0.68
601665.SH	Qilu Bank Co., Ltd.	1.02
601838.SH	Bank of Chengdu Co., Ltd.	1.19
601963.SH	Bank of Chongqing Co., Ltd.	0.74
601997.SH	Bank of Guiyang Co., Ltd.	0.54
	<b>Average</b>	<b>0.67</b>
	<b>Median</b>	<b>0.62</b>
	<b>Maximum</b>	<b>2.21</b>
	<b>Minimum</b>	<b>0.13</b>
	<b>Target Banks<sup>3</sup></b>	<b>1.05</b>

*Source: Wind*

*Notes:*

1. The A shares and H shares of Bank of Chongqing Co., Ltd., Bank of Qingdao Co., Ltd. and Bank of Zhengzhou Co., Ltd. are listed separately in the above list.
2. The PB Ratios of Comparable Banks are calculated as the market capitalization divided by the latest published net assets attributable to shareholders (excluding the value of non-controlling interests, preferred stocks and perpetual bonds).
3. The implied PB Ratio of Target Banks is calculated as the total consideration of the Merger by Absorption divided by the net assets attributable to shareholders (excluding the value of non-controlling interests and perpetual bonds) of the Target Banks.
4. An exchange rate of HK\$1.23 = RMB1.00 has been used for currency translation, which applicable. Such exchange rate is for illustration purposes only and does not constitute any representations that any amount in HK\$ or RMB has been, could have been or may be converted at such rate.

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As shown in the table above, the implied PB Ratio of the Target Banks of approximately 1.05 times is within the range of PB Ratios of the Comparable Banks, but is substantially higher than the average and median of the PB Ratios of the Comparable Banks. We also noted the PB Ratio of Bank of Ningbo Co., Ltd is substantially higher than other Comparable Banks. Since the median of PB Ratios of Comparable Banks, which eliminate the influence of Bank of Ningbo Co., Ltd, is close to the average PB Ratio, we do not consider it is necessary to exclude it in the analysis. Given (i) the Merger by Absorption involves the acquisition of 100% equity interests of the Target Banks and a control premium is normally applied to acquisitions for controlling interests; and (ii) the latest published total assets value of Bank of Qingdao Co., Ltd and Bank of Guizhou Co., Ltd, are most close to the aggregated amount of total assets of the Target Banks as at 30 September 2021 and their PB Ratios are higher than the average and median of the range of the PB Ratios of the Comparable Banks, we consider the total consideration of the Merger by Absorption is fair and reasonable.

### **8. Assessment on the Consideration Shares**

The consideration for the Merger by Absorption will be satisfied solely by the issuance of 13,324,823,322 Consideration Shares to the Selling Shareholders in accordance with their respective shareholdings in the Target Banks (subject to adjustment as detailed above). Among the total Consideration Shares, (i) an aggregate of 7,954,505,000 Consideration Shares (representing approximately 59.70% of the total Consideration Shares) shall be issued to the Selling Shareholders of Bank of Luoyang by the Bank, (ii) an aggregate of 2,476,318,322 Consideration Shares (representing approximately 18.58% of the total Consideration Shares) shall be issued to the Selling Shareholders of Bank of Pingdingshan by the Bank, and (iii) an aggregate of 2,894,000,000 Consideration Shares (representing approximately 21.72% of the total Consideration Shares) shall be issued to the Selling Shareholders of Bank of JZCTS.

The issue price of RMB2.1366 per Consideration Share (equivalent to approximately HK\$2.5639 per Consideration Share) was determined following arm's length negotiation between the Bank and each of the Target Banks with reference to the net assets per Share based on the appraisal report of the Bank issued by the Independent Valuer.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *8.1 Assessment on the valuation of the Bank*

The Bank and the Target Banks have engaged the Independent Valuer to prepare appraisal reports on the net asset value of each of the Target Banks and the Bank as at 30 September 2021. We have reviewed such appraisal reports and noted that as at the appraisal date of 30 September 2021, the appraised value of net assets of the Bank was approximately RMB53,188 million (including the appraisal value of the preferred shares of the Bank in the amount of approximately RMB9,633 million, but having not taken into account the effect of deferred income tax liabilities arising from the appreciation of appraised assets of the Bank).

After taking into account of the impact of deferred income tax liabilities arising from the appreciation of appraised assets, the net assets attributable to the ordinary Shareholders per Share of RMB2.1696 based on the above appraised value would be adjusted to RMB2.1366, which is in the same as the issue price per Consideration Share.

We have reviewed the appraisal report of the Bank and noted the appraisal approach adopted by the Independent Valuer in respect of the appraisal of the net assets of the Bank is asset-based approach, which is consistent with those adopted in the appraisal reports of the Target Banks. The appreciation in the appraisal result of the Bank is mainly attributable to the appreciation of the property assets owned by the Bank. We also understood that the appraisal reports in respect of the Merger by Absorption are also subject to the approval of Henan Provincial Finance Department and other competent state-owned assets regulatory authorities.

Taking into account the work and steps we have conducted in relation to the appraisal report of the Bank, including but not limited to (i) interviewing the Independent Valuer as to its expertise and its independence; (ii) reviewing the terms of engagement of Independent Valuer and assessing the appropriateness of its scope of work; (iii) assessment on the reasonableness of the valuation methodologies, basis and assumptions being adopted, we consider the valuation of the Bank is fair and reasonable.

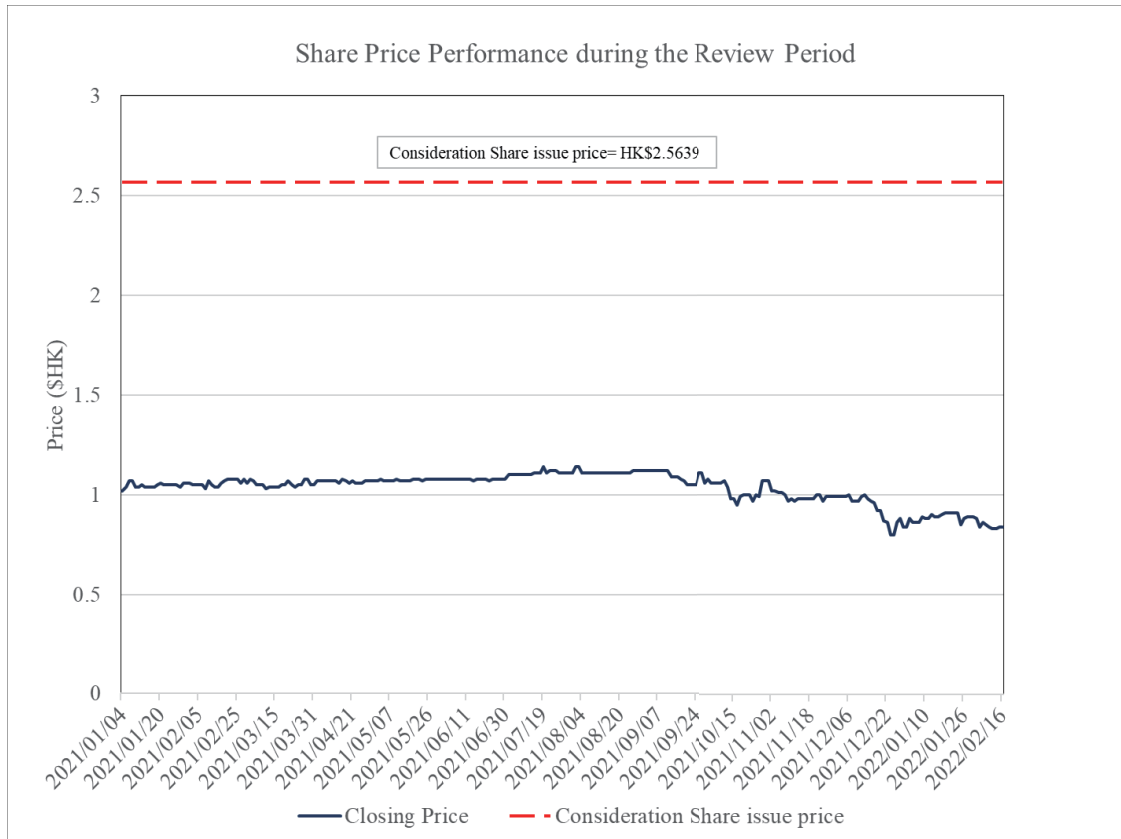
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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 8.2 Assessment on the issue price of the Consideration Shares

Set out below is a chart showing the historical closing price of the H Shares since 1 January 2021 and up to the Latest Practicable Date (the “**Review Period**”), which is adequate to reflect the market valuation based on the recent business development and financial performance of the Bank, and hence we consider the Review Period is fair and reasonable. We noted that the issue price of the Consideration Shares represents significant premium over the historical closing price of H Shares during the Review Period.



Source: the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

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The issue price of RMB2.1366 per Consideration Share (equivalent to approximately HK\$2.5639 per Consideration Share) represents:

- a. a premium of 205.23% over closing price of the H Shares of the Bank as quoted on the Stock Exchange for the Latest Practicable Date;
- b. a premium of 201.64% over closing price of the H Shares of the Bank as quoted on the Stock Exchange for the Last Trading Day;
- c. a premium of 192.27% over the volume weighted average price (“VWAP”) of the H Shares of the Bank as quoted on the Stock Exchange for the 5 trading days prior to and including the Last Trading Day;
- d. a premium of 188.43% over the VWAP of the H Shares of the Bank as quoted on the Stock Exchange for the 10 trading days prior to and including the Last Trading Day;
- e. a premium of 191.79% over the VWAP of the H Shares of the Bank as quoted on the Stock Exchange for the 30 trading days prior to and including the Last Trading Day;
- f. a premium of 155.98% over the VWAP of the H Shares of the Bank as quoted on the Stock Exchange for the 90 trading days prior to and including the Last Trading Day; and
- g. a discount of 15.21% to the net assets per Share attributable to ordinary Shareholders of the Bank as at 30 June 2021, being approximately RMB2.52.

We noted that the issue price of the Consideration Shares represents a discount to net assets per Share attributable to the ordinary Shareholders of the Bank as at 30 June 2021. Taking into account (i) the backdrop of slowing growth in global economy; (ii) the adverse impact of the COVID-19 pandemic, recent torrential rains in Henan Province and other factors on the operating performance and financial position of the Bank, and (iii) the appraised value of the net assets attributable to the ordinary Shareholders per Share as at 30 September 2021 represents its latest available fair value and the appraisal date is the same as that of the Target Banks, we concur with the Bank that it is fair and reasonable the adoption of the appraised value of the net assets attributable to the ordinary Shareholders per Share as at 30 September 2021 as the basis of the issue price of the Consideration Shares.

Based on the above analysis, given (i) the basis of the issue price of the Consideration Shares is the appraised value of net assets of the Bank, which we consider fair and reasonable based on our work and analysis done in relation to the appraisal report of the Bank as mentioned above under the section headed “8.1 Assessment on the valuation of the Bank”; (ii) the Consideration Shares are Domestic Shares which normally have less market value due to the lack of liquidity, while the issue price of the Consideration Shares represented substantial premium over the market price of H Shares during the Review Period, we are of the view that the issue price of the Consideration Share of RMB2.1366 is fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **9. Changes in the shareholding structure of the Bank**

As illustrated by the table under the sub-section headed “CHANGE IN THE SHAREHOLDING STRUCTURE OF THE BANK” in the Letter from the Board, assuming there is no change of the shareholding structure of the Bank after the Latest Practicable Date and up to the completion of the issuance of the Consideration Shares, (i) immediately after the completion of the issuance of the Placing Shares and the Consideration Shares (assuming all the Placing Shares are subscribed for in minimum and all the Consideration Shares are fully issued), the shareholding of public Shareholders of H Shares would remain the same at 18.90%; and (ii) immediately after the completion of the issuance of the Placing Shares and the Consideration Shares (assuming all the Placing Shares are subscribed for maximum and all the Consideration Shares are fully issued), and the shareholding of public Shareholders of H Shares would increase from 18.90% to 19.12%. The sufficient of public float will be maintained in each case.

### **10. Financial effects of the Merger by Absorption on the Group**

Upon the completion of the Merger by Absorption, the Bank shall assume all the assets, liabilities, business, employees, contracts and other rights and obligations of each of the Target Banks, and the Target Banks will be de-registered.

Set out below the financial effects of the Merger by Absorption on the Group based on the unaudited pro forma financial information of the Enlarged Group, as set out in the Appendix III to the Circular, which has been prepared for illustration purposes and because of its hypothetical nature, may not give a true picture of the financial position or results of the Group had the Merger by Absorption been completed as at the specified dates or any future date.

#### *10.1 Effects on earnings*

For FY2020, the Group recorded net profit attributable to shareholders of the Bank of approximately RMB3,301 million and earnings per share of approximately RMB0.14. The aggregated net profit attributed to the shareholders of the Target Banks was approximately RMB1,559 million for FY2020. Based on Appendix III to the Circular, the consolidated profit attributable to the shareholders of the Enlarged Group would be approximately RMB4,775 million, representing an increase of approximately 44.7% as compared to the audited net profit attributable to shareholders of the Bank for FY2020, and earnings per share would be approximately RMB0.13.

#### *10.2 Effects on assets*

As at 30 June 2021, the unaudited consolidated net asset value of the Group excluding minority interests was approximately RMB60,251 million; net assets per share was approximately RMB2.52; and the unaudited consolidated total assets of the Group were approximately RMB753,002 million. The aggregated net asset value of the Target Banks excluding minority interests was approximately RMB31,185 million as at 30 September 2021

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and the aggregated total assets of the Target Banks as at 30 September 2021 were approximately RMB497,739 million. Based on the Appendix III to the Circular, the net asset value of the Enlarged Group excluding minority interests would be approximately RMB92,721 million, representing an increase of approximately 53.9% as compared to the unaudited consolidated net asset value of the Bank excluding minority interests as at 30 June 2021; net assets per share would be approximately RMB2.37; and the total assets of the Enlarged Group would be approximately RMB1,249,412 million, representing an increase of approximately 65.9% as compared to the unaudited consolidated total assets of the Bank as at 30 June 2021.

### *10.3 Effects on liabilities*

As at 30 June 2021, the unaudited consolidated total liabilities of the Group were approximately RMB691,626 million. The aggregated total liabilities of the Target Banks as at 30 September 2021 were approximately RMB463,925 million. Based on the Appendix III to the Circular, the total liabilities of the Enlarged Group would be approximately RMB1,152,937 million, representing an increase of approximately 66.7% as compared to the unaudited consolidated total liabilities of the Bank as at 30 June 2021.

## OPINION

Taking into account of the above factors and reasons, we are of the view that (i) the terms of the Merger and Absorption Agreement and the transactions (including the proposed issuance of the Consideration Shares and the proposed Amendments to the Articles of Association in connection with the Merger by Absorption) contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the transactions contemplated under the Merger and Absorption Agreement, though not in the ordinary and usual course of business of the Group, are in the interests of the Bank and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent Shareholders and the Preference Shareholders to vote in favour of the resolution to be proposed at the EGM, the H Share Class Meeting, the Domestic Share Class Meeting and the Preference Share Class Meeting to approve the Merger and Absorption Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Maxa Capital Limited**  
**Dian Deng**  
*Managing Director*

*Ms. Dian Deng is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 14 years of experience in the corporate finance industry.*

## 1. SUMMARY OF THE FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the consolidated financial information of the Group for each of the three years ended 31 December 2020 (which is extracted from the annual reports of the Group for the relevant years), and the consolidated financial information of the Group for the six months ended 30 June 2021 (which is extracted from the interim report of the Group for the relevant period):

	<b>As of 30 June 2021</b>	<b>As of 30 June 2020</b>	<b>As of 31 December 2020</b>	<b>As of 31 December 2019</b>	<b>As of 31 December 2018</b>
	<i>(in millions of RMB)</i>	<i>(in millions of RMB)</i>	<i>(in millions of RMB)</i>	<i>(in millions of RMB)</i>	<i>(in millions of RMB)</i>
Interest income	15,995	15,362	30,946	29,352	25,241
Interest expense	(7,547)	(7,050)	(14,381)	(13,645)	(11,497)
Net interest income	8,449	8,313	16,565	15,708	13,744
Operating income	9,718	10,592	19,428	19,022	16,784
Operating profit before impairment	6,686	7,522	12,309	11,536	9,826
Impairment losses on assets	(4,375)	(5,121)	(7,849)	(7,148)	(6,852)
Profit before taxation	2,412	2,387	4,449	4,361	2,975
Net profit attributable to equity shareholders of the Bank	2,079	1,972	3,301	3,164	2,415

Save as disclosed above, there are no items of any income or expense which are material in respect of the consolidated financial results of the Group for each of the three financial years ended 31 December 2020 and the six months ended 30 June 2021.

The auditors of the Group for the three years ended 31 December 2020 were KPMG. Their opinions on the consolidated financial statements of the Group for each of the three years ended 31 December 2018, 2019 and 2020 were not modified and did not contain any emphasis of matter or material uncertainty related to going concern.

**2. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2020 AND THE SIX MONTHS ENDED 30 JUNE 2021**

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of financial position, the consolidated cash flow statements, and any other primary statements as shown in the audited consolidated financial statements of the Group for the three years ended 31 December 2020, and in the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2021 together with the relevant notes thereto, are disclosed in the following documents which have been published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and of the Group ([www.zybank.com.cn](http://www.zybank.com.cn)):

- (1) the annual report of the Group for the year ended 31 December 2018 published on 26 April 2019 (pages 198-384);
- (2) the annual report of the Group for the year ended 31 December 2019 published on 22 April 2020 (pages 169-353);
- (3) the annual report of the Group for the year ended 31 December 2020 published on 23 April 2021 (pages 149-280);
- (4) the interim report of the Group for the six months ended 30 June 2021 published on 17 September 2021 (pages 75-172);

The management discussion and analysis of the Group for the three years ended 31 December 2020 and the six months ended 30 June 2021 are disclosed in the published annual reports and interim report of the Group. Please also see below the links to the relevant annual reports and interim report of the Group

**Annual report of the Group for the year ended 31 December 2018:**

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn20190426467.pdf>

**Annual report of the Group for the year ended 31 December 2019:**

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0422/2020042201244.pdf>

**Annual report of the Group for the year ended 31 December 2020:**

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0423/2021042300687.pdf>

**Interim report of the Group for the six months ended 30 June 2021:**

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0917/2021091700453.pdf>

### 3. INDEBTEDNESS

As at the close of business on 31 December 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had the following indebtedness, which were unsecured and unguaranteed:

**Indebtedness Statement of Zhongyuan Bank Co., Ltd (the “Group”) and Bank of Luoyang Co., Ltd., Bank of Pingdingshan Co., Ltd. and Bank of Jiaozuo China Travel Service Co., Ltd., (i.e the Enlarged Group) as at 31 December 2021**

As of 31 December 2021, the Enlarged Group had the following indebtedness, which were unsecured and unguaranteed:

- (a) Certificates of interbank deposit in an aggregate principal amount of RMB122,880 million;
- (b) Tier-two capital bonds in an aggregate principal amount of RMB14,000 million;
- (c) Financial Bonds issued in an amount of RMB9,000 million; and
- (d) Lease liabilities in an amount of RMB1,135 million.

Except as disclosed above, the Enlarged Group did not have, as of 31 December 2021, any material and outstanding mortgages, charges, debentures, other debt capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

The Directors have confirmed that there has not been any material change in the indebtedness or contingent liabilities since 31 December 2021 and up to the date of this letter.

### 4. WORKING CAPITAL

The Bank is principally engaged in business operations within mainland China. The Bank’s banking business model does not involve the need for sufficient capital to purchase goods or the conversion of goods into income through sales. Therefore, the concept of working capital is not a key indicator of the Bank’s solvency. In evaluating the financial condition of the Bank, working capital information is not useful to the Shareholders, but certain other financial indicators, such as capital adequacy ratio and liquidity ratio, are more relevant in measuring the financial condition of a bank.

As an urban commercial bank established in the PRC, the Bank shall comply with the regulations of the China Banking and Insurance Regulatory Commission on regulatory capital and shall maintain the minimum capital requirements. Therefore, the Bank will provide financial indicators such as the Bank's capital adequacy ratio and liquidity ratio below.

### (1) Capital adequacy ratio

The Bank calculated and disclosed the capital adequacy ratios according to the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) (effective since 1 January 2013) promulgated by the China Banking Regulatory Commission (now the China Banking and Insurance Regulatory Commission). According to the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) (Order No. 1 [2012], CBRC), the minimum regulatory requirements of the Bank's core tier 1 capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio shall be no less than 7.5%, 8.5% and 10.5% respectively. As of 31 December 2018, 31 December 2019, 31 December 2020 and 30 September 2021, the capital adequacy ratio of the Bank met the regulatory requirements.

	As of 31 December 2018	As of 31 December 2019	As of 31 December 2020	As of 30 September 2021
<b>Capital adequacy ratio indicators (%)</b>				
Core tier-one capital adequacy ratio	9.44%	8.51%	8.59%	9.06%
Tier-one capital adequacy ratio	11.49%	10.31%	10.35%	10.84%
Capital adequacy ratio	14.37%	13.02%	13.20%	13.83%
Total equity to total assets	8.97%	8.15%	7.84%	8.39%

### (2) Liquidity ratio

Liquidity ratio of the Bank is calculated in accordance with the formula promulgated by the China Banking and Insurance Regulatory Commission. According to the Measures for the Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》) (Order No. 3 [2018], CBIRC), the minimum regulatory requirements of the Bank's liquidity ratio shall be no less than 25%. As of 31 December 2018, 31 December 2019, 31 December 2020 and 30 September 2021, the liquidity ratio of the Bank met the regulatory requirements.

	As of 31 December 2018	As of 31 December 2019	As of 31 December 2020	As of 30 September 2021
Liquidity ratio	46.05%	42.44%	46.05%	47.67%

## 5. MANAGEMENT DISCUSSION AND ANALYSIS ON THE FINANCIAL PERFORMANCE OF THE GROUP

### (i) Financial performance

Set out is a summary of the Group's financial results for the three years ended 31 December 2018, 2019 and 2020 (2018 annual results are extracted from the Group's 2018 annual report; 2019 and 2020 annual results are both extracted from the Group's 2020 annual report, the results as of 30 June 2020 and 30 June 2021 are extracted from the Group's 2021 interim report).

	As of 30 June 2021 <i>(in millions of RMB)</i>	As of 30 June 2020 <i>(in millions of RMB)</i>	As of 31 December 2020 <i>(in millions of RMB)</i>	As of 31 December 2019 <i>(in millions of RMB)</i>	As of 31 December 2018 <i>(in millions of RMB)</i>
Interest income	15,995	15,362	30,946	29,352	25,241
Interest expense	(7,547)	(7,050)	(14,381)	(13,645)	(11,497)
Net interest income	8,449	8,313	16,565	15,708	13,744
Operating income	9,718	10,592	19,428	19,022	16,784
Operating profit before impairment	6,686	7,522	12,309	11,536	9,826
Impairment losses on assets	(4,375)	(5,121)	(7,849)	(7,148)	(6,852)
Profit before taxation	2,412	2,387	4,449	4,361	2,975
Net profit attributable to equity shareholders of the Bank	2,079	1,972	3,301	3,164	2,415

### (a) 2019 compare to 2018

In 2019, the Group recorded net interest income of approximately RMB15,610 million, representing a year-on-year increase of approximately 13.6% as compared to approximately RMB13,744 million in 2018. For the two years ended 31 December 2019 and 2018, the net interest income represented approximately 82.1% and 81.9% of the Group's operating income, respectively.

The Group's interest income increased from approximately RMB25,241 million in 2018 to approximately RMB29,352 million in 2019, representing a year-on-year increase of approximately 16.3%. The Group's interest expense increased from approximately RMB11,497 million in 2018 to approximately RMB13,645 million in 2019, representing a year-on-year increase of approximately 18.7%.

In 2019, the Group recorded decrease in both net interest spread and net interest margin. The Group's net interest spread (calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities) decreased from approximately 2.81% in 2018 to approximately 2.56% in 2019. The Group's net interest margin (calculated by dividing net interest income by the average interest-earning assets, and based on daily average interest-earning assets) decreased from 2.83% in 2018 to 2.65% in 2019. As disclosed in the Group's 2019 annual report, the decrease in net interest spread and net interest margin was primarily attributable to (i) the increase in the average cost of deposits affected by the market competition and other factors; (ii) the notable decline in lending rates after the loan prime rate (LPR) reform; and (iii) the decrease in the average yield of investment securities and other financial assets as a result of the overall decline in market interest rates.

In 2019, the Group recorded operating profit before impairment of approximately RMB11,536 million, representing an increase of approximately 17.4% as compared to approximately RMB9,826 million in 2018. In 2019, the Group recorded impairment losses on assets of approximately RMB7,148 million, as compared to approximately RMB6,852 million in 2018. As disclosed in the Group's 2019 annual report, the increase in impairment losses on assets was primarily because the Group made more provisions for asset impairment according to the principle of prudent operation and responding to the market operating environment.

For the year ended 31 December 2019, the net profit attributable to the shareholders of the Group was approximately RMB3,164 million, representing an increase of approximately 31.0% as compared to approximately RMB2,415 million in 2018.

***(b) 2020 compared to 2019***

In 2020, the Group recorded net interest income of approximately RMB16,565 million, representing an increase of approximately 5.5% as compared to approximately RMB15,708 million in 2019. For the two years ended 31 December 2020 and 2019, the net interest income represented approximately 85.3% and 82.6% of the Group's operating income, respectively.

The Group's interest income increased from approximately RMB29,352 million in 2019 to approximately RMB30,946 million in 2020, representing a year-on-year increase of approximately 5.4%. The Group's interest expense increased from approximately RMB13,645 million in 2019 to approximately RMB14,381 million in 2020, representing a year-on-year increase approximately 5.4%.

In 2020, the Group's recorded decrease in both net interest spread and net interest margin. The Group's net interest spread decreased from 2.58% in 2019 to 2.36% in 2020. The Group's net interest margin decreased from 2.67% in 2019 to 2.48% in 2020. As disclosed in the Group's 2020 annual report, the decrease in both net interest spread and net interest margin was primarily attributable to (i) the increase in the average cost of deposits affected by the market competition and other factors; (ii) the decrease in the yield of investment and financing businesses as a result of the overall decline in market interest rates under the guide of more flexible and appropriate monetary policies; and (iii) the decline in loan yield due to the decline in the loan prime rate (LPR) and the implementation of the national profit-concession policies by the Group.

In 2020, the Group recorded operating profit before impairment of approximately RMB12,309 million, representing an increase of approximately 6.7% as compared to approximately RMB11,536 million in 2019. In 2020, the Group recorded impairment losses on assets of approximately RMB7,849 million, as compared to approximately RMB7,148 million in 2019. As disclosed in the Group's 2020 annual report, the increase in impairment losses on assets was primarily because the Group made more provisions for asset impairment based on full consideration of the continuous and lagging effect of the pandemic, responding to the market operating environment.

For the year ended 31 December 2020, the net profit attributable to the shareholders of the Group was approximately RMB3,301 million, representing an increase of approximately 4.3% as compared to approximately RMB3,164 million in 2019.

***(c) June 2021 compared to June 2020***

As at 30 June 2021, the Group recorded net interest income of approximately RMB8,449 million, representing an increase of approximately 1.6% as compared to approximately RMB8,313 million as at 30 June 2020.

The Group's interest income increased from approximately RMB15,362 million as at 30 June 2020 to approximately RMB15,995 million as at 30 June 2021, representing a year-on-year increase of approximately 4.1%. The Group's interest expense increased from approximately RMB7,050 million as at 30 June 2020 to approximately RMB7,547 million as at 30 June 2021, representing a year-on-year increase of approximately 7.0%.

The Group's net interest spread decreased from approximately 2.47% as at 30 June 2020 to approximately 2.15% as at 30 June 2021. The Group's net interest margin decreased from approximately 2.56% as at 30 June 2020 to approximately 2.33% as at 30 June 2021. As disclosed in the Group's 2021 interim report, the decrease in both net interest spread and net interest margin for the first half of 2021 were primarily attributable to (i) the decrease in the yield of investment and financing businesses as a result of the overall decline in market interest rates under the guide of more flexible and appropriate monetary policies; and (ii) the reduction of financing costs of enterprises and the decline in loan yield due to the implementation of the national profit-concession policies by the Group.

As at 30 June 2021, the Group recorded operating profit before impairment of approximately RMB6,686 million, representing a year-on-year decrease of approximately 11.1% as compared to approximately RMB7,522 million as at 30 June 2020. As at 30 June 2021, the Group recorded impairment losses on assets of approximately RMB4,375 million as compared to approximately RMB5,121 million as at 30 June 2020. As disclosed in the Group's 2021 interim report, the decrease in impairment losses on assets was due to the fact that the Group continued to strengthen credit risk management and control in the first half of the year, and the non-performing loan ratio decreased by 0.04 percentage point compared with the end of last year.

As of 30 June 2021, net profit attributable to shareholders of the Group was approximately RMB2,079 million, representing an increase of approximately 5.5% as compared to approximately RMB1,972 million as of 30 June 2020.

## (ii) Financial condition

The Group's financial condition as at 31 December 2018, 2019, 2020 and 30 June 2021 is set out below.

	<b>30 June 2021</b>	<b>31 December 2020</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
	<i>(in millions of RMB)</i>	<i>(in millions of RMB)</i>	<i>(in millions of RMB)</i>	<i>(in millions of RMB)</i>
Total assets	753,001	<b>757,482</b>	709,885	620,444
Total liabilities	691,626	<b>698,127</b>	652,054	564,767
Total equity attributable to equity shareholders of the Bank	60,251	<b>58,262</b>	56,745	54,857

As at 30 June 2021, the Group's total assets were approximately RMB753,001 million, representing a decrease of approximately RMB4,481 million or 0.6% as compared to the end of 2020. The Group's assets mainly consist of (a) net loans and advances to customers of approximately RMB375,314 million; (b) investment securities and other financial assets of approximately RMB225,044 million, representing 49.8% and 29.9% of the Group's total assets, respectively. The Group's loans and advances to customers mainly consist of personal loans and corporate loans, representing approximately 41.7% and approximately 47.0% of the Group's total loans and advances to customers (excluding accrued interest) as at 30 June 2021. The Group's corporate loans and advances mainly consist of loans to customers in (i) renting and business activities; and (ii) manufacturing, representing approximately 27.5% and approximately 15.1% of the Group's corporate loans and advances as at 30 June 2021. As at the same date, the Group's non-performing loans was approximately RMB8,371 million, non-performing loan ratio was 2.17%, representing a decrease of 0.04 percentage point as compared to approximately 2.21% at the end of 2020.

As at 30 June 2021, the Group's total liabilities were approximately RMB691,626 million. The Group's total liabilities mainly consist of (a) deposits from customers of approximately RMB454,997 million; (b) debt securities issued of approximately RMB79,894 million; (c) deposits from banks and other financial institutions of approximately RMB60,636 million, representing approximately 65.8%, 11.6% and 8.8% of the Group's total liabilities as at 30 June 2021.

As at 31 December 2019, 31 December 2020 and 30 June 2021, total equity attributable to shareholders of the Group amounted to approximately RMB56,745 million, RMB58,262 million and RMB60,251 million, respectively. As at 31 December 2019, 31 December 2020 and 30 June 2021, net assets per share attributable to the shareholders of ordinary shares of the Group (calculated by dividing equity attributable to the shareholders of ordinary shares of the parent company after deduction of other equity instruments at the end of the period by the total number of ordinary shares at the end of the period) amounted to approximately RMB2.35, RMB2.42 and RMB2.52, respectively.

**(iii) Capital adequacy ratio indicators**

	<b>30 June 2021 (%)</b>	<b>31 December 2020 (%)</b>	<b>31 December 2019 (%)</b>	<b>31 December 2018 (%)</b>
Core Tier-one capital adequacy ratio	8.85	8.59	8.51	9.44
Tier-one capital adequacy ratio	10.60	10.35	10.31	11.49
Capital adequacy ratio	13.59	13.20	13.02	14.37

As at 30 June 2021, the Group's core tier-one capital adequacy ratio was approximately 8.85%, representing an increase of 0.26 percentage point as compared with 31 December 2020; tier-one capital adequacy ratio was 10.6%, representing an increase of 0.25 percentage point as compared with 31 December 2020; capital adequacy ratio was 13.59%, representing an increase of 0.39 percentage point as compared with 31 December 2020. The Group maintained a stable capital adequacy ratio, which fulfilled the regulatory requirements stipulated in the Administrative Measures for the Capital of Commercial Banks (Provisional) issued by CBIRC.

In general, the Group recorded an increase of net interest income by approximately 13.6% in 2019, a year-on-year increase of approximately 5.5% in 2020, and a year-on-year increase of approximately 1.6% as at 30 June 2021. The Group recorded an increase of operating profit before impairment by approximately 17.4% in 2019, a year-on-year increase of approximately 6.7% in 2020, and a year-on-year decrease of approximately 11.1% as at 30 June 2021. The Group recorded an increase of net profit attributable to the shareholders of the Group by approximately 31.0% in 2019, a year-on-year increase of approximately 4.3% in 2020, and a year-on-year increase of approximately 5.5% as at 30 June 2021. The Group's capital adequacy ratio for 2019, 2020 and 30 June 2021 fulfilled the regulatory requirements.

## 6. MANAGEMENT DISCUSSION AND ANALYSIS ON THE FINANCIAL PERFORMANCE OF THE TARGET BANKS

### I. Bank of Luoyang

#### (i) Financial performance

Set out is a summary of the financial results of Bank of Luoyang for the years ended 2018, 2019 and 2020 and nine months ended 30 September 2020 and 2021.

*Unit: RMB million*

	September 2021	September 2020	2020	2019	2018
Interest income	10,185	9,959	13,405	13,477	12,161
Interest expense	(5,442)	(4,722)	(6,398)	(6,509)	(5,779)
Net interest income	4,743	5,237	7,007	6,968	6,382
Operating income	5,599	5,679	7,609	7,574	7,030
Operating profit before impairment	4,379	4,732	5,959	5,951	5,515
Impairment losses on assets	(3,242)	(3,217)	(3,884)	(3,855)	(3,888)
Profit before taxation	1,137	1,515	2,075	2,096	1,627
Net profit attributable to equity shareholders of Bank of Luoyang	751	894	1,269	1,358	1,032

#### (a) 2019 compared to 2018

In 2019, Bank of Luoyang recorded net interest income of approximately RMB6,968 million, representing an increase of approximately 9.2% as compared to RMB6,382 million in 2018. For the two years ended 31 December 2019 and 2018, the net interest income represented approximately 92.0% and 90.8% of Bank of Luoyang's operating income, respectively.

The interest income of Bank of Luoyang increased from approximately RMB12,161 million in 2018 to approximately RMB13,477 million in 2019, representing a year-on-year increase of approximately 10.8%. Bank of Luoyang's interest expense increased from approximately RMB5,779 million in 2018 to approximately RMB6,509 million in 2019, representing a year-on-year increase of approximately 12.6%.

The net interest spread of Bank of Luoyang (calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities) decreased from approximately 2.47% in 2018 to approximately 2.4% in 2019. The net interest margin of Bank of Luoyang (calculated by dividing net interest income by the average interest-earning assets, and based on daily average interest-earning assets) decreased from 2.72% in 2018 to approximately 2.67% in 2019. The decrease in net interest spread and net interest margin was primarily attributable to (i) the increase in the average cost of deposits affected by the market competition and other factors; (ii) the notable decline in lending rates after the loan prime rate (LPR) reform; and (iii) the decrease in the average yield of investment securities and other financial assets as a result of the overall decline in market interest rates.

In 2019, Bank of Luoyang recorded operating profit before impairment of approximately RMB5,951 million, representing an increase of approximately 7.9% as compared to approximately RMB5,515 million in 2018. In 2019, Bank of Luoyang recorded impairment losses on assets of approximately RMB3,855 million, as compared to approximately RMB3,888 million in 2018. The increase in impairment losses on assets was primarily because Bank of Luoyang made more provisions for asset impairment according to the principle of prudent operation and responding to the market operating environment.

As of 31 December 2019, the net profit attributable to the shareholders of Bank of Luoyang was approximately RMB1,358 million, representing an increase of approximately 31.6% as compared to approximately RMB1,032 million in 2018.

*(b) 2020 compared to 2019*

In 2020, Bank of Luoyang recorded net interest income of approximately RMB7,007 million, representing an increase of approximately 0.6% as compared to approximately RMB6,968 million in 2019. For the two years ended 31 December 2020 and 2019, the net interest income represented approximately 93.3% and 92.0% of Bank of Luoyang's operating income, respectively.

The interest income of Bank of Luoyang decreased from approximately RMB13,477 million in 2019 to approximately RMB13,405 million in 2020, representing a year-on-year decrease of approximately 0.5%. Bank of Luoyang's interest expense decreased from approximately RMB6,509 million in 2019 to approximately RMB6,398 million in 2020, representing a year-on-year decrease of approximately 1.7%.

The net interest spread of Bank of Luoyang decreased from approximately 2.4% in 2019 to approximately 2.37% in 2020. Bank of Luoyang's net interest margin decreased from 2.67% in 2019 to approximately 2.64% in 2020. The decrease in both net interest spread and net interest margin was primarily attributable to (i) the increase in the average cost of deposits affected by the market competition and other factors; (ii) the decrease in the yield of investment and financing businesses as a result of the overall decline in market interest rates under the guide of more flexible and appropriate monetary policies; and (iii) the decline in loan yield due to the decline in the loan prime rate (LPR) and the implementation of the national profit-concession policies by Bank of Luoyang.

In 2020, Bank of Luoyang recorded operating profit before impairment of approximately RMB5,959 million, representing a year-on-year increase of approximately 0.1% as compared to approximately RMB5,951 million in 2019. In 2020, Bank of Luoyang recorded impairment losses on assets of approximately RMB3,884 million, as compared to approximately RMB3,855 million in 2019. The increase in impairment losses on assets was primarily because Bank of Luoyang made more provisions for asset impairment based on full consideration of the continuous and lagging effect of the pandemic.

As of 31 December 2020, the net profit attributable to the shareholders of Bank of Luoyang was approximately RMB1,269 million, representing a decrease of 6.6% as compared to approximately RMB1,358 million in 2019.

*(c) September 2021 compared to September 2020*

As at 30 September 2021, Bank of Luoyang recorded net interest income of approximately RMB4,743 million, representing a decrease of approximately 9.4% as compared to approximately RMB5,237 million as at 30 September 2020.

The interest income of Bank of Luoyang increased from approximately RMB9,959 million as at 30 September 2020 to approximately RMB10,185 million as at 30 September 2021, representing a year-on-year increase of approximately 2.3%. Bank of Luoyang's interest expense increased from approximately RMB4,722 million as at 30 September 2020 to approximately RMB5,442 million as at 30 September 2021, representing a year-on-year increase of approximately 15.2%.

The net interest spread of Bank of Luoyang decreased from approximately 2.39% as at 30 September 2020 to approximately 2.06% as at 30 September 2021. The net interest margin of Bank of Luoyang decreased from approximately 2.65% as at 30 September 2020 to approximately 2.39% as at 30 September 2021. The decrease in both net interest spread and net interest margin for the first three quarter of 2021 were primarily attributable to (i) the decrease in the yield of investment and financing businesses as a result of the overall decline in market interest rates under the guide of more flexible and appropriate monetary policies; and (ii) the reduction of financing costs of enterprises and the decline in loan yield due to the implementation of the national profit-concession policies by Bank of Luoyang.

As at 30 September 2021, Bank of Luoyang recorded operating profit before impairment of approximately RMB4,379 million, representing a year-on-year decrease of approximately 7.5% as compared to approximately RMB4,732 million as at 30 September 2020. As at 30 September 2021, Bank of Luoyang recorded impairment losses on assets of approximately RMB3,242 million as compared to approximately RMB3,217 million as at 30 September 2020. The increase in impairment losses on assets was primarily because Bank of Luoyang made more provisions for asset impairment based on full consideration of the continuous and lagging effect of the pandemic.

As of 30 September 2021, net profit attributable to shareholders of Bank of Luoyang was approximately RMB751 million, representing a decrease of approximately 16.0% as compared to approximately RMB894 million as of 30 September 2020.

**(ii) Financial condition**

Bank of Luoyang's financial condition in 2018, 2019 and 2020 and as at 30 September 2021 is set out below.

	<i>RMB million</i>			
	<b>30 September 2021</b>	<b>31 December 2020</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Total assets	289,820	270,346	268,699	248,558
Total liabilities	268,594	252,563	252,415	233,512
Total equity				
attributable to				
equity shareholders				
of Bank of Luoyang	18,548	15,334	14,012	12,973

As of 30 September 2021, the total assets of Bank of Luoyang were RMB289,820 million, representing an increase of RMB19,474 million or 7.2% as compared to that as of the end of 2020. The assets of Bank of Luoyang mainly consist of (a) net loans and advances to customers of approximately RMB136,060 million; (b) investment securities and other financial assets of approximately RMB78,255 million, representing 46.9% and 27.0% of the total assets of Bank of Luoyang, respectively. Bank of Luoyang's loans and advances to customers mainly consist of personal loans, corporate loans and discounting, representing approximately 22.7%, 64.0% and 13.3% of Bank of Luoyang's total loans and advances to customers (excluding accrued interest) as at 30 September 2021.

As at 30 September 2021, the total liabilities of Bank of Luoyang were approximately RMB268,594 million. The total liabilities of Bank of Luoyang mainly consist of (a) deposits from customers of approximately RMB192,618 million; (b) debt securities issued of approximately RMB34,224 million, representing approximately 71.7% and 12.7% of the total liabilities of Bank of Luoyang as at 30 September 2021.

As at 31 December 2019, 31 December 2020 and 30 September 2021, total equity attributable to shareholders of Bank of Luoyang amounted to approximately RMB14,012 million, RMB15,334 million and RMB18,548 million, respectively. As at 31 December 2019, 31 December 2020 and 30 September 2021, net assets per share attributable to the shareholders of ordinary shares of Bank of Luoyang (calculated by dividing equity attributable to the shareholders of ordinary shares of the parent company after deduction of other equity instruments at the end of the period by the total number of ordinary shares at the end of the period) amounted to approximately RMB2.03, RMB2.23 and RMB2.40, respectively.

## II. Bank of Pingdingshan

(i) *Financial performance*

Set out is a summary of the financial results of Bank of Pingdingshan as of 31 December 2018, 2019, 2020 and 30 September 2020 and 2021.

	As of 30 September 2021 (in millions of RMB)	As of 30 September 2020 (in millions of RMB)	As of 31 December 2020 (in millions of RMB)	As of 31 December 2019 (in millions of RMB)	As of 31 December 2018 (in millions of RMB)
Interest income	4,122	3,947	5,337	3,898	3,280
Interest expense	(2,135)	(1,876)	(2,537)	(1,728)	(1,549)
Net interest income	1,987	2,071	2,800	2,171	1,731
Operating income	936	1,856	2,340	1,953	1,281
Operating profit					
before impairment	159	1,152	1,166	1,016	426
Impairment losses					
on assets	(260)	(1,066)	(1,113)	(900)	(501)
(Loss)/profit before					
taxation	(101)	86	53	116	(75)
Net profit/(loss)					
attributable to					
equity					
shareholders of					
Bank of					
Pingdingshan	103	69	100	130	(25)

(a) *2019 compare to 2018*

In 2019, recorded net interest income of approximately RMB2,171 million, representing an increase of approximately 25.4% as compared to RMB1,731 million in 2018. For the two years ended 31 December 2019 and 2018, the net interest income represented approximately 111.1% and 135.1% of the operating income of Pingdingshan, respectively.

The interest income of Bank of Pingdingshan increased from approximately RMB3,280 million in 2018 to approximately RMB3,898 million in 2019, representing a year-on-year increase of approximately 18.8%. The interest expense of Bank of Pingdingshan increased from approximately RMB1,549 million in 2018 to approximately RMB1,728 million in 2019, representing a year-on-year increase of approximately 11.6%.

In 2019, Bank of Pingdingshan recorded increase in both net interest spread and net interest margin. The net interest spread of Bank of Pingdingshan (calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities) increased from approximately 2.14% in 2018 to approximately 2.41% in 2019. The net interest margin of Bank of Pingdingshan (calculated by dividing net interest income by the average interest-earning assets, and based on daily average interest-earning assets) increased from 2.36% in 2018 to approximately 2.59% in 2019.

In 2019, Bank of Pingdingshan recorded operating profit before impairment of approximately RMB1,016 million, representing an increase of approximately 138.5% as compared to approximately RMB426 million in 2018. In 2019, Bank of Pingdingshan recorded impairment losses on assets of approximately RMB900 million, as compared to approximately RMB501 million in 2018. The increase in impairment losses on assets was primarily because Bank of Pingdingshan made more provisions for asset impairment according to the principal of prudent operation and responding to the market operating environment.

For the year ended 31 December 2019, the net profit attributable to the shareholders of Bank of Pingdingshan was approximately RMB130 million, representing an increase of approximately 620.0% as compared to loss attributable to the shareholders of Bank of Pingdingshan of approximately negative RMB25 million in 2018.

*(b) 2020 compared to 2019*

In 2020, Bank of Pingdingshan recorded net interest income of approximately RMB2,800 million, representing an increase of approximately 29.0% as compared to approximately RMB2,171 million in 2019. For the two years ended 31 December 2020 and 2019, the net interest income represented approximately 119.7% and 111.1% of the operating income of Bank of Pingdingshan, respectively.

The interest income of Pingdingshan increased from approximately RMB3,898 million in 2019 to approximately RMB5,337 million in 2020, representing a year-on-year increase of approximately 36.9%. The interest expense of Bank of Pingdingshan increased from approximately RMB1,728 million in 2019 to approximately RMB2,537 million in 2020, representing a year-on-year increase of approximately 46.8%.

In 2020, Bank of Pingdingshan recorded increase in both net interest spread and net interest margin and tend to stable. The net interest spread of Bank of Pingdingshan increased from approximately 2.41% in 2019 to approximately 2.48% in 2020. The net interest margin of Bank of Pingdingshan increased from 2.59% in 2019 to approximately 2.66% in 2020.

In 2020, Bank of Pingdingshan recorded operating profit before impairment of approximately RMB1,166 million, representing an increase of approximately 14.8% as compared to approximately RMB1,016 million in 2019. In 2020, Bank of Pingdingshan recorded impairment losses on assets of approximately RMB1,113 million, as compared to approximately RMB900 million in 2019. The increase in impairment losses on assets was primarily because Bank of Pingdingshan made more provisions for asset impairment based on full consideration of the continuous and lagging effect of the pandemic.

For the year ended 31 December 2020, the net profit attributable to the shareholders of Bank of Pingdingshan was approximately RMB100 million, representing a decrease of approximately 23.1% as compared to approximately RMB130 million in 2019.

*(c) September 2021 compared to September 2020*

As at 30 September 2021, Bank of Pingdingshan recorded net interest income of approximately RMB1,987 million, representing an decrease of approximately 4.1% as compared to approximately RMB2,071 million as at 30 September 2020.

The interest income of Bank of Pingdingshan increased from approximately RMB3,947 million as at 30 September 2020 to approximately RMB4,122 million as at 30 September 2021, representing a year-on-year increase of approximately 4.4%. The interest expense of Bank of Pingdingshan increased from approximately RMB1,876 million as at 30 September 2020 to approximately RMB2,135 million as at 30 September 2021, representing a year-on-year increase of approximately 13.8%.

The net interest spread of Bank of Pingdingshan decreased from approximately 2.47% as at 30 September 2020 to approximately 2.08% as at 30 September 2021. The net interest margin of Bank of Pingdingshan decreased from 2.63% as at 30 September 2020 to approximately 2.28% as at 30 September 2021. The decrease was primarily attributable to (i) the decrease in the yield of investment and financing businesses as a result of the overall decline in market interest rates under the guide of more flexible and appropriate monetary policies; and (ii) the reduction of financing costs of enterprises and the decline in loan yield due to the implementation of the national profit-concession policies by Bank of Pingdingshan.

As at 30 September 2021, Bank of Pingdingshan recorded operating profit before impairment of approximately RMB159 million, representing a year-on-year decrease of approximately 86.20% as compared to approximately RMB1,152 million as at 30 September 2020. As at 30 September 2021, Bank of Pingdingshan recorded impairment losses on assets of approximately RMB260 million as compared to approximately RMB1,066 million as at 30 September 2020. The decrease in impairment losses on assets was due to the fact that Bank of Pingdingshan continued to strengthen credit risk management and control, and improved the quality of assets such as credit.

As of 30 September 2021, the net profit attributable to shareholders of Bank of Pingdingshan was approximately RMB103 million, representing an increase of approximately 49.3% as compared to approximately RMB69 million as of 30 September 2020.

**(ii) Financial condition**

The financial condition of Bank of Pingdingshan as at 31 December 2018, 2019, 2020 and 30 September 2021 is set out below.

	30 September 2021 (in millions of RMB)	31 December 2020 (in millions of RMB)	31 December 2019 (in millions of RMB)	31 December 2018 (in millions of RMB)
Total assets	115,524	110,624	98,874	68,825
Total liabilities	108,863	104,884	94,182	64,296
Total equity attributable to equity shareholders of Bank of Pingdingshan	6,712	5,676	4,632	4,529

As at 30 September 2021, the total assets of Bank of Pingdingshan were RMB115,524 million, representing an increase of RMB4,900 million or 4.4% as compared to that as at the end of 2020. The assets of Bank of Pingdingshan mainly consist of (a) net loans and advances to customers of approximately RMB64,688 million; (b) investment securities and other financial assets of approximately RMB32,834 million, representing 56.0% and 28.4% of the total assets of Bank of Pingdingshan, respectively. The loans and advances of Bank of Pingdingshan to customers mainly consist of corporate loans, personal loans and discount, representing approximately 70.2%, 19.5% and 10.3% of the total loans and advances to customers (excluding accrued interest) as at 30 September 2021.

As at 30 September 2021, the total liabilities of Bank of Pingdingshan were approximately RMB108,863 million. The total liabilities of Bank of Pingdingshan mainly consist of (a) deposits from customers of approximately RMB91,821 million; (b) debt securities issued of approximately RMB7,457 million, representing approximately 84.3% and 6.8% of the total liabilities of Bank of Pingdingshan as at 30 September 2021.

As at 31 December 2019, 31 December 2020 and 30 September 2021, total equity attributable to shareholders of Bank of Pingdingshan amounted to approximately RMB4,632 million, RMB5,676 million and RMB6,712 million, respectively. As at 31 December 2019, 31 December 2020 and 30 September 2021, net assets per share attributable to the holder of ordinary shares of Bank of Pingdingshan (calculated by dividing equity attributable to the shareholders of ordinary shares of the parent company after deduction of other equity instruments at the end of the period by the total number of ordinary shares at the end of the period) amounted to approximately RMB1.37, RMB1.25 and RMB1.15, respectively.

### III. Bank of JZCTS

#### (i) *Financial performance*

Set out is a summary the financial results of Bank of JZCTS for the year ended 2018, 2019 and 2020 and nine months ended 30 September 2020 and 2021.

*Unit: RMB million*

	September 2021	September 2020	2020	2019	2018
Interest income	3,151	3,204	4,306	4,069	3,391
Interest expense	(1,794)	(1,747)	(2,347)	(1,845)	(1,700)
Net interest income	1,357	1,457	1,959	2,224	1,691
Operating income	1,502	1,635	2,124	2,364	1,678
Operating profit before impairment	927	1,109	1,317	1,554	945
Impairment losses on assets	(817)	(818)	(1,103)	(1,225)	(596)
Profit/loss before taxation	110	291	214	329	349
Net profit/loss attributable to equity shareholders of Bank of JZCTS	117	224	190	259	269

*(a) 2019 compared to 2018*

In 2019, Bank of JZCTS recorded net interest income of approximately RMB2,224 million, representing an increase of approximately 31.5% as compared to RMB1,691 million in 2018. For the two years ended 2019 and 2018, the net interest income represented approximately 94.1% and 100.8% of the operating income of Bank of JZCTS, respectively.

The interest income of Bank of JZCTS increased from approximately RMB3,391 million in 2018 to approximately RMB4,069 million in 2019, representing a year-on-year increase of approximately 20.0%. The interest expense of Bank of JZCTS increased from approximately RMB1,700 million in 2018 to approximately RMB1,845 million in 2019, representing a year-on-year increase of approximately 8.5%.

In 2019, Bank of JZCTS recorded decrease in both net interest spread and net interest margin. The net interest spread of Bank of JZCTS (calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities) decreased from approximately 2.12% in 2018 to approximately 1.92% in 2019. The net interest margin of Bank of JZCTS (calculated by dividing net interest income by the average interest-earning assets, and based on daily average interest-earning assets) decreased from 2.55% in 2018 to approximately 2.32% in 2019. The decrease in net interest spread and net interest margin was primarily attributable to (i) the increase in the average cost of deposits affected by the market competition and other factors; (ii) the notable decline in lending rates after the loan prime rate (LPR) reform; and (iii) the decrease in the average yield of investment securities and other financial assets as a result of the overall decline in market interest rates.

In 2019, Bank of JZCTS recorded operating profit before impairment of approximately RMB1,554 million, representing an increase of approximately 64.4% as compared to approximately RMB945 million in 2018. In 2019, Bank of JZCTS recorded impairment losses on assets of approximately RMB1,225 million, as compared to approximately RMB596 million in 2018. The increase in impairment losses on assets was primarily because Bank of JZCTS made more provisions for asset impairment according to the principle of prudent operation and responding to the market operating environment.

As of 31 December 2019, the net profit attributable to the shareholders of Bank of JZCTS was approximately RMB259 million, representing a decrease of approximately 3.7% as compared to approximately RMB269 million in 2018.

*(b) 2020 compared to 2019*

In 2020, Bank of JZCTS recorded net interest income of approximately RMB1,959 million, representing a decrease of approximately 11.9% as compared to approximately RMB2,224 million in 2019. For the two years ended 31 December 2020 and 2019, the net interest income represented approximately 92.2% and 94.1% of the operating income of Bank of JZCTS, respectively.

The interest income of Bank of JZCTS increased from approximately RMB4,069 million in 2019 to approximately RMB4,306 million in 2020, representing a year-on-year increase of approximately 5.8%. The interest expense of Bank of JZCTS increased from approximately RMB1,845 million in 2019 to approximately RMB2,347 million in 2020, representing a year-on-year increase of approximately 27.2%.

In 2020, Bank of JZCTS recorded decrease in both net interest spread and net interest margin. the net interest spread of Bank of JZCTS decreased from approximately 1.92% in 2019 to approximately 1.73% in 2020. The net interest margin of Bank of JZCTS decreased from 2.32% in 2019 to approximately 2.10% in 2020. The decrease in both net interest spread and net interest margin for 2020 was primarily attributable to (i) the increase in the average cost of deposits affected by the market competition and other factors; (ii) the decrease in the yield of investment and financing businesses as a result of the overall decline in market interest rates under the guide of more flexible and appropriate monetary policies; and (iii) the decline in loan yield due to the decline in the loan prime rate (LPR) and the implementation of the national profit-concession policies by Bank of JZCTS.

In 2020, Bank of JZCTS recorded operating profit before impairment of approximately RMB1,317 million, representing a year-on-year decrease of approximately 15.3% as compared to approximately RMB1,554 million in 2019. In 2020, Bank of JZCTS recorded impairment losses on assets of approximately RMB1,103 million, as compared to approximately RMB1,225 million in 2019. The decrease in impairment losses on assets was primarily due to the fact that Bank of JZCTS continued to strengthen credit risk management and control and the quality of credit assets was improved.

As of 31 December 2020, the net profit attributable to the shareholders of Bank of JZCTS was approximately RMB190 million, representing a decrease of approximately 26.6% as compared to approximately RMB259 million in 2019.

*(c) September 2021 compared to September 2020*

As at 30 September 2021, Bank of JZCTS recorded net interest income of approximately RMB1,357 million, representing a decrease of approximately 6.9% as compared to approximately RMB1,457 million as at 30 September 2020.

The interest income of Bank of JZCTS decreased from approximately RMB3,204 million as at 30 September 2020 to approximately RMB3,151 million as at 30 September 2021, representing a year-on-year decrease of approximately 1.7%. The interest expense Bank of JZCTS increased from approximately RMB1,747 million as at 30 September 2020 to approximately RMB1,794 million as at 30 September 2021, representing a year-on-year increase of approximately 2.7%.

The net interest spread of Bank of JZCTS decreased from approximately 1.75% as at 30 September 2020 to approximately 1.55% as at 30 September 2021. The net interest margin of Bank of JZCTS decreased from 2.11% as at 30 September 2020 to approximately 2.01% as at 30 September 2021. The decrease in both net interest spread and net interest margin for the first three quarter of 2021 were primarily attributable to (i) the decrease in the yield of investment and financing businesses as a result of the overall decline in market interest rates under the guide of more flexible and appropriate monetary policies; and (ii) the reduction of financing costs of enterprises and the decline in loan yield due to the implementation of the national profit-concession policies by Bank of JZCTS.

As at 30 September 2021, Bank of JZCTS recorded operating profit before impairment of approximately RMB927 million, representing a year-on-year decrease of approximately 16.4% as compared to approximately RMB1,109 million as at 30 September 2020. As at 30 September 2021, Bank of JZCTS recorded impairment losses on assets of approximately RMB817 million as compared to approximately RMB818 million as at 30 September 2020, which basically maintained stable year on year.

As of 30 September 2021, net profit attributable to shareholders of Bank of JZCTS was approximately RMB117 million, representing a decrease of approximately 47.8% as compared to approximately RMB224 million as of 30 September 2020.

*(ii) Financial condition*

The financial condition of Bank of JZCTS in 2018, 2019 and 2020 and as at 30 September 2021 is set out below.

*Unit: RMB million*

	30 September 2021	31 December 2020	31 December 2019	31 December 2018
Total assets	92,394	99,422	91,240	76,718
Total liabilities	86,469	93,587	85,563	71,326
Total equity attributable to equity shareholders of Bank of JZCTS	5,925	5,835	5,677	5,393

As of 30 September 2021, the total assets of Bank of JZCTS were RMB92,394 million, representing a decrease of RMB7,028 million or 7.1% as compared with the end of 2020. The total assets of Bank of JZCTS mainly consist of (a) net loans and advances to customers of approximately RMB52,985 million; (b) investment securities and other financial assets of approximately RMB28,981 million, representing 57.3% and 31.4% of Bank of JZCTS's total assets, respectively. Bank of JZCTS's loans and advances to customers mainly consist of corporate loans, personal loans and discounting, representing approximately 74.1%, 20.4% and approximately 5.5% of Bank of JZCTS's total loans and advances to customers (excluding accrued interest) as at 30 September 2021.

As at 30 September 2021, the total liabilities of Bank of JZCTS were approximately RMB86,469 million. The total liabilities of Bank of JZCTS mainly consist of (a) deposits from customers of approximately RMB64,618 million; (b) debt securities issued of approximately RMB13,148 million, representing approximately 74.7% and 15.2% of Bank of JZCTS's total liabilities as at 30 September 2021.

As at 31 December 2019, 31 December 2020 and 30 September 2021, total equity attributable to shareholders of Bank of JZCTS amounted to approximately RMB5,677 million, RMB5,835 million and RMB5,925 million, respectively. As at 31 December 2019, 31 December 2020 and 30 September 2021, net assets per share attributable to the shareholders of ordinary shares of Bank of JZCTS (calculated by dividing equity attributable to the shareholders of ordinary shares of the parent company after deduction of other equity instruments at the end of the period by the total number of ordinary shares at the end of the period) amounted to approximately RMB1.14, RMB1.17 and RMB1.19, respectively.

The Group will sell assets through a market-based approach. The assets to be sold account for a relatively low proportion of the total assets, which will not have a significant impact on the Group's normal production and operation. After the assets are sold, the Group will further consolidate the foundation for business development, focus on primary duty and core businesses, support local economic development, and continue to improve operating efficiency and return to shareholders.

## **7. FINANCIAL AND TRADING PROSPECT**

### **Financial and transaction prospects**

The economies of scale and synergy effect brought about by the Merger by Absorption will have a positive impact on the Group's mid-and-long term market competitiveness and operating capabilities, which will benefit the Group's long-term and healthy development and continue to enhance the Group's market position and regional competitiveness.

#### ***1. Expand the scale of assets rapidly and achieve more large-scale benefits.***

After the Merger by Absorption, the scale, market position, and operational efficiency of the Bank will be improved, which is conducive to better serving the local real economy. The Group will give full play to the synergy effect, improve the efficiency of internal operation, promote the rapid development of business, continue to enhance the risk-resistance capability, and further improve the profitability level.

#### ***2. Deeply explore market segments and enhance competitiveness.***

After this Merger by Absorption, the Group can utilize the local institutions, businesses, personnel and other resource advantages of the absorbed Luoyang Bank, Pingdingshan Bank and Bank of JZCTS, as well as experience and capabilities accumulated in their past operations, give full play to the advantages of subdivisions, promote the implementation of refined development strategies, strengthen the innovation of products and services, build core competitiveness through more efficient services, and incrementally occupy local market share of the Bank.

**3. *Enhance brand recognition and build century-old Zhongyuan.***

After the Merger by Absorption, the Group will continue to improve and optimize the management mechanism, build an intensive and efficient operation system, and actively innovate business products and technology-led development models. The Group will further enhance core competitiveness, stimulate endogenous growth momentum and vitality, and firmly pursue its vision and mission of “century-old foundation, century-old Zhongyuan”; establish a bank brand image of “best service, optimal price, highest efficiency”; implement the service concept of “intimate, specialty, cooperation, win-win”; focus on the strategic focus of “serve strategy, serve entity, serve enterprise, serve people”, and adhere to the development path of “internetization and ruralization of banking services; digital intelligent future; innovating while keeping the origin; work through hardships and forge ahead”. The Group will promote the high-quality development of the Group and achieve a new leap.

*The following is the text of a report set out on II-A-1 to II-A-87, received from reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.*



**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF BANK OF JIAOZUO CHINA TRAVEL SERVICE CO., LTD. TO THE DIRECTORS OF ZHONGYUAN BANK CO., LTD.**

**Introduction**

We report on the historical financial information of Bank of Jiaozuo China Travel Service Co., Ltd. (the "Bank of JZCTS") set out on II-A-4 to II-A-87, which comprises the statements of financial position of Bank of JZCTS as at December 31, 2018, 2019, 2020 and September 30, 2021, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the cash flow statements, for each of the years ended at December 31, 2018, 2019, 2020 and the nine months ended September 30, 2021 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-A-4 to II-A-87 forms an integral part of this report, which has been prepared for inclusion in the circular of Zhongyuan Bank Co., Ltd. (the "Zhongyuan Bank") dated 18 February 2022 (the "Circular") in connection with the proposed merger by absorption of Bank of JZCTS.

**Directors' responsibility for Historical Financial Information**

The directors of Zhongyuan Bank are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of Bank of JZCTS as defined on II-A-4, on which the Historical Financial Information is based, were prepared by the directors of Bank of JZCTS. The directors of Bank of JZCTS are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"), and for such internal control as the directors of Bank of JZCTS determine is necessary to enable the preparation of the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of Bank of JZCTS's financial position as at December 31, 2018, 2019, 2020 and September 30, 2021 and of Bank of JZCTS's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**Review of stub period corresponding financial information**

We have reviewed the stub period corresponding financial information of Bank of JZCTS which comprises, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statements for the nine months ended September 30, 2020 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of Bank of JZCTS are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong

Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited**

***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-A-4 have been made.

**KPMG**

*Certified Public Accountants*

8th Floor, Prince’s Building

10 Chater Road

Central, Hong Kong

18 February 2022

**HISTORICAL FINANCIAL INFORMATION**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of Bank of JZCTS for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

### Statements of profit or loss and other comprehensive income

(Expressed in thousands of Renminbi, unless otherwise stated)

		Years ended December 31,			Nine months ended	
	Note	2018	2019	2020	September 30,	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Interest income		3,391,027	4,069,111	4,306,210	3,204,355	3,151,125
Interest expense		(1,700,208)	(1,844,863)	(2,347,349)	(1,747,302)	(1,793,880)
<b>Net interest income</b>	4	<u>1,690,819</u>	<u>2,224,248</u>	<u>1,958,861</u>	<u>1,457,053</u>	<u>1,357,245</u>
Fee and commission income		99,667	99,664	110,603	81,960	105,956
Fee and commission expense		(4,665)	(4,517)	(4,027)	(2,753)	(8,824)
<b>Net fee and commission income</b>	5	<u>95,002</u>	<u>95,147</u>	<u>106,576</u>	<u>79,207</u>	<u>97,132</u>
Net trading (losses)/gains	6	(1,472)	(72,109)	70,929	(163)	20,124
Net (losses)/gains arising from investment securities	7	(131,489)	113,959	(15,183)	97,299	19,580
Other operating income	8	<u>24,680</u>	<u>2,385</u>	<u>3,127</u>	<u>1,212</u>	<u>8,287</u>
<b>Operating income</b>		1,677,540	2,363,630	2,124,310	1,634,608	1,502,368
Operating expenses	9	(732,537)	(809,763)	(807,352)	(525,792)	(575,455)
Impairment losses on assets	12	<u>(596,154)</u>	<u>(1,224,912)</u>	<u>(1,102,953)</u>	<u>(818,000)</u>	<u>(816,597)</u>
<b>Profit before tax</b>		348,849	328,955	214,005	290,816	110,316
Income tax	13	<u>(79,801)</u>	<u>(69,856)</u>	<u>(23,740)</u>	<u>(66,995)</u>	<u>6,782</u>
<b>Net profit for the year/period</b>		<u>269,048</u>	<u>259,099</u>	<u>190,265</u>	<u>223,821</u>	<u>117,098</u>

The accompanying notes form part of this Historical Financial Information.

	<i>Note</i>	Years ended December 31,			Nine months ended	
		2018	2019	2020	2020	2021
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(unaudited)	
<b>Net profit for the year/period</b>		269,048	259,099	190,265	223,821	117,098
<hr/>						
<b>Other comprehensive income</b>						
Items that may be reclassified subsequently to profit or loss:						
– Financial assets at fair value through other comprehensive income: net movement in the fair value reserve	32(d)(i)	2,578	(17,731)	84,235	66,965	(40,096)
– Financial assets at fair value through other comprehensive income: net movement in impairment losses	32(d)(ii)	(2,594)	42,941	(116,878)	(18,496)	14,363
Items that will not be reclassified subsequently to profit or loss						
– Remeasurement of net defined benefit liability	32(d)(iii)	(590)	–	–	–	(680)
<b>Other comprehensive income, net of tax</b>		(606)	25,210	(32,643)	48,469	(26,413)
<hr/>						
<b>Total comprehensive income</b>		268,442	284,309	157,622	272,290	90,685
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The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

### Statements of financial position

(Expressed in thousands of Renminbi, unless otherwise stated)

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
<b>Assets</b>					
Cash and deposits with the central bank	15	8,295,260	8,841,655	7,308,093	6,736,581
Deposits with banks and other financial institutions	16	130,358	703,399	411,881	133,345
Placements with banks and other financial institutions	17	–	1,001,147	991,382	–
Financial assets held under resale agreements	18	500,071	–	–	–
Loans and advances to customers	19	35,027,273	43,215,266	52,000,471	52,985,064
Financial investments:	20				
Financial investments at fair value through profit or loss		5,180,730	3,708,381	2,771,795	1,955,599
Financial investments at fair value through other comprehensive income		2,036,948	7,439,800	13,502,237	8,887,759
Financial investments at amortised cost		23,173,950	23,583,051	19,463,529	18,137,698
Property and equipment	21	441,468	429,798	408,748	374,919
Deferred tax assets	22	1,131,894	1,436,175	1,751,616	1,952,494
Other assets	23	800,314	881,309	812,312	1,230,510
<b>Total assets</b>		<u>76,718,266</u>	<u>91,239,981</u>	<u>99,422,064</u>	<u>92,393,969</u>
<b>Liabilities and equity</b>					
<b>Liabilities</b>					
Borrowing from the central bank		409,858	411,720	1,959,368	3,025,234
Deposits from banks and other financial institutions	25	2,324,294	1,543,216	952,984	1,427,964
Placements from banks and other financial institutions	26	3,444,042	2,654,211	3,263,934	2,766,026
Financial assets sold under repurchase agreements	27	1,091,161	5,388,450	4,700,605	500,031
Deposits from customers	28	47,548,056	57,550,699	65,442,374	64,617,557
Income tax payable		210,524	320,531	274,805	335,081
Debt securities issued	29	15,370,484	17,217,362	15,614,183	13,147,846
Other liabilities	30	927,173	476,809	1,379,206	648,940
<b>Total liabilities</b>		<u>71,325,592</u>	<u>85,562,998</u>	<u>93,587,459</u>	<u>86,468,679</u>

The accompanying notes form part of this Historical Financial Information.

		At December 31,			At September 30,
	Note	2018	2019	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Equity</b>					
Share capital	31	5,000,000	5,000,000	5,000,000	5,000,000
Capital reserve	32(a)	859,156	884,366	851,723	825,310
Surplus reserve	32(b)	215,214	241,124	260,151	260,151
General reserve	32(c)	922,000	1,122,000	1,122,000	1,122,000
Accumulated losses		<u>(1,603,696)</u>	<u>(1,570,507)</u>	<u>(1,399,269)</u>	<u>(1,282,171)</u>
Total equity		<u>5,392,674</u>	<u>5,676,983</u>	<u>5,834,605</u>	<u>5,925,290</u>
<b>Total liabilities and equity</b>		<u>76,718,266</u>	<u>91,239,981</u>	<u>99,422,064</u>	<u>92,393,969</u>

The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

### Statements of changes in equity

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Accumulated losses	Total
Balance at January 1, 2018		5,000,000	859,762	188,309	657,000	(1,580,839)	5,124,232
Changes in equity for the year:							
Net profit for the year		–	–	–	–	269,048	269,048
Other comprehensive income		–	(606)	–	–	–	(606)
Total comprehensive income		–	(606)	–	–	269,048	268,442
Appropriation to surplus reserve		–	–	26,905	–	(26,905)	–
Appropriation to general reserve		–	–	–	265,000	(265,000)	–
Balance at December 31, 2018		5,000,000	859,156	215,214	922,000	(1,603,696)	5,392,674
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Accumulated losses	Total
Balance at January 1, 2019		5,000,000	859,156	215,214	922,000	(1,603,696)	5,392,674
Changes in equity for the year:							
Net profit for the year		–	–	–	–	259,099	259,099
Other comprehensive income		–	25,210	–	–	–	25,210
Total comprehensive income		–	25,210	–	–	259,099	284,309
Appropriation to surplus reserve		–	–	25,910	–	(25,910)	–
Appropriation to general reserve		–	–	–	200,000	(200,000)	–
Balance at December 31, 2019		5,000,000	884,366	241,124	1,122,000	(1,570,507)	5,676,983

The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

	<i>Note</i>	Share capital	Capital reserve	Surplus reserve	General reserve	Accumulated losses	Total
Balance at January 1, 2020		5,000,000	884,366	241,124	1,122,000	(1,570,507)	5,676,983
Changes in equity for the year:							
Net profit for the year		–	–	–	–	190,265	190,265
Other comprehensive income		–	(32,643)	–	–	–	(32,643)
Total comprehensive income		–	(32,643)	–	–	190,265	157,622
Appropriation to surplus reserve		–	–	19,027	–	(19,027)	–
Balance at December 31, 2020		5,000,000	851,723	260,151	1,122,000	(1,399,269)	5,834,605
Unaudited:							
Balance at January 1, 2020		5,000,000	884,366	241,124	1,122,000	(1,570,507)	5,676,983
Changes in equity for the period:							
Net profit for the period		–	–	–	–	223,821	223,821
Other comprehensive income		–	48,469	–	–	–	48,469
Total comprehensive income		–	48,469	–	–	223,821	272,290
Balance at September 30, 2020		5,000,000	932,835	241,124	1,122,000	(1,346,686)	5,949,273

The accompanying notes form part of this Historical Financial Information.

**APPENDIX II-A****ACCOUNTANTS' REPORT OF BANK OF JZCTS**

	<i>Note</i>	Share capital	Capital reserve	Surplus reserve	General reserve	Accumulated losses	Total
Balance at January 1, 2021		5,000,000	851,723	260,151	1,122,000	(1,399,269)	5,834,605
Changes in equity for the period:							
Net profit for the period		–	–	–	–	117,098	117,098
Other comprehensive income		–	(26,413)	–	–	–	(26,413)
Total comprehensive income		–	(26,413)	–	–	117,098	90,685
Balance at September 30, 2021		5,000,000	825,310	260,151	1,122,000	(1,282,171)	5,925,290

The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

### Cash flow statements

(Expressed in thousands of Renminbi, unless otherwise stated)

Note	Years ended December 31,			Nine months ended September 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
<b>Cash flows from operating activities</b>					
Profit before tax	348,849	328,955	214,005	290,816	110,316
Adjustments for:					
– Impairment losses on assets	596,154	1,224,912	1,102,953	818,000	816,597
– Depreciation and amortization	78,440	82,776	100,518	71,585	65,754
– Net gains on disposal of property and equipment	72	–	811	–	–
– Net trading losses/(gains)	1,472	72,155	(70,988)	95	(17,599)
– Net losses/(gains) on disposal of investment securities	131,489	(113,959)	15,183	(97,299)	(19,580)
– Interest expense on debts securities issued	618,097	374,810	626,146	482,296	395,074
– Interest expense on lease liabilities	1,865	1,662	1,762	1,322	1,806
	<u>1,776,438</u>	<u>1,971,311</u>	<u>1,990,390</u>	<u>1,566,815</u>	<u>1,352,368</u>
<i>Changes in operating assets</i>					
Net (increase)/decrease in deposits with the central bank	(636,020)	390,730	427,447	360,164	234,071
Net decrease/(increase) in deposits and placements with banks and other financial institutions	1,712,005	(100,844)	101,259	83,818	2,733
Net (increase)/decrease in financial assets held for trading	–	(72,155)	70,988	(94)	17,599
Net increase in loans and advances to customers	(7,102,556)	(8,967,246)	(9,355,157)	(6,796,293)	(1,532,782)
Net (increase)/decrease in other operating assets	<u>(287,898)</u>	<u>(101,408)</u>	<u>(149,750)</u>	<u>1,038,189</u>	<u>(256,512)</u>
	<u>(6,314,469)</u>	<u>(8,850,923)</u>	<u>(8,905,213)</u>	<u>(5,314,216)</u>	<u>(1,534,891)</u>

The accompanying notes form part of this Historical Financial Information.

<i>Note</i>	Years ended December 31,			Nine months ended	
	2018	2019	2020	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)				
<b>Cash flows from operating activities</b>					
<i>Changes in operating liabilities</i>					
Net increase/(decrease) in borrowing from central bank	214,287	(64)	1,536,984	1,112,799	1,053,186
Net (decrease)/increase in deposits from banks and other financial institutions	(4,624,604)	(851,601)	(622,513)	(230,633)	462,137
Net increase/(decrease) in placements from banks and other financial institutions	1,540,000	(786,000)	607,000	1,172,300	(515,080)
Net increase/(decrease) in financial assets sold under repurchase agreements	218,000	4,296,500	(687,500)	(3,307,500)	(4,200,000)
Net increase/(decrease) in deposits from customers	7,195,338	9,750,522	7,683,966	6,253,035	(1,044,663)
Net increase/(decrease) in other operating liabilities	33,133	(180,006)	1,113,225	1,967,309	(466,299)
	<u>4,576,154</u>	<u>12,229,351</u>	<u>9,631,162</u>	<u>6,967,310</u>	<u>(4,710,719)</u>
<b>Net cash flows generated from/(used in) operating activities before income tax paid</b>	38,123	5,349,739	2,716,339	3,219,909	(4,893,242)
Income tax paid	<u>(322,885)</u>	<u>(221,573)</u>	<u>(384,909)</u>	<u>(183,830)</u>	<u>(133,820)</u>
<b>Net cash flows (used in)/ generated from operating activities</b>	<u>(284,762)</u>	<u>5,128,166</u>	<u>2,331,430</u>	<u>3,036,079</u>	<u>(5,027,062)</u>

The accompanying notes form part of this Historical Financial Information.

	Years ended December 31,			Nine months ended	
	2018	2019	2020	September 30, 2020	2021
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
<b>Cash flows from investing activities</b>					
Proceeds from disposal and redemption of investments	25,317,221	86,496,097	102,398,578	87,408,008	116,885,177
Proceeds from disposal of property and equipment, intangible assets and other assets	2,459	141	115	480	126
Payments on acquisition of investments	(28,950,217)	(91,147,759)	(103,724,756)	(89,809,137)	(110,572,768)
Payments on acquisition of property and equipment, intangible assets and other assets	(67,540)	(81,261)	(121,490)	(42,777)	(22,700)
<b>Net cash flows (used in)/generated from investing activities</b>	(3,698,077)	(4,732,782)	(1,447,553)	(2,443,426)	6,289,835

The accompanying notes form part of this Historical Financial Information.

	<i>Note</i>	Years ended December 31,			Nine months ended September 30,	
		2018	2019	2020	2020	2021
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(unaudited)	
<b>Cash flows from financing activities</b>						
Proceeds from issued debt securities		17,695,214	19,882,658	21,793,400	16,009,642	12,548,245
Repayment of debts securities issued		(12,446,924)	(18,263,453)	(23,876,216)	(17,810,000)	(15,289,168)
Interest paid on debts securities issued		(183,065)	(102,112)	(101,758)	(86,323)	(114,248)
Capital element of lease liabilities paid		(453)	(3,002)	(2,547)	(2,050)	(8,884)
Interest element of lease liabilities paid		(1,336)	(1,662)	(1,762)	(1,322)	(1,806)
<b>Net cash flows generated from/(used in) financing activities</b>		5,063,436	1,512,429	(2,188,883)	(1,890,053)	(2,865,861)
<b>Net increase/(decrease) in cash and cash equivalents</b>	35(a)	1,080,597	1,907,813	(1,305,006)	(1,297,400)	(1,603,088)
<b>Cash and cash equivalents as at January 1</b>		2,664,963	3,745,560	5,653,373	5,653,373	4,348,367
<b>Cash and cash equivalents as at December 31/September 30</b>	35(b)	3,745,560	5,653,373	4,348,367	4,355,973	2,745,279
Interest received		3,279,295	4,098,796	4,157,161	3,300,817	3,239,482
Interest paid (excluding interest expense on debts securities issued)		(800,843)	(1,439,001)	(1,506,680)	(1,242,286)	(1,176,543)

The accompanying notes form part of this Historical Financial Information.

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION**

*(Expressed in thousands of Renminbi, unless otherwise stated)*

**1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

Bank of Jiaozuo China Travel Service Co., Ltd. ("Bank of JZCTS") was established in Jiaozuo, Henan Province, the People's Republic of China (the "PRC") on February 25, 1998 with the approval of the former China Banking Regulatory Commission (the former "CBRC").

Bank of JZCTS obtained its financial institution license no. B0732H341080001 from the former CBRC, and obtained its business license with unified social credit code 91410800417885166U from the State Administration for Industry and Commerce of the PRC. Bank of JZCTS is regulated by China Banking Insurance Regulatory Commission (the "CBIRC") authorized by the State Council.

The principal activities of Bank of JZCTS are the provision of corporate and personal deposits, loans and advances, settlement, financial market business and other financial services as approved by the former CBRC.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, Bank of JZCTS has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period ended September 30, 2021. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning January 1, 2021 are set out in Note 43.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

**2 SIGNIFICANT ACCOUNTING POLICIES****(1) Statement of compliance**

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

**(2) Basis of preparation of the Historical Financial Information**

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

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

Judgments made by management in the application of IFRSs that have a significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 2(26).

The measurement basis used in the preparation of the Historical Financial Information is the historical basis, except that the financial instruments classified as fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL) and derivative financial instruments (see Note 2(8)(iii)) are stated at their fair value as explained in the accounting policies.

The Historical Financial Information are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of Bank of JZCTS.

### **(3) Subsidiaries and non-controlling interests**

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

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

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

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

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

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

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

**(4) Associates and joint ventures**

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

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

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

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

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

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

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

**(5) Goodwill**

Goodwill represents the excess of

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

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

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

**(6) Translation of foreign currencies**

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

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

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

**(7) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, financial assets held under resale agreements and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(8)(ii).

**(8) Financial instruments*****(i) Recognition and measurement of financial assets and liabilities***

A financial asset or financial liability is recognized in the statements of financial position when Bank of JZCTS becomes a party to the contractual provisions of a financial instrument. The financial instruments are initially stated at fair value plus directly attributable transaction costs, except for those financial instruments measured at FVTPL for which transaction costs are recognised directly in profit or loss. For an explanation of how Bank of JZCTS determines fair value of financial instruments, see note 41. These financial instruments are subsequently accounted for as follows, depending on their classification.

***Financial instruments other than equity investments***

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

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

*Equity investments*

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

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

Bank of JZCTS recognises a loss allowance for expected credit losses (ECLs) on the following items:

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

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

*Measurement of ECLs*

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

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

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

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

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

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

ECLs are measured on either of the following bases:

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

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

*Significant increases in credit risk*

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

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

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

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

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

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. Bank of JZCTS recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

*Basis of calculation of interest income*

Interest income recognised in accordance with note 2(21)(a) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

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

*Write-off policy*

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when Bank of JZCTS determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

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

**(iii) Derivative financial instruments**

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

**(iv) Fair value measurement principles**

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

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

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

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

Bank of JZCTS obtains market data from the same market where the financial instrument was originated or purchased.

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

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

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

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

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

**(vi) *Offsetting***

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

**(9) *Financial assets held under resale and repurchase agreements***

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortized cost. Financial assets held under resale agreements are assessed for ECLs in accordance with the policy set out in note 2(8)(ii).

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortized cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognized respectively as interest income and interest expense over the life of each agreement using the effective interest method.

**(10) Preference share and perpetual bonds**

At initial recognition, Bank of JZCTS classifies the preference shares, perpetual bonds issued or their components as financial assets, financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial assets, financial liabilities and equity instruments.

Preference shares and perpetual bonds issued containing both equity and liability components are accounted for using the accounting policy for convertible instruments containing an equity component. Preference shares and perpetual bonds issued not containing an equity component are accounted for using the accounting policy for other convertible instruments not containing an equity component.

Preference shares and perpetual bonds issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the preference shares and perpetual bonds are redeemed according to the contractual terms, the redemption price is charged to equity.

**(11) Investment property**

Investment property is a property held either for earning rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the statements of financial position at cost less accumulated depreciation and impairment loss. Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	20 years	3%	4.85%

**(12) Property and equipment and construction in progress**

Property and equipment are assets held by Bank of JZCTS for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss. Construction in progress is stated in the statements of financial position at cost less impairment loss (Note 2(16)).

The cost of a purchased property and equipment comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. Construction in progress is transferred to property and equipment when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to Bank of JZCTS in different patterns thus necessitating use of different depreciation rates or methods, they are recognized as a separate property and equipment.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

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

Property and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	20 years	3%	4.85%
Motor vehicles	4 years	3%	24.25%
Others	3 – 10 years	3%	9.70% – 32.33%

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

### (13) Leases

At inception of a contract, Bank of JZCTS assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

#### (i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), Bank of JZCTS has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, Bank of JZCTS recognises a right-of-use asset and a lease liability. Lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to Bank of JZCTS by the end of the lease term or the cost of the right-of-use asset reflects that Bank of JZCTS will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in Bank of JZCTS's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether Bank of JZCTS will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

**(ii) As a lessor**

When Bank of JZCTS acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset irrespective of whether the legal title to the asset is eventually transferred. If this is not the case, the lease is classified as an operating lease.

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

When Bank of JZCTS is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease.

Under a finance lease, at the commencement date, Bank of JZCTS recognises the finance lease receivable and derecognises the finance lease asset. The finance lease receivable is initially measured at an amount equal to the net investment in the lease. The net investment in the lease is measured at the aggregate of the unguaranteed residual value and the present value of the lease receivable that are not received at the commencement date, discounted using the interest rate implicit in the lease.

Bank of JZCTS recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return. The derecognition and impairment of the finance lease receivable are recognised in accordance with the accounting policy in Note 2(9). Variable lease payments not included in the measurement of net investment in the lease are recognised as income as they are earned.

Lease receipts from operating leases is recognised as income using the straight-line method over the lease term. The initial direct costs incurred in respect of the operating lease are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Variable lease payments not included in lease receipts are recognised as income as they are earned.

**(14) Intangible assets**

The intangible assets of Bank of JZCTS have finite useful lives. The intangible assets are stated at cost less accumulated amortization and impairment loss. The cost of intangible assets less residual value and impairment loss is amortized on the straight-line method over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

Land use rights	30 – 50 years
Computer software	5 years

**(15) Repossessed assets**

Repossessed assets are physical assets or property rights obtained by Bank of JZCTS from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

**(16) Provision for impairment losses on non-financial assets**

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

- property and equipment;
- construction in progress;
- right-of-use asset;
- intangible assets;
- investment property measured using a cost model.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A cash-generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, Bank of JZCTS also considers how management monitors Bank of JZCTS's operations and how management makes decisions about continuing or disposing of Bank of JZCTS's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, Bank of JZCTS determines the recoverable amount of the asset group to which the assets belongs.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognized in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognized accordingly.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognized, the previously recognized impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior periods.

#### **(17) Employee benefits**

##### ***(i) Short-term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The defined contribution retirement plans of Bank of JZCTS include the social pension schemes.

##### *Social pension schemes*

Pursuant to the relevant laws and regulations in the PRC, Bank of JZCTS has participated in the social pension schemes for the employees arranged by local government labour and security authorities. Bank of JZCTS makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

##### *Housing fund and other social insurances*

In addition to the retirement benefits above, Bank of JZCTS has joined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. Bank of JZCTS makes monthly contributions to the housing fund and other social insurances schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis.

##### ***(ii) Supplementary retirement benefits***

##### *Early retirement plan*

Bank of JZCTS provides early retirement benefit payments to employees who voluntarily agreed to retire early for the period from the date of early retirement to the regulated retirement date. The benefit is discounted to determine the present value based on certain assumptions. The calculation is performed by a qualified actuary using the projected unit credit method. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

*Supplementary retirement plan*

Bank of JZCTS provides a supplementary retirement plan to its eligible employees. Bank of JZCTS's obligations in respect of the supplementary retirement plan are calculated by estimating the present value of the total amount of future benefits that Bank of JZCTS is committed to pay to the employees after their retirement. The calculation is performed by a qualified actuary using the projected unit credit method. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date. The related service cost and net interest from the retirement plan are recognised in profit or loss, and the actuarial gains and losses arising from remeasurements are recognised in other comprehensive income.

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits". Except for the above mentioned, Bank of JZCTS has no significant responsibilities to pay any other retirement benefits to employees.

**(18) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the Relevant Periods, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, Bank of JZCTS controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the Relevant Periods. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each Relevant Periods and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if Bank of JZCTS has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, Bank of JZCTS intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

**(19) Financial guarantees, provisions and contingent liabilities**

**(i) *Financial guarantees***

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (“holder”) for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognized as deferred income in other liabilities. The deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognized in the statements of financial position if and when it becomes probable that the holder of the guarantee will call upon Bank of JZCTS under the guarantee, and the amount of that claim on Bank of JZCTS is expected to exceed the carrying amount of the deferred income.

**(ii) *Other provisions and contingent liabilities***

A provision is recognized for an obligation related to a contingency if Bank of JZCTS has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

**(20) Fiduciary activities**

Bank of JZCTS acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by Bank of JZCTS and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

Bank of JZCTS enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to Bank of JZCTS, and Bank of JZCTS grants loans to third parties (“entrusted loans”) under instructions of the customers. As Bank of JZCTS does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

**(21) Income recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Bank of JZCTS and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**(a) Interest income**

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, where appropriate, to the book value of the financial asset, or the amortised cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not expected credit losses.

Interest income is calculated by applying the effective interest rate to the book value of financial assets and is included in interest income, except for:

- (i) For purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortised cost; and
- (ii) Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their book value.

**(b) Fee and commission income**

Bank of JZCTS earns fee and commission income from a diverse range of services it provides to its customers. The fee and commission income recognised by Bank of JZCTS reflects the amount of consideration to which Bank of JZCTS expects to be entitled in exchange for transferring promised services to customers, and income is recognised when its performance obligation in contracts is satisfied.

- (i) Bank of JZCTS recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:
  - The customer simultaneously receives and consumes the benefits provided by Bank of JZCTS's performance as Bank of JZCTS performs;
  - The customer controls the service provided by Bank of JZCTS in the course of performance; or
  - Bank of JZCTS does not provide service with an alternative use to Bank of JZCTS, and Bank of JZCTS has an enforceable right to payment for performance completed to date.
- (ii) In other cases, Bank of JZCTS recognises revenue at a point in time at which a customer obtains control of the promised services.

**(c) Dividend income**

Dividend income is recognised when Bank of JZCTS's right to receive payment is established.

**(d) Net trading income**

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities that are held for trading.

(e) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that Bank of JZCTS will comply with the conditions attaching to them. Grants that compensate Bank of JZCTS for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate Bank of JZCTS for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(22) **Expenses recognition**

(i) *Interest expenses*

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

(ii) *Other expenses*

Other expenses are recognized on an accrual basis.

(23) **Dividends**

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of each Relevant Periods are not recognized as a liability at the end of each Relevant Periods but disclosed separately in the notes to the Historical Financial Information.

(24) **Related parties**

- (a) A person, or a close member of that person's family, is related to Bank of JZCTS if that person:
  - (i) has control or joint control over Bank of JZCTS;
  - (ii) has significant influence over Bank of JZCTS; or
  - (iii) is a member of the key management personnel of Bank of JZCTS or Bank of JZCTS's parent.
- (b) An entity is related to Bank of JZCTS if any of the following conditions applies:
  - (i) The entity and Bank of JZCTS are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either Bank of JZCTS or an entity related to Bank of JZCTS.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to Bank of JZCTS or to Bank of JZCTS's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

**(25) Segment reporting**

Operating segments are identified from the financial information provided regularly to Bank of JZCTS's most senior executive management for the purposes of allocating resources to, and assessing the performance of Bank of JZCTS's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Bank of JZCTS operates in a single business segment. Bank of JZCTS runs banking business in Henan Province, China. Accordingly, no segmental analysis is presented.

**(26) Significant accounting estimates and judgements**

The preparation of the Historical Financial Information 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.

***(a) Measurement of expected credit loss***

The measurement of the expected credit loss allowance for the investment in financial assets and debt instruments measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in Note 38(a).

A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit losses;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses.

Detailed information about the judgements and estimates made by Bank of JZCTS in the above areas is set out in Note 38(a) credit risk.

***(b) Fair value of financial instruments***

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, and option pricing models. Valuation models established by Bank of JZCTS make maximum use of market input and rely as little as possible on Bank of JZCTS's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. Bank of JZCTS reviews the above estimations and assumptions periodically and makes adjustment if necessary.

***(c) Income taxes***

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Bank of JZCTS carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that

future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

**(d) Impairment of non-financial assets**

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) may not be obtained reliably, the fair value of the asset may not be estimated reliably. In assessing the present value of future cash flows, significant judgments are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

**(e) Depreciation and amortisation**

Investment properties, property and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged for Relevant Periods. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

**(f) Determination of control over investees**

Management applies its judgement to determine whether the control indicators set out Note 2(4) indicate that Bank of JZCTS controls a non-principal guaranteed wealth management product and an asset management plan.

Bank of JZCTS acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether Bank of JZCTS controls such a structured entity usually focuses on the assessment of the aggregate economic interests of Bank of JZCTS in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by Bank of JZCTS, Bank of JZCTS's aggregate economic interest is in each case not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, Bank of JZCTS has concluded that it acts as agent as opposed to principal for the investors in all cases, and therefore has not these structured entities.

### 3 TAXES

Bank of JZCTS's main applicable taxes and tax rates are as follows:

<b>Tax type</b>	<b>Tax basis</b>	<b>Tax rate</b>
Value-added tax (VAT)	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period	3% – 6%
City maintenance and construction tax	Based on VAT paid	5% – 7%
Corporate income tax	Based on taxable profits	25%

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

### 4 NET INTEREST INCOME

	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
<b>Interest income arising from</b>					
Deposits with the central bank	90,142	95,200	78,438	59,862	55,763
Deposits with banks and other financial institutions	76,189	6,829	19,468	15,077	7,572
Placements with banks and other financial institutions	3	1,831	27,617	19,764	12,490
Loans and advances to customers					
– Corporate loans and advances	1,424,054	1,800,497	2,054,705	1,492,487	1,577,629
– Personal loans and advances	354,987	468,757	582,371	429,913	459,270
– Discounted bills	97,494	135,074	116,550	93,288	136,222
Financial assets held under resale agreements	8,182	22,589	14,691	14,168	11,193
Financial investments	1,339,976	1,538,334	1,412,370	1,079,796	890,986
Sub-total	3,391,027	4,069,111	4,306,210	3,204,355	3,151,125
<b>Interest expenses arising from</b>					
Borrowing from the central bank	(4,680)	(9,908)	(33,727)	(14,622)	(52,921)
Deposits from banks and other financial institutions	(261,427)	(79,753)	(40,941)	(33,381)	(34,314)
Placements from banks and other financial institutions	(86,357)	(92,206)	(109,290)	(80,008)	(91,412)
Deposits from customers	(708,337)	(1,251,226)	(1,487,944)	(1,102,810)	(1,177,047)
Financial assets sold under repurchase agreements	(21,310)	(36,960)	(49,301)	(34,185)	(43,112)
Debts securities issued	(618,097)	(374,810)	(626,146)	(482,296)	(395,074)
Sub-total	(1,700,208)	(1,844,863)	(2,347,349)	(1,747,302)	(1,793,880)
<b>Net interest income</b>	<u>1,690,819</u>	<u>2,224,248</u>	<u>1,958,861</u>	<u>1,457,053</u>	<u>1,357,245</u>

The interest income and expenses are related to financial instruments which are not measured at fair value through profit or loss.

# APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

## 5 NET FEE AND COMMISSION INCOME

### (a) Income and expense streams:

	Years ended December 31,			Nine months ended September 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
<b>Fee and commission income</b>					
Wealth management business fees	65,398	62,170	64,511	42,963	76,020
Acceptance and guarantee services fees	11,180	18,706	21,345	16,225	16,078
Underwriting fees	–	10,534	8,778	7,334	9,691
Agency services fees	1,083	823	147	115	2,544
Settlement and clearing services fees	8,545	4,700	13,144	12,754	1,101
Bank card services fees	364	423	312	236	262
Advisory and consulting fees	13,097	2,308	2,366	2,333	260
Sub-total	99,667	99,664	110,603	81,960	105,956
<b>Fee and commission expense</b>	(4,665)	(4,517)	(4,027)	(2,753)	(8,824)
<b>Net fee and commission income</b>	95,002	95,147	106,576	79,207	97,132

### (b) Disaggregation of income:

	Years ended 31 December						Nine months ended 30 September			
	2018		2019		2020		2020		2021	
	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)									
Underwriting fees	–	–	10,534	–	8,778	–	7,334	–	9,691	–
Wealth management business fees	–	65,398	–	62,170	–	64,512	–	42,963	–	76,020
Bank card services fees	364	–	423	–	312	–	236	–	262	–
Settlement and clearing services fees	8,545	–	4,700	–	13,144	–	12,754	–	1,101	–
Advisory and consulting fees	–	13,097	–	2,308	–	2,366	–	2,333	–	260
Agency services fees	–	1,083	–	823	–	147	–	115	–	2,544
Acceptance and guarantee services fees	–	11,180	–	18,706	–	21,344	–	16,225	–	16,078
Total	8,909	90,758	15,657	84,007	22,234	88,369	20,324	61,636	11,054	94,902

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

### 6 NET TRADING (LOSSES)/GAINS

	<i>Note</i>	Years ended December 31,			Nine months ended September 30,	
		2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2020 <i>RMB'000</i> (unaudited)	2021 <i>RMB'000</i>
Net (losses)/gains from debt securities	(a)	(1,472)	(72,109)	70,929	(163)	20,124
Total		<u>(1,472)</u>	<u>(72,109)</u>	<u>70,929</u>	<u>(163)</u>	<u>20,124</u>

(a) Net (losses)/gains from debt securities include (losses)/gains arising from the buying and selling of, and changes in the fair value of debt securities held for trading.

### 7 NET (LOSSES)/GAINS ARISING FROM INVESTMENT SECURITIES

Net (losses)/gains arising from investment securities include of net (losses)/gains of financial investments at fair value through other comprehensive income, net losses on disposal of financial investments at amortised cost and the investment income and fair value changes of financial investments at fair value through profit or loss except for debt securities held for trading.

### 8 OTHER OPERATING INCOME

		Years ended December 31,			Nine months ended September 30,	
		2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2020 <i>RMB'000</i> (unaudited)	2021 <i>RMB'000</i>
Government grants		14,376	583	659	212	1,000
Rental income		9,178	1,020	144	103	693
Others		1,126	782	2,324	897	6,594
Total		<u>24,680</u>	<u>2,385</u>	<u>3,127</u>	<u>1,212</u>	<u>8,287</u>

### 9 OPERATING EXPENSES

		Years ended December 31,			Nine months ended September 30,	
		2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2020 <i>RMB'000</i> (unaudited)	2021 <i>RMB'000</i>
Staff costs		383,250	399,305	360,969	255,021	278,777
Office expenses		10,568	10,597	8,417	3,742	4,154
Depreciation and amortization		70,939	74,670	90,546	64,106	53,723
Depreciation charge for the right-of-use assets		7,501	8,106	9,972	7,479	12,031
Interest expense on lease liabilities		1,865	1,662	1,762	1,322	1,806
Property management expenses		26,706	27,834	31,167	19,609	20,801
Other general and administrative expenses		231,708	287,589	304,519	174,513	204,163
Total		<u>732,537</u>	<u>809,763</u>	<u>807,352</u>	<u>525,792</u>	<u>575,455</u>

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

### 10 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The directors of Bank of JZCTS consider the presentation of such information is not meaningful for the purpose of this report.

### 11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The directors of Bank of JZCTS consider the presentation of such information is not meaningful for the purpose of this report.

### 12 IMPAIRMENT LOSSES ON ASSETS

	Years ended December 31,			Nine months ended September 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Loans and advances to customers	323,886	713,723	640,172	473,000	404,904
Financial investments	212,237	388,709	183,438	319,000	497,977
Credit commitments	–	8,586	1,065	–	(3,292)
Deposits with banks and other financial institutions	(16,684)	5,773	(2,000)	6,000	–
Placements with banks and other financial institutions	–	–	10,000	–	(35)
Others	76,715	108,121	270,278	20,000	(82,957)
Total	<u>596,154</u>	<u>1,224,912</u>	<u>1,102,953</u>	<u>818,000</u>	<u>816,597</u>

### 13 INCOME TAX

#### (a) Income tax:

	Note	Years ended December 31,			Nine months ended September 30,	
		2018	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Current tax		292,018	405,292	229,160	181,995	259,870
Deferred tax	22(b)	(212,217)	(335,436)	(205,420)	(115,000)	(266,652)
Total		<u>79,801</u>	<u>69,856</u>	<u>23,740</u>	<u>66,995</u>	<u>(6,782)</u>

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

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

Note	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000	2021 RMB'000
				(unaudited)	
Profit before tax	348,849	328,955	214,005	290,816	110,316
Statutory tax rate	25%	25%	25%	25%	25%
Income tax calculated at statutory tax rate	87,212	82,239	53,501	72,704	27,579
Non-deductible expenses	1,789	3,234	4,176	3,311	2,305
Non-taxable income (i)	(9,200)	(15,617)	(33,937)	(9,020)	(36,666)
Income tax	79,801	69,856	23,740	66,995	(6,782)

(i) The non-taxable income mainly represents the interest income from the PRC government bonds and dividends from securities funds.

### 14 BASIC AND DILUTED EARNINGS PER SHARE

No earnings per share information is presented as the directors of Bank of JZCTS consider the presentation of such information is not meaningful for the purpose of this report.

### 15 CASH AND DEPOSITS WITH THE CENTRAL BANK

Note	At December 31,			At September 30,
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000
Cash on hand	101,108	90,496	99,026	120,904
Deposits with the central bank				
– Statutory deposit reserves (a)	4,940,662	4,681,113	4,251,119	4,021,199
– Surplus deposit reserves (b)	3,113,100	4,060,837	2,946,192	2,586,873
– Fiscal deposits	140,390	9,209	11,756	7,605
Sub-total	8,194,152	8,751,159	7,209,067	6,615,677
Total	8,295,260	8,841,655	7,308,093	6,736,581

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

(a) Bank of JZCTS places statutory deposit reserves with the PBOC in accordance with relevant regulations. The statutory deposit reserves are not available for Bank of JZCTS's daily business.

(b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

### 16 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analyzed by type and location of counterparty

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Deposits in mainland China				
– Banks	131,150	708,453	416,299	136,998
– Other financial institutions	496	500	503	504
	<u>131,646</u>	<u>708,953</u>	<u>416,802</u>	<u>137,502</u>
Sub-total				
	131,646	708,953	416,802	137,502
Accrued interest	29	1,536	169	13
Less: Provision for impairment losses	(1,317)	(7,090)	(5,090)	(4,170)
	<u>(1,317)</u>	<u>(7,090)</u>	<u>(5,090)</u>	<u>(4,170)</u>
Net carrying amount	<u>130,358</u>	<u>703,399</u>	<u>411,881</u>	<u>133,345</u>

### 17 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analyzed by type and location of counterparty

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Placements in mainland China				
– Banks	–	1,000,000	1,000,000	–
Accrued interest	–	1,147	1,382	–
Less: Provision for impairment losses	–	–	(10,000)	–
	<u>–</u>	<u>1,001,147</u>	<u>991,382</u>	<u>–</u>
Net carrying amount	<u>–</u>	<u>1,001,147</u>	<u>991,382</u>	<u>–</u>

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

### 18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

#### (a) Analyzed by type and location of counterparty

	At December 31,		At
	2018	2019	September 30,
	RMB'000	RMB'000	2021
			RMB'000
In mainland China			
– Banks	500,000	–	–
Accrued interest	71	–	–
Less: Provision for impairment losses	–	–	–
Net carrying amount	500,071	–	–

#### (b) Analyzed by type of security held

	At December 31,		At
	2018	2019	September 30,
	RMB'000	RMB'000	2021
			RMB'000
Debt securities	500,000	–	–
Accrued interest	71	–	–
Less: Provision for impairment losses	–	–	–
Net carrying amount	500,071	–	–

### 19 LOANS AND ADVANCES TO CUSTOMERS

#### (a) Analyzed by nature

	At December 31,		At
	2018	2019	September 30,
	RMB'000	RMB'000	2021
			RMB'000
Loans and advances to customers measured at amortised cost			
Corporate loans and advances	29,191,065	33,385,869	38,797,038
Personal loans and advances			
– Residential mortgage	2,789,511	4,855,812	6,464,163
– Personal consumption loans	1,334,363	952,473	933,811
– Personal business loans	3,231,263	3,640,404	3,745,307
Sub-total	7,355,137	9,448,689	11,143,281

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Accrued interest	76,831	87,199	223,322	184,413
Less: Provision for loans and advances to customers measured at amortised cost	(2,535,336)	(2,962,639)	(3,105,844)	(2,770,748)
Sub-total	34,087,697	39,959,118	47,057,797	49,899,763
Loans and advances to customers measured at fair value through other comprehensive income				
Discounted bills	939,576	3,256,148	4,942,674	3,085,301
Sub-total	939,576	3,256,148	4,942,674	3,085,301
Net loans and advances to customers	35,027,273	43,215,266	52,000,471	52,985,064

**(b) Analyzed by economic sector**

	At December 31, 2018		Loans and advances secured by collaterals
	Amount	Percentage	
Renting and business activities	4,905,378	13.09%	2,468,056
Manufacturing	5,196,697	13.86%	1,287,233
Real estate	2,982,476	7.96%	1,861,846
Wholesale and retail trade	2,461,046	6.57%	1,131,011
Construction	1,265,607	3.38%	353,430
Water, environment and public utility	3,521,460	9.39%	1,062,787
Production and supply of electric power, gas and water	1,247,802	3.33%	542,200
Agriculture, forestry, animal husbandry and fishery	562,860	1.50%	31,914
Education	398,767	1.06%	106,000
Accommodation and catering	1,100,220	2.94%	765,985
Transportation, storage and postal services	1,214,400	3.24%	141,400
Mining	286,000	0.76%	56,000
Others	4,048,352	10.80%	1,792,658
Sub-total of corporate loans and advances	29,191,065	77.88%	11,600,520
Personal loans and advances	7,355,137	19.61%	2,481,996
Discounted bills	939,576	2.51%	920,708
Gross loans and advances to customers	37,485,778	100%	15,003,224

At December 31, 2019			Loans and advances secured by collaterals
	Amount	Percentage	
Renting and business activities	4,909,076	10.65%	2,018,149
Manufacturing	4,723,966	10.25%	1,470,482
Real estate	4,360,093	9.46%	3,322,258
Wholesale and retail trade	3,066,678	6.65%	1,154,937
Construction	1,758,013	3.81%	578,153
Water, environment and public utility	3,236,055	7.02%	1,294,785
Production and supply of electric power, gas and water	1,201,400	2.61%	350,550
Agriculture, forestry, animal husbandry and fishery	682,912	1.48%	488,965
Education	585,012	1.27%	160,000
Accommodation and catering	1,106,624	2.40%	738,266
Transportation, storage and postal services	1,232,180	2.67%	240,680
Mining	356,000	0.77%	260,000
Others	6,167,860	13.38%	2,421,765
Sub-total of corporate loans and advances	33,385,869	72.42%	14,498,990
Personal loans and advances	9,448,689	20.52%	5,758,726
Discounted bills	3,256,148	7.06%	3,185,444
Gross loans and advances to customers	46,090,706	100.00%	23,443,160

At December 31, 2020			Loans and advances secured by collaterals
	Amount	Percentage	
Renting and business activities	6,904,267	12.58%	3,334,456
Manufacturing	5,234,863	9.54%	2,243,132
Real estate	4,271,660	7.78%	3,883,460
Wholesale and retail trade	4,709,322	8.58%	2,011,576
Construction	3,315,972	6.04%	1,253,072
Water, environment and public utility	3,189,224	5.81%	1,502,579
Production and supply of electric power, gas and water	1,616,479	2.95%	892,372
Agriculture, forestry, animal husbandry and fishery	1,032,391	1.88%	314,628
Education	779,042	1.42%	141,930
Accommodation and catering	926,091	1.69%	804,952
Transportation, storage and postal services	1,563,210	2.85%	983,400
Mining	204,600	0.37%	54,000
Others	5,049,917	9.20%	2,405,543
Sub-total of corporate loans and advances	38,797,038	70.69%	19,825,100
Personal loans and advances	11,143,281	20.30%	8,189,454
Discounted bills	4,942,674	9.01%	4,834,795
Gross loans and advances to customers	54,882,993	100.00%	32,849,349

At September 30, 2021			Loans and advances secured by collaterals
	Amount	Percentage	
Renting and business activities	5,355,025	9.64%	2,684,189
Manufacturing	6,777,105	12.20%	2,595,020
Real estate	3,688,618	6.64%	3,366,068
Wholesale and retail trade	6,890,265	12.40%	3,239,795
Construction	3,704,961	6.67%	1,377,499
Water, environment and public utility	3,530,111	6.35%	2,219,191
Production and supply of electric power, gas and water	2,365,338	4.26%	1,041,209
Agriculture, forestry, animal husbandry and fishery	640,057	1.15%	323,349
Education	570,240	1.03%	235,040
Accommodation and catering	909,327	1.64%	830,339
Transportation, storage and postal services	1,562,603	2.81%	968,873
Mining	607,020	1.09%	51,000
Others	4,559,981	8.21%	2,752,573
Sub-total of corporate loans and advances	41,160,651	74.09%	21,684,145
Personal loans and advances	11,325,447	20.36%	8,722,921
Discounted bills	3,085,301	5.55%	2,343,245
Gross loans and advances to customers	55,571,399	100%	32,750,311

## (c) Analysed by type of collateral

	At December 31,			At September 30,
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Unsecured loans	3,417,174	3,925,486	3,459,188	4,936,213
Guaranteed loans	19,065,380	18,722,061	18,574,457	17,884,876
Collateralised	7,817,925	13,699,658	21,680,921	22,952,426
Pledged	7,185,299	9,743,501	11,168,427	9,797,884
Gross loans and advances to customers	37,485,778	46,090,706	54,882,993	55,571,399
Accrued interest	76,831	87,199	223,322	184,413
Less: Provision for loans and advances to customers measured at amortised cost	(2,535,336)	(2,962,639)	(3,105,844)	(2,770,748)
Net loans and advances to customers	35,027,273	43,215,266	52,000,471	52,985,064

## (d) Overdue loans analyzed by overdue period

At December 31, 2018					
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	6,240	1,359	–	–	7,599
Guaranteed loans	381,966	205,236	159,166	2,321	748,689
Collateralised	88,888	56,761	130,050	485	276,184
Pledged	–	95,000	–	–	95,000
Total	477,094	358,356	289,216	2,806	1,127,472
As a percentage of gross loans and advances to customers	1.27%	0.96%	0.77%	0.01%	3.01%
At December 31, 2019					
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	67,094	157,674	1,959	–	226,727
Guaranteed loans	677,059	1,008,490	61,402	2,307	1,749,258
Collateralised	32,640	100,685	120,251	22,917	276,493
Pledged	13,448	16,400	–	–	29,848
Total	790,241	1,283,249	183,612	25,224	2,282,326
As a percentage of gross loans and advances to customers	1.71%	2.78%	0.40%	0.05%	4.95%
At December 31, 2020					
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	692,354	15,878	19,685	–	727,917
Guaranteed loans	252,727	124,536	331,223	29,460	737,946
Collateralised	57,264	47,926	161,505	24,849	291,544
Pledged	37,171	8,847	522,719	–	568,737
Total	1,039,516	197,187	1,035,132	54,309	2,326,144
As a percentage of gross loans and advances to customers	1.89%	0.36%	1.89%	0.10%	4.24%

At September 30, 2021					
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	26,930	186,218	6,723	826	220,697
Guaranteed loans	56,742	117,124	272,992	86	446,944
Collateralised	1,229,709	320,910	123,206	20,636	1,694,461
Pledged	297	14,471	511,399	–	526,167
Total	<u>1,313,678</u>	<u>638,723</u>	<u>914,320</u>	<u>21,548</u>	<u>2,888,269</u>
As a percentage of gross loans and advances to customers	<u>2.36%</u>	<u>1.15%</u>	<u>1.65%</u>	<u>0.04%</u>	<u>5.20%</u>

Overdue loans represented loan, of which the whole or part of the principal or interest were overdue for one day or more.

(e) Loans and advances and provision for impairment losses

At December 31, 2018				
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	29,482,700	2,068,892	4,994,610	36,546,202
Accrued interest	61,982	4,349	10,500	76,831
Less: Provision for impairment losses	<u>(495,284)</u>	<u>(322,226)</u>	<u>(1,717,826)</u>	<u>(2,535,336)</u>
Carrying amount of loans and advances to customers measured at amortised cost	29,049,398	1,751,015	3,287,284	34,087,697
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	<u>939,576</u>	<u>–</u>	<u>–</u>	<u>939,576</u>
Total carrying amount of loans and advances to customers	<u>29,988,974</u>	<u>1,751,015</u>	<u>3,287,284</u>	<u>35,027,273</u>

	At December 31, 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	35,452,385	1,754,413	5,627,760	42,834,558
Accrued interest	72,171	3,571	11,457	87,199
Less: Provision for impairment losses	(575,335)	(320,746)	(2,066,558)	(2,962,639)
Carrying amount of loans and advances to customers measured at amortised cost	34,949,221	1,437,238	3,572,659	39,959,118
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	3,256,148	—	—	3,256,148
Total carrying amount of loans and advances to customers	38,205,369	1,437,238	3,572,659	43,215,266

	At December 31, 2020			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	41,744,377	1,954,021	6,241,921	49,940,319
Accrued interest	186,671	8,738	27,913	223,322
Less: Provision for impairment losses	(532,124)	(305,287)	(2,268,433)	(3,105,844)
Carrying amount of loans and advances to customers measured at amortised cost	41,398,924	1,657,472	4,001,401	47,057,797
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	4,942,674	—	—	4,942,674
Total carrying amount of loans and advances to customers	46,341,598	1,657,472	4,001,401	52,000,471

	At September 30, 2021			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	44,220,875	3,468,687	4,796,536	52,486,098
Accrued interest	83,512	18,266	82,635	184,413
Less: Provision for impairment losses	(507,110)	(619,888)	(1,643,750)	(2,770,748)
Carrying amount of loans and advances to customers measured at amortised cost	43,797,277	2,867,065	3,235,421	49,899,763
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	3,085,301	–	–	3,085,301
Total carrying amount of loans and advances to customers	46,882,578	2,867,065	3,235,421	52,985,064

## (f) Movements of provision for impairment losses

(i) Movements of provision for impairment of loans and advances to customers measured at amortised cost:

	At December 31, 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	479,039	144,732	1,587,865	2,211,636
Transferred:				
– to expected credit losses over the next 12 months	1,019	(100)	(919)	–
– to lifetime expected credit losses: not credit-impaired loans	(10,337)	10,337	–	–
– to lifetime expected credit losses: credit-impaired loans	(2,990)	(111)	3,101	–
Charge for the year	28,553	167,368	127,721	323,642
Recoveries	–	–	58	58
As at December 31	495,284	322,226	1,717,826	2,535,336

	At December 31, 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	495,284	322,226	1,717,826	2,535,336
Transferred:				
– to expected credit losses over the next 12 months	64,585	(45,736)	(18,849)	–
– to lifetime expected credit losses: not credit-impaired loans	(984)	984	–	–
– to lifetime expected credit losses: credit-impaired loans	(2,025)	(13,075)	15,100	–
Charge for the year	18,475	56,347	637,658	712,480
Recoveries	–	–	24,676	24,676
Write-offs/disposals	–	–	(309,853)	(309,853)
As at December 31	<u>575,335</u>	<u>320,746</u>	<u>2,066,558</u>	<u>2,962,639</u>
	At December 31, 2020			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	575,335	320,746	2,066,558	2,962,639
Transferred:				
– to expected credit losses over the next 12 months	43,493	(11,027)	(32,466)	–
– to lifetime expected credit losses: not credit-impaired loans	(596)	6,466	(5,870)	–
– to lifetime expected credit losses: credit-impaired loans	(5,869)	(9,324)	15,193	–
(Release)/Charge for the year	(80,239)	(1,574)	721,312	639,499
Recoveries	–	–	79,531	79,531
Write-offs/disposals	–	–	(575,825)	(575,825)
As at December 31	<u>532,124</u>	<u>305,287</u>	<u>2,268,433</u>	<u>3,105,844</u>

	At September 30, 2021			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	532,124	305,287	2,268,433	3,105,844
Transferred:				
– to expected credit losses over the next 12 months	62,390	(10,820)	(51,570)	–
– to lifetime expected credit losses: not credit-impaired loans	(2,096)	6,007	(3,911)	–
– to lifetime expected credit losses: credit-impaired loans	(1,839)	(5,862)	7,701	–
(Release)/Charge for the period	(83,469)	325,276	154,581	396,388
Recoveries	–	–	56,465	56,465
Write-offs/disposals	–	–	(787,949)	(787,949)
As at September 30	<u>507,110</u>	<u>619,888</u>	<u>1,643,750</u>	<u>2,770,748</u>

- (ii) Movements of provision for impairment of loans and advances to customers measured at fair value through other comprehensive income:

	At December 31, 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	200	–	–	200
Charge for the year	<u>244</u>	<u>–</u>	<u>–</u>	<u>244</u>
As at December 31	<u>444</u>	<u>–</u>	<u>–</u>	<u>444</u>

	At December 31, 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	444	–	–	444
Charge for the year	<u>1,243</u>	<u>–</u>	<u>–</u>	<u>1,243</u>
As at December 31	<u>1,687</u>	<u>–</u>	<u>–</u>	<u>1,687</u>

	At December 31, 2020			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	1,687	–	–	1,687
Charge for the year	673	–	–	673
As at December 31	<u>2,360</u>	<u>–</u>	<u>–</u>	<u>2,360</u>

	At September 30, 2021			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	2,360	–	–	2,360
Charge for the period	8,516	–	–	8,516
As at September 30	<u>10,876</u>	<u>–</u>	<u>–</u>	<u>10,876</u>

## 20 FINANCIAL INVESTMENTS

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Financial investments at fair value through profit or loss	(a)	5,180,730	3,708,381	2,771,795	1,955,599
Financial investments at fair value through other comprehensive income	(b)	2,036,948	7,439,800	13,502,237	8,887,759
Financial investments at amortised cost	(c)	<u>23,173,950</u>	<u>23,583,051</u>	<u>19,463,529</u>	<u>18,137,698</u>
Total		<u>30,391,628</u>	<u>34,731,232</u>	<u>35,737,561</u>	<u>28,981,056</u>

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

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

	<i>Note</i>	At December 31, 2018 RMB'000	2019 RMB'000	2020 RMB'000	At September 30, 2021 RMB'000
Debt securities	(i)				
– Banks and other financial institutions		–	215,878	210,482	–
– Corporate		51,502	51,426	232,817	181,505
Sub-total		51,502	267,304	443,299	181,505
Listed		–	–	–	–
Unlisted		51,502	267,304	443,299	181,505
Sub-total		51,502	267,304	443,299	181,505
Investment management products managed by securities companies		5,129,228	3,441,077	2,024,963	1,469,721
Investment fund managed by public fund manager		–	–	303,533	304,373
Total		5,180,730	3,708,381	2,771,795	1,955,599

(i) As at the Relevant Periods, certain debt securities were pledged for repurchase agreements (Note 24). No other investment was subject to material restrictions in the realization.

**(b) Financial investments at fair value through other comprehensive income**

	<i>Note</i>	At December 31, 2018 RMB'000	2019 RMB'000	2020 RMB'000	At September 30, 2021 RMB'000
Debt securities	(i)				
– Government		410,835	409,910	6,598,731	3,987,498
– Policy banks		922,799	5,396,010	3,366,970	3,309,828
– Banks and other financial institutions		–	1,201,010	2,655,271	239,973
– Corporate		667,208	345,717	434,902	947,752
Sub-total		2,000,842	7,352,647	13,055,874	8,485,051
Listed		611,394	705,343	6,888,617	4,786,626
Unlisted		1,389,448	6,647,304	6,167,257	3,698,425
Sub-total		2,000,842	7,352,647	13,055,874	8,485,051
Investment portfolio managed by financial institutions		–	–	306,005	299,487
Sub-total		–	–	306,005	299,487
Accrued interest		36,106	87,153	140,358	103,221
Total		2,036,948	7,439,800	13,502,237	8,887,759

- (i) As at the Relevant Periods, certain debt securities were pledged for repurchase agreements (Note 24). No other investment was subject to material restrictions in the realization.
- (ii) Movements of provision for impairment of financial investments at fair value through other comprehensive income are as follows:

	<b>At December 31, 2018</b>			
	<b>Expected credit losses over the next 12 months</b>	<b>Lifetime expected credit losses: not credit- impaired</b>	<b>Lifetime expected credit losses: credit- impaired</b>	<b>Total</b>
Balance at January 1	5,325	–	–	5,325
Charge for the year	1,300	–	–	1,300
Balance at December 31	<u>6,625</u>	<u>–</u>	<u>–</u>	<u>6,625</u>

	<b>At December 31, 2019</b>			
	<b>Expected credit losses over the next 12 months</b>	<b>Lifetime expected credit losses: not credit- impaired</b>	<b>Lifetime expected credit losses: credit- impaired</b>	<b>Total</b>
Balance at January 1	6,625	–	–	6,625
(Release)/charge for the year	(625)	8,683	–	8,058
Balance at December 31	<u>6,000</u>	<u>8,683</u>	<u>–</u>	<u>14,683</u>

	<b>At December 31, 2020</b>			
	<b>Expected credit losses over the next 12 months</b>	<b>Lifetime expected credit losses: not credit- impaired</b>	<b>Lifetime expected credit losses: credit- impaired</b>	<b>Total</b>
Balance at January 1	6,000	8,683	–	14,683
Charge for the year	8,816	12,822	–	21,638
Balance at December 31	<u>14,816</u>	<u>21,505</u>	<u>–</u>	<u>36,321</u>

	<b>At September 30, 2021</b>			
	<b>Expected credit losses over the next 12 months</b>	<b>Lifetime expected credit losses: not credit- impaired</b>	<b>Lifetime expected credit losses: credit- impaired</b>	<b>Total</b>
Balance at January 1	14,816	21,505	–	36,321
Release for the period	(536)	(339)	–	(875)
Balance at September 30	<u>14,280</u>	<u>21,166</u>	<u>–</u>	<u>35,446</u>

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

(c) Financial investments at amortised cost

		At December 31,		At
	Note	2018	2019	September 30,
		RMB'000	RMB'000	2021
				RMB'000
Debt securities	(i)			
– Government		1,567,576	1,776,192	4,202,877
– Policy banks		4,035,507	4,126,057	3,601,175
– Corporate		398,895	199,978	–
Sub-total		6,001,978	6,102,227	7,804,052
Listed		1,567,576	1,776,192	4,083,885
Unlisted		4,434,402	4,326,035	3,720,167
Sub-total		6,001,978	6,102,227	7,804,052
Investment management products managed by trust plans		16,396,414	15,137,050	9,250,115
Investment management products managed by securities companies		1,534,091	2,854,597	2,330,000
Debt investment plans		–	550,000	550,000
Sub-total		17,930,505	18,541,647	12,130,115
Accrued interest		243,375	321,736	246,742
Less: Provision for impairment losses	(ii)	(1,001,908)	(1,382,559)	(2,043,211)
Total		23,173,950	23,583,051	18,137,698

- (i) As at the Relevant Periods, certain debt securities were pledged for repurchase agreements (Note 24). No other investment was subject to material restrictions in the realization.

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

(ii) Movements of provision for impairment of financial investments at amortised cost are as follows:

	<b>At December 31, 2018</b>			
	<b>Expected credit losses over the next 12 months</b>	<b>Lifetime expected credit losses: not credit- impaired</b>	<b>Lifetime expected credit losses: credit- impaired</b>	<b>Total</b>
Balance at January 1	479,810	497,140	78,400	1,055,350
(Release)/Charge for the year	(99,553)	(23,949)	334,439	210,937
Write-offs	–	–	(264,379)	(264,379)
Balance at December 31	<u>380,257</u>	<u>473,191</u>	<u>148,460</u>	<u>1,001,908</u>
	<b>At December 31, 2019</b>			
	<b>Expected credit losses over the next 12 months</b>	<b>Lifetime expected credit losses: not credit- impaired</b>	<b>Lifetime expected credit losses: credit- impaired</b>	<b>Total</b>
Balance at January 1	380,257	473,191	148,460	1,001,908
Transfers:				
– to lifetime expected credit losses: credit-impaired	(18,881)	–	18,881	–
(Release)/Charge for the year	(68,458)	234,571	214,538	380,651
Balance at December 31	<u>292,918</u>	<u>707,762</u>	<u>381,879</u>	<u>1,382,559</u>
	<b>At December 31, 2020</b>			
	<b>Expected credit losses over the next 12 months</b>	<b>Lifetime expected credit losses: not credit- impaired</b>	<b>Lifetime expected credit losses: credit- impaired</b>	<b>Total</b>
Balance at January 1	292,918	707,762	381,879	1,382,559
Transfers:				
– to lifetime expected credit losses: not credit-impaired	(37,599)	37,599	–	–
– to lifetime expected credit losses: credit-impaired	–	(229,122)	229,122	–
(Release)/Charge for the year	(160,175)	340,396	(18,421)	161,800
Balance at December 31	<u>95,144</u>	<u>856,635</u>	<u>592,580</u>	<u>1,544,359</u>

		At September 30, 2021		
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Balance at January 1	95,144	856,635	592,580	1,544,359
Transfers:				
– to lifetime expected credit losses: credit-impaired	–	(760,507)	760,507	–
(Release)/Charge for the period	(83,984)	(37,041)	619,877	498,852
Balance at September 30	11,160	59,087	1,972,964	2,043,211

## 21 PROPERTY AND EQUIPMENT

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
<b>Net book value</b>							
As at December 31, 2018	394,045	452	23,182	532	23,257	–	441,468
As at December 31, 2019	382,344	333	25,426	209	21,486	–	429,798
As at December 31, 2020	357,326	266	27,000	47	24,109	–	408,748
As at September 30, 2021	333,182	254	27,697	47	13,739	–	374,919

The carrying amount of the premises with incomplete title deeds as at December 31, 2018, 2019, 2020 and September 30, 2021 was RMB22 million, RMB21 million, RMB19 million and RMB15 million, respectively. Bank of JZCTS is still in the progress of application for the outstanding title deeds for the above premises. The directors of Bank of JZCTS are of the opinion that there would be no significant cost in obtaining the title deeds.

The net book values of premises as at December 31/September 30 are analyzed by the remaining terms of the leases as follows:

	At December 31,		At September 30,	
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Held in mainland China				
– Medium-term leases (10 – 50 years)	388,991	305,676	287,143	267,715
– Short-term leases (less than 10 years)	5,054	76,668	70,183	65,467
Total	394,045	382,344	357,326	333,182

**22 DEFERRED TAX ASSETS****(a) Analyzed by nature**

	2018		At December 31, 2019		2020		At September 30, 2021	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:								
Allowance for impairment losses	4,137,140	1,034,285	5,272,688	1,318,172	6,303,916	1,575,979	7,252,496	1,813,124
Accrued staff cost payable	85,480	21,370	135,404	33,851	119,204	29,801	113,236	28,309
Supplemental retirement benefits	9,760	2,440	3,472	868	–	–	21,612	5,403
Fair value changes of financial assets	237,344	59,336	239,236	59,809	515,464	128,866	336,472	84,118
Deferred income	–	–	–	–	2,040	510	48,352	12,088
Others	57,852	14,463	93,900	23,475	65,840	16,460	37,808	9,452
Net balances	<u>4,527,576</u>	<u>1,131,894</u>	<u>5,744,700</u>	<u>1,436,175</u>	<u>7,006,464</u>	<u>1,751,616</u>	<u>7,809,976</u>	<u>1,952,494</u>

**(b) Movements of deferred tax assets**

	Net balance of deferred tax assets
January 1, 2018	917,471
Recognized in profit or loss	211,830
Recognized in other comprehensive income	<u>2,593</u>
December 31, 2018	<u>1,131,894</u>
January 1, 2019	1,131,894
Recognized in profit or loss	321,123
Recognized in other comprehensive income	<u>(16,842)</u>
December 31, 2019	<u>1,436,175</u>
January 1, 2020	1,436,175
Recognized in profit or loss	244,379
Recognized in other comprehensive income	<u>71,062</u>
December 31, 2020	<u>1,751,616</u>
January 1, 2021	1,751,616
Recognized in profit or loss	232,862
Recognized in other comprehensive income	<u>(31,984)</u>
September 30, 2021	<u><u>1,952,494</u></u>

## 23 OTHER ASSETS

		At December 31,		At
	Note	2018	2019	September 30,
		RMB'000	RMB'000	2021
				RMB'000
Intangible assets	(a)	61,976	75,891	67,647
Reposessed assets		130,310	71,411	164,363
Interests receivable		23,885	39,875	278,941
Right-of-use assets		39,779	36,192	61,038
Leasehold improvements		15,397	15,082	30,227
Other receivables		528,967	642,858	628,294
Total		800,314	881,309	1,230,510

## (a) Intangible assets

	Land use rights	Computer software	Total
<b>Net book value</b>			
As at September 30, 2021	6,715	60,932	67,647
As at December 31, 2020	6,876	65,643	72,519
As at December 31, 2019	7,091	68,800	75,891
As at December 31, 2018	7,305	54,671	61,976

## 24 PLEDGED ASSETS

## Assets pledged as collateral

		At December 31,		At
	Note	2018	2019	September 30,
		RMB'000	RMB'000	2021
				RMB'000
For repurchase agreements				
– Discounted bills		260,860	170,668	430,000
– Financial investments at fair value through other comprehensive income	20(b)	30,769	2,763,223	–
– Financial investments at amortised cost	20(c)	1,119,231	2,918,777	560,000
Total		1,410,860	5,852,668	990,000

Financial assets pledged by Bank of JZCTS as collaterals for liabilities which are for repurchase agreements.

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

### 25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analyzed by type and location of counterparty

	At December 31,		At September 30,	
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
In mainland China				
– Banks	2,288,079	1,518,800	936,975	1,403,000
– Other financial institutions	4,294	3,216	2,984	5,337
Sub-total	2,292,373	1,522,016	939,959	1,408,337
Accrued interest	31,921	21,200	13,025	19,627
Total	2,324,294	1,543,216	952,984	1,427,964

### 26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	At December 31,		At September 30,	
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
In mainland China				
– Banks	3,420,000	2,634,000	3,241,000	2,725,920
Accrued interest	24,042	20,211	22,934	40,106
Total	3,444,042	2,654,211	3,263,934	2,766,026

### 27 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analyzed by type and location of counterparty

	At December 31,		At September 30,	
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
In mainland China				
– Banks	1,091,000	5,387,500	4,700,000	500,000
– Other financial institutions	–	–	–	–
Sub-total	1,091,000	5,387,500	4,700,000	500,000
Accrued interest	161	950	605	31
Total	1,091,161	5,388,450	4,700,605	500,031

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

(b) Analyzed by collateral

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Debt securities	1,091,000	5,387,500	4,700,000	500,000
Sub-total	1,091,000	5,387,500	4,700,000	500,000
Accrued interest	161	950	605	31
Total	<u>1,091,161</u>	<u>5,388,450</u>	<u>4,700,605</u>	<u>500,031</u>

### 28 DEPOSITS FROM CUSTOMERS

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Demand deposits				
– Corporate customers	7,539,477	10,735,715	11,349,750	10,228,241
– Individual customers	<u>3,838,140</u>	<u>6,570,893</u>	<u>8,096,358</u>	<u>7,781,618</u>
Sub-total	<u>11,377,617</u>	<u>17,306,608</u>	<u>19,446,108</u>	<u>18,009,859</u>
Time deposits				
– Corporate customers	13,093,268	14,581,970	16,926,234	15,179,628
– Individual customers	<u>14,409,625</u>	<u>16,651,782</u>	<u>20,809,707</u>	<u>23,242,688</u>
Sub-total	<u>27,502,893</u>	<u>31,233,752</u>	<u>37,735,941</u>	<u>38,422,316</u>
Pledged deposits	<u>8,028,042</u>	<u>7,732,308</u>	<u>7,260,181</u>	<u>6,970,590</u>
Inward and outward remittances	<u>128,693</u>	<u>515,098</u>	<u>29,504</u>	<u>24,303</u>
Sub-total	<u>47,037,245</u>	<u>56,787,766</u>	<u>64,471,734</u>	<u>63,427,068</u>
Accrued interest	<u>510,811</u>	<u>762,933</u>	<u>970,640</u>	<u>1,190,489</u>
Total	<u>47,548,056</u>	<u>57,550,699</u>	<u>65,442,374</u>	<u>64,617,557</u>

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

### 29 DEBT SECURITIES ISSUED

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Interbank deposits issued	15,062,849	15,155,175	13,571,251	11,138,377
Tier-two capital bonds	—	2,000,000	2,000,000	2,000,000
Sub-total	15,062,849	17,155,175	15,571,251	13,138,377
Accrued interest	307,635	62,187	42,932	9,469
Total	15,370,484	17,217,362	15,614,183	13,147,846

### 30 OTHER LIABILITIES

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Accrued staff cost	(a)	197,066	201,854	152,083	111,972
Lease liabilities		37,567	34,490	65,432	56,548
Dividend payable		2,271	2,271	2,271	2,271
Provisions		44,483	53,069	54,134	45,278
Payment and collection clearance accounts		96,914	29,653	3,697	1,903
Other payable		548,872	155,472	1,101,589	430,968
Total		927,173	476,809	1,379,206	648,940

#### (a) Accrued staff cost

		At December 31,			At
		2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Salary, bonuses and allowances payable		155,378	166,443	105,801	64,055
Labor union fee, staff and workers' education fee		232	244	266	362
Supplementary retirement benefits payable	(1)	41,399	35,110	45,959	47,498
Social insurance payable		37	37	37	37
Housing allowances payable		20	20	20	20
Total		197,066	201,854	152,083	111,972

**(1) Supplementary retirement benefits**

The supplementary retirement benefits of Bank of JZCTS include early retirement plan and supplementary retirement plan. The early retirement benefits is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to Bank of JZCTS's employees. Principal actuarial assumptions of Bank of JZCTS are as follows:

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
<b>Early retirement plan</b>				
Discount rate	3.00%	3.00%	3.00%	2.50%
Annual increase rate of internal salary	3.50%	3.50%	3.50%	3.50%
<b>Supplementary retirement plan</b>				
Discount rate	3.50%	3.50%	3.50%	3.25%

**31 SHARE CAPITAL**

Share capital of Bank of JZCTS as at December 31, 2018, 2019, 2020 and September 30, 2021 represented share capital of Bank of JZCTS, which is fully paid.

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Number of shares authorised, issued and fully paid at par value of RMB1 each	5,000,000	5,000,000	5,000,000	5,000,000

**32 RESERVES****(a) Capital reserve**

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Share premium	855,618	855,618	855,618	855,618

**(b) Surplus reserve**

The surplus reserve at the end of Relevant Periods represented statutory surplus reserve fund and discretionary surplus reserve fund. Pursuant to the Company Law of the PRC and the Article of Association of Bank of JZCTS, Bank of JZCTS is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

Bank of JZCTS appropriated an amount of approximately RMB26.90 million, RMB25.91 million, RMB19.03 million and nil to the surplus reserve for 2018, 2019, 2020 and the nine months ended at September 30, 2021, respectively.

Bank of JZCTS may also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

## (c) General reserve

Pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)” issued by the Ministry of Finance, Bank of JZCTS is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The balance of the general reserve of Bank of JZCTS amounted to RMB1,122 million as at September 30, 2021 (December 31, 2018: RMB922 million, December 31, 2019: RMB1,122 million and December 31, 2020: RMB1,122 million).

## (d) Other reserve

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Changes in fair value recognized in other comprehensive income	(i)	2,578	(15,153)	69,082	28,986
Impairment losses recognized in other comprehensive income	(ii)	1,550	44,491	(72,387)	(58,024)
Changes on remeasurement of defined benefit liabilities	(iii)	(590)	(590)	(590)	(1,270)
Total		<u>3,538</u>	<u>28,748</u>	<u>(3,895)</u>	<u>(30,308)</u>

## (i) Investment revaluation reserve

		At December 31,			At
		2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
As at January 1		–	2,578	(15,153)	69,082
Changes in fair value recognised in other comprehensive income		(3,768)	43,299	(152,153)	(99,315)
Transfer to profit or loss upon disposal		7,205	(66,941)	264,465	45,854
Less: deferred income tax		(859)	5,911	(28,077)	13,365
Total		<u>2,578</u>	<u>(15,153)</u>	<u>69,082</u>	<u>28,986</u>

## (ii) Impairment reserve

		At December 31,			At
		2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
As at January 1		4,144	1,550	44,491	(72,387)
Impairment losses recognized in other comprehensive income		(3,459)	57,255	(155,837)	19,150
Less: deferred income tax		865	(14,314)	38,959	(4,787)
Total		<u>1,550</u>	<u>44,491</u>	<u>(72,387)</u>	<u>(58,024)</u>

**(iii) Deficit on remeasurement of net defined benefit liability**

Deficit on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

	<b>At December 31,</b>			<b>At</b>
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>September 30,</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at January 1	–	(590)	(590)	(590)
Changes in fair value recognised in other comprehensive income	(590)	–	–	(680)
<b>Total</b>	<b>(590)</b>	<b>(590)</b>	<b>(590)</b>	<b>(1,270)</b>

**33 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES****(a) Structured entities sponsored by third party institutions in which Bank of JZCTS holds an interest**

Bank of JZCTS holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts of interests held by Bank of JZCTS in unconsolidated structured entities, as well as an analysis of the line items in the statements of financial position in which relevant assets are recognized as at 31 December 2018, 2019, 2020 and 30 September 2021:

	<b>At 31 December 2018</b>		<b>At 31 December 2019</b>		<b>At 31 December 2020</b>		<b>At 30 September 2021</b>	
	<b>Carrying amount</b>	<b>Maximum exposure</b>	<b>Carrying amount</b>	<b>Maximum exposure</b>	<b>Carrying amount</b>	<b>Maximum exposure</b>	<b>Carrying amount</b>	<b>Maximum exposure</b>
Financial investments at fair value through other comprehensive income	–	–	–	–	308,017	308,017	312,835	312,835
Financial investments at fair value through profit or loss	5,129,228	5,129,228	3,441,077	3,441,077	2,328,496	2,328,496	1,774,094	1,774,094
Financial investments at amortised cost	17,026,850	17,026,850	16,788,513	16,788,513	12,821,111	12,821,111	9,650,534	9,650,534
Interest receivables	20,713	20,713	36,232	36,232	58,190	58,190	292,675	292,675
<b>Total</b>	<b>22,176,791</b>	<b>22,176,791</b>	<b>20,265,822</b>	<b>20,265,822</b>	<b>15,515,814</b>	<b>15,515,814</b>	<b>12,030,138</b>	<b>12,030,138</b>

As at 31 December 2018, 2019, 2020 and 30 September 2021, the carrying amounts of the unconsolidated structured entities are equal to the maximum exposures.

**(b) Structured entities sponsored by Bank of JZCTS which Bank of JZCTS does not consolidate but holds an interest in**

The types of unconsolidated structured entities sponsored by Bank of JZCTS include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by Bank of JZCTS includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2018, 2019, 2020 and 30 September 2021, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at 31 December 2018, 2019, 2020 and 30 September 2021, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by Bank of JZCTS, are RMB1,188 million, RMB891 million, RMB1,169 million and RMB55 million, respectively.

### 34 CAPITAL MANAGEMENT

Bank of JZCTS's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. Bank of JZCTS calculates the capital adequacy ratio in accordance with guidelines issued by the former CBRC. The capital of Bank of JZCTS is divided into core tier-one capital, other tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of Bank of JZCTS's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

Bank of JZCTS considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

Bank of JZCTS calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the former CBRC.

The former CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of Bank of JZCTS illustrated below are computed based on Bank of JZCTS's statutory Historical Financial Information prepared in accordance with PRC GAAP.

The Group's capital adequacy ratios submitted to CBIRC as at 30 September 2021 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

Core tier-one capital adequacy ratio	10.83%
Tier-one capital adequacy ratio	10.83%
Capital adequacy ratio	14.25%

### 35 NOTES TO THE CASH FLOW STATEMENT

#### (a) Net increase/(decrease) in cash and cash equivalents

	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
Cash and cash equivalents as at December 31/September 30	3,745,560	5,653,373	4,348,367	4,355,973	2,745,279
Less: Cash and cash equivalents as at January 1	2,664,963	3,745,560	5,653,373	5,653,373	4,348,367
Net increase/(decrease) in cash and cash equivalents	1,080,597	1,907,813	(1,305,006)	(1,297,400)	(1,603,088)

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### (b) Cash and cash equivalents

	Years ended December 31,			Nine months ended September 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
Cash on hand	101,108	90,496	99,026	103,084	120,904
Deposits with the central bank	3,113,100	4,060,837	2,946,192	2,960,115	2,586,873
Deposits with banks and other financial institutions	31,352	503,885	313,149	293,472	37,502
Financial assets held under resale agreements	500,000	—	—	—	—
Placements with banks and other financial institutions	—	998,155	990,000	999,302	—
Total	<u>3,745,560</u>	<u>5,653,373</u>	<u>4,348,367</u>	<u>4,355,973</u>	<u>2,745,279</u>

## 36 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### (a) Relationship of related parties:

#### (i) Major shareholders

Major shareholders include shareholders of Bank of JZCTS with direct or indirect 5% or above shareholding, or with the right to appoint a director in Bank of JZCTS.

Shareholding in Bank of JZCTS:

	Years ended December 31,			Nine months ended September 30,	
	2018	2019	2020	2020	2021
	(unaudited)				
China National Travel Service (HK) Group Corporation	36.68%	36.68%	36.68%	36.68%	36.68%
Jiaozuo construction investment (holding) Co., Ltd	14.09%	14.97%	14.97%	14.97%	14.97%
Central China Land Media Co.,Ltd.	7.14%	7.14%	7.14%	7.14%	7.14%
Henan Daily Newspaper Group Co., Ltd.	5.32%	5.32%	5.32%	5.32%	5.32%

#### (ii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of Bank of JZCTS as set out in Note 36(a) or their controlling shareholders.

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

**(b) Related party transactions and balances:**

*(i) Transactions between Bank of JZCTS and major shareholders:*

	Years ended December 31,			Nine months ended September 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Transactions during the year/period:					
Interest income	5,456	29,838	29,557	22,370	30,311
	At 31 December			At 30 September	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balances at end of the year/period:					
Loans and advances to customers	–	300,000	239,750	553,250	
Interests receivable	1,631	1,695	17,390	30,201	
Financial investments	331,000	189,720	314,000	326,115	

*(ii) Transactions between Bank of JZCTS and other related parties and joint venture:*

	Years ended December 31,			Nine months ended September 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Transactions during the year/period:					
Interest income	18,161	33,742	26,655	24,242	39,590
	At 31 December			At 30 September	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balances at end of the year/period:					
Loans and advances to customers	373,000	293,000	163,500	718,000	
Interests receivable	2,254	208	18,356	28,773	
Financial investments	378,000	378,000	294,000	365,844	

**(c) Key management personnel**

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of Bank of JZCTS, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

## APPENDIX II-A ACCOUNTANTS' REPORT OF BANK OF JZCTS

(i) *Transactions between Bank of JZCTS and key management personnel*

	Years ended December 31,			Nine months ended	
	2018	2019	2020	September 30,	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Transactions during the year/period:					
Interest income	754	1,196	1,845	1,000	1,493
		At 31 December			At
		2018	2019	2020	30 September 2021
Balances at end of the year/period:					
Loans and advances to customers		14,713	22,107	21,293	16,860
Interests receivable		21	32	69	–

(ii) *Key management personnel compensation*

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

	Years ended December 31,			Nine months ended	
	2018	2019	2020	September 30,	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Key management personnel compensation	8,908	7,671	4,428	2,596	4,179

(d) *Loans and advances to directors, supervisors and officers*

Loans and advances to directors, supervisors and officers of Bank of JZCTS disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	Years ended December 31,			Nine months ended
	2018	2019	2020	September 30, 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Aggregate amount of relevant loans outstanding at the end of the year/period	14,713	22,107	21,293	16,860
Maximum aggregate amount of relevant loans outstanding during the year/period	14,713	24,557	21,293	17,030

There was no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at December 31, 2018, 2019, 2020 and September 30, 2021.

**37 SEGMENT REPORTING**

Since Bank of JZCTS's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is the PRC. Therefore, no analysis by geographical regions is presented.

**38 RISK MANAGEMENT**

Bank of JZCTS has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about Bank of JZCTS's exposure to each of the above risks and their sources, and Bank of JZCTS's objectives, policies and procedures for measuring and managing these risks.

Bank of JZCTS's risk management policies were established to identify and analyze the risks to which Bank of JZCTS is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and Bank of JZCTS's activities. The Internal Audit Department of Bank of JZCTS undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

**(a) Credit risk**

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to Bank of JZCTS. It arises primarily from credit and bond investment portfolios and guarantees granted.

***Credit business***

The board of directors is responsible for setting Bank of JZCTS's risk management strategy and the overall risk tolerance level. The board also monitors Bank of JZCTS's risk management process and regularly assesses Bank of JZCTS's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The responsible departments for credit risk management include the Credit Approval Department, Credit Management Department, and Risk Management Department. The Risk Management Department is responsible for implementing Bank of JZCTS's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments of branches carry out credit businesses according to Bank of JZCTS's risk management policies and procedures.

Bank of JZCTS continuously improves the internal control mechanism and strengthens the management of the credit business. Bank of JZCTS has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, Bank of JZCTS has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. Bank of JZCTS's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, Bank of JZCTS assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, Bank of JZCTS continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. Bank of JZCTS monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, Bank of JZCTS starts the recovery process according to standardized loan recovery procedures.

Bank of JZCTS adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

#### ***Financial markets business***

Bank of JZCTS sets credit limits for financial markets business operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

#### ***Credit risk management***

The financial assets are categorised by Bank of JZCTS into the following stages to manage its financial assets' credit risk:

##### *Stage 1*

Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

##### *Stage 2*

Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

##### *Stage 3*

Financial assets that are in default and considered credit-impaired.

##### *Significant increase in credit risk*

When one or more quantitative, qualitative standards or upper limits are triggered, Bank of JZCTS assumes that credit risk on financial assets has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

- The credit spread increases significantly;
- Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status;
- Application of a grace period or debt-restructuring;
- Significant changes with an adverse effect in the borrower's business conditions;
- Less value of the collaterals (for the collateral loans and pledged loans only);
- Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans;
- The borrower is more than 30 days past due.

Bank of JZCTS uses watch lists to monitor credit risk of financial assets related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

As at December 31, 2018, 2019, 2020 and September 30, 2021, Bank of JZCTS has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

Definition of “default” and “credit-impaired assets”

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

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- the disappearance of an active market for a security because of financial difficulties of the issuer; or
- overdue more than 90 days.

The above criteria apply to all financial assets of Bank of JZCTS and they are consistent with the definition of “default” adopted by the internal management of credit risk.

Measurement of expected credit losses (“ECL”)

Bank of JZCTS adopts ECL model to measures provision for loss of financial assets based on the stages categorised above.

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

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;
- EAD is the amount that Bank of JZCTS should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;
- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by Bank of JZCTS. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

Bank of JZCTS determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. Bank of JZCTS multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, Bank of JZCTS can calculate the ECL for the future months. The results of calculation for each month are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

Bank of JZCTS quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

Both the assessment of the significant increase in credit risk and the measurement of ECL involve forward-looking information. Based on the analysis on historical data, Bank of JZCTS identified critical economic indicators that affect the credit risk and ECL of all asset portfolios, including GDP, industrial added value, CPI, etc.

There has been no significant change in the valuation techniques and key assumptions during the Relevant Periods.

Assessing credit risk of financial assets after the amendment of contractual cash flows

In order to achieve maximum collection, Bank of JZCTS may modify the contractual terms of loans due to business negotiations or financial difficulties of the borrowers at times.

Such rescheduling activities include extended payment term arrangements, payment holidays and payment forgiveness. Rescheduling policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. The restructuring of loans is most common in the management of medium and long-term loans. The risk stage can only be adjusted lower if the rescheduled loans are reviewed for at least 6 consecutive months and the corresponding stage classification criteria is reached.

The credit risk is represented by each type of financial assets as at the end of each Relevant Periods.

(i) Financial assets (excluding accrued interest) analysed by credit quality

	At December 31, 2018							
	Balance			Total	Provision for impairment losses			Total
	Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired and assessed for lifetime expected credit loss		Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired and assessed for lifetime expected credit loss	
Financial assets measured at amortised cost								
Cash and deposits with the central bank	8,295,260	–	–	8,295,260	–	–	–	–
Deposits with banks and other financial institutions	131,646	–	–	131,646	(1,317)	–	–	(1,317)
Financial assets held under resale agreements	500,000	–	–	500,000	–	–	–	–
Loans and advances to customers	29,482,700	2,068,892	4,994,610	36,546,202	(495,284)	(322,226)	(1,717,826)	(2,535,336)
Financial investments								
– Debt securities	6,001,978	–	–	6,001,978	(4,596)	–	–	(4,596)
– Other financial investments	15,408,935	2,076,570	445,000	17,930,505	(375,661)	(473,191)	(148,460)	(997,312)
Total	59,820,519	4,145,462	5,439,610	69,405,591	(876,858)	(795,417)	(1,866,286)	(3,538,561)

**APPENDIX II-A**
**ACCOUNTANTS' REPORT OF BANK OF JZCTS**

At December 31, 2018								
	Balance			Total	Provision for impairment losses			Total
	Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss		Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss	
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	939,576	–	–	939,576	(444)	–	–	(444)
Financial investments – Debt securities	2,000,842	–	–	2,000,842	(6,625)	–	–	(6,625)
Total	2,940,418	–	–	2,940,418	(7,069)	–	–	(7,069)
Credit commitments	17,932,398	–	–	17,932,398	(44,483)	–	–	(44,483)

At December 31, 2019								
	Balance			Total	Provision for impairment losses			Total
	Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss		Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss	
Financial assets measured at amortised cost								
Cash and deposits with the central bank	8,841,655	–	–	8,841,655	–	–	–	–
Deposits with banks and other financial institutions	708,953	–	–	708,953	(7,090)	–	–	(7,090)
Placements with banks and other financial institutions	1,000,000	–	–	1,000,000	–	–	–	–
Loans and advances to customers	35,452,385	1,754,413	5,627,760	42,834,558	(575,335)	(320,746)	(2,066,558)	(2,962,639)
Financial investments – Debt securities	6,102,227	–	–	6,102,227	(4,568)	–	–	(4,568)
– Other financial investments	14,329,169	2,967,978	1,244,500	18,541,647	(288,350)	(707,762)	(381,879)	(1,377,991)
Total	66,434,389	4,722,391	6,872,260	78,029,040	(875,343)	(1,028,508)	(2,448,437)	(4,352,288)

**APPENDIX II-A**
**ACCOUNTANTS' REPORT OF BANK OF JZCTS**

At December 31, 2019								
	Balance			Total	Provision for impairment losses			Total
	Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss		Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss	
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	3,256,148	–	–	3,256,148	(1,687)	–	–	(1,687)
Financial investments – Debt securities	7,302,363	50,284	–	7,352,647	(6,000)	(8,683)	–	(14,683)
Total	10,558,511	50,284	–	10,608,795	(7,687)	(8,683)	–	(16,370)
Credit commitments	21,393,769	–	–	21,393,769	(53,069)	–	–	(53,069)

At December 31, 2020								
	Balance			Total	Provision for impairment losses			Total
	Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss		Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss	
Financial assets measured at amortised cost								
Cash and deposits with the central bank	7,308,093	–	–	7,308,093	–	–	–	–
Deposits with banks and other financial institutions	416,802	–	–	416,802	(5,090)	–	–	(5,090)
Placements with banks and other financial institutions	1,000,000	–	–	1,000,000	(10,000)	–	–	(10,000)
Loans and advances to customers	41,744,377	1,954,021	6,241,921	49,940,319	(532,124)	(305,287)	(2,268,433)	(3,105,844)
Financial investments – Debt securities	5,963,171	–	–	5,963,171	(3,887)	–	–	(3,887)
– Other financial investments	8,626,789	4,431,873	1,584,286	14,642,948	(91,257)	(856,635)	(592,580)	(1,540,472)
Total	65,059,232	6,385,894	7,826,207	79,271,333	(642,358)	(1,161,922)	(2,861,013)	(4,665,293)

**APPENDIX II-A**
**ACCOUNTANTS' REPORT OF BANK OF JZCTS**

At December 31,2020								
	Balance			Total	Provision for impairment losses			Total
	Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss		Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss	
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	4,942,674	–	–	4,942,674	(2,360)	–	–	(2,360)
Financial investments								
– Debt securities	13,000,446	55,428	–	13,055,874	(5,347)	(21,505)	–	(26,852)
– Other financial investments	306,005	–	–	306,005	(9,469)	–	–	(9,469)
Total	18,249,125	55,428	–	18,304,553	(17,176)	(21,505)	–	(38,681)
Credit commitments	22,452,120	618,260	–	23,070,380	(19,749)	(34,385)	–	(54,134)

At September 30, 2021								
	Balance			Total	Provision for impairment losses			Total
	Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss		Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss	
Financial assets measured at amortised cost								
Cash and deposits with the central bank	6,736,581	–	–	6,736,581	–	–	–	–
Deposits with banks and other financial institutions	137,502	–	–	137,502	(4,170)	–	–	(4,170)
Loans and advances to customers	44,220,875	3,468,687	4,796,536	52,486,098	(507,110)	(619,888)	(1,643,750)	(2,770,748)
Financial investments								
– Debt securities	7,804,052	–	–	7,804,052	(4,250)	–	–	(4,250)
– Other financial investments	6,163,731	767,893	5,198,491	12,130,115	(6,910)	(59,087)	(1,972,964)	(2,038,961)
Total	65,062,741	4,236,580	9,995,027	79,294,348	(522,440)	(678,975)	(3,616,714)	(4,818,129)

	At September 30, 2021							Total
	Assessed for expected credit losses over the next 12 months	Balance Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss	Total	Assessed for expected credit losses over the next 12 months	Provision for impairment losses Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss	
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	3,085,301	–	–	3,085,301	(10,876)	–	–	(10,876)
Financial investments								
– Debt securities	8,426,229	58,822	–	8,485,051	(4,318)	(21,166)	–	(25,484)
– Other financial investments	299,487	–	–	299,487	(9,962)	–	–	(9,962)
Total	11,811,017	58,822	–	11,869,839	(25,156)	(21,166)	–	(46,322)
Credit commitments	18,037,366	215,560	–	18,252,926	(23,999)	(21,279)	–	(45,278)

**(b) Market risk**

Market risk is the risk of loss, in respect of Bank of JZCTS's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring Bank of JZCTS's market risk to ensure that Bank of JZCTS has effectively identified, measured and monitored all types of market risk. The Risk and Internal Control Management Committee monitors the market risk management process within the scope authorized by the board of directors, which include review and approval of market risk management strategies, policies and procedures. Bank of JZCTS is primarily exposed to market risk in its financial markets business. The Financial Market Department is responsible for carrying out capital investments and transactions, as well as monitoring and managing the foreign exchange risk on a daily basis. The Planning and Finance Department is responsible for monitoring and managing the interest rate risk in bank account. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring Bank of JZCTS's market risk.

Sensitivity analysis is a technique which assesses the sensitivity of Bank of JZCTS's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on Bank of JZCTS's economic value.

***Interest rate risk and liquidity risk***

Bank of JZCTS is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

*Repricing risk*

Repricing risk, which is also known as “maturity mismatch risk”, is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes Bank of JZCTS's income or its inherent economic value to vary with the movement in interest rates.

The Planning and Finance Department is responsible for measuring, monitoring and managing interest rate risk. Bank of JZCTS regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

- (i) The following tables indicate the assets and liabilities as at the end of each of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier:

	At December 31, 2018					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank	8,194,152	–	–	–	101,108	8,295,260
Deposits with banks and other financial institutions	31,329	99,000	–	–	29	130,358
Financial assets held under resale agreements	500,000	–	–	–	71	500,071
Loans and advances to customers <i>(Note (1))</i>	3,466,482	12,299,783	13,383,352	5,813,188	64,468	35,027,273
Financial investments <i>(Note (2))</i>	1,857,642	8,710,729	14,941,361	4,602,414	279,482	30,391,628
Others	–	–	–	–	2,373,676	2,373,676
Total assets	14,049,605	21,109,512	28,324,713	10,415,602	2,818,834	76,718,266
<b>Liabilities</b>						
Borrowing from the central bank	118,632	291,226	–	–	–	409,858
Deposits from banks and other financial institutions	1,684,294	608,079	–	–	31,921	2,324,294
Placement from banks and other financial institutions	2,330,000	1,090,000	–	–	24,042	3,444,042
Financial assets sold under repurchase agreements	1,091,000	–	–	–	161	1,091,161
Deposits from customers	25,782,827	12,370,386	8,755,339	–	639,504	47,548,056
Debt securities issued	2,717,319	12,345,530	–	–	307,635	15,370,484
Others	–	–	–	–	1,137,697	1,137,697
Total liabilities	33,724,072	26,705,221	8,755,339	–	2,140,960	71,325,592
Asset-liability gap	(19,674,467)	(5,595,709)	19,569,374	10,415,602	677,874	5,392,674

	At December 31, 2019					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank	8,751,159	–	–	–	90,496	8,841,655
Deposits with banks and other financial institutions	503,863	198,000	–	–	1,536	703,399
Placement with banks and other financial institutions	1,000,000	–	–	–	1,147	1,001,147
Loans and advances to customers ( <i>Note (1)</i> )	21,434,611	10,722,052	10,943,957	41,478	73,168	43,215,266
Financial investments ( <i>Note (2)</i> )	6,216,678	7,314,491	16,321,572	4,469,602	408,889	34,731,232
Others	–	–	–	–	2,747,281	2,747,281
Total assets	37,906,311	18,234,543	27,265,529	4,511,080	3,322,517	91,239,980
<b>Liabilities</b>						
Borrowing from the central bank	87,725	322,070	–	–	1,925	411,720
Deposits from banks and other financial institutions	103,216	1,418,800	–	–	21,200	1,543,216
Placement from banks and other financial institutions	724,000	1,910,000	–	–	20,211	2,654,211
Financial assets sold under repurchase agreements	5,387,500	–	–	–	950	5,388,450
Deposits from customers	31,149,044	7,783,758	17,338,126	1,741	1,278,030	57,550,699
Debt securities issued	5,332,997	9,847,675	–	2,000,000	36,690	17,217,362
Others	–	–	–	–	797,340	797,340
Total liabilities	42,784,482	21,282,303	17,338,126	2,001,741	2,156,346	85,562,998
Asset-liability gap	(4,878,171)	(3,047,760)	9,927,403	2,509,339	1,166,171	5,676,982

			At December 31, 2020			
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank	7,209,067	–	–	–	99,026	7,308,093
Deposits with banks and other financial institutions	312,933	98,779	–	–	169	411,881
Placement with banks and other financial institutions	990,000	–	–	–	1,382	991,382
Loans and advances to customers ( <i>Note (1)</i> )	18,807,939	15,137,832	17,346,280	521,032	187,388	52,000,471
Financial investments ( <i>Note (2)</i> )	7,533,145	9,416,838	13,823,408	4,422,042	542,128	35,737,561
Others	–	–	–	–	2,972,676	2,972,676
Total assets	34,853,084	24,653,449	31,169,688	4,943,074	3,802,769	99,422,064
<b>Liabilities</b>						
Borrowing from the central bank	237,641	1,709,138	–	–	12,589	1,959,368
Deposits from banks and other financial institutions	452,984	–	486,975	–	13,025	952,984
Placement from banks and other financial institutions	–	370,000	2,851,000	20,000	22,934	3,263,934
Financial assets sold under repurchase agreements	4,700,000	–	–	–	605	4,700,605
Deposits from customers	6,273,608	12,762,887	19,268,902	–	27,136,977	65,442,374
Debt securities issued	7,093,041	6,484,452	–	2,000,000	36,690	15,614,183
Others	–	–	–	–	1,654,011	1,654,011
Total liabilities	18,757,274	21,326,477	22,606,877	2,020,000	28,876,831	93,587,459
Asset-liability gap	16,095,810	3,326,972	8,562,811	2,923,074	(25,074,062)	5,834,605

	At September 30, 2021					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank	6,615,677	–	–	–	120,904	6,736,581
Deposits with banks and other financial institutions	36,365	96,967	–	–	13	133,345
Loans and advances to customers ( <i>Note (1)</i> )	17,795,622	19,299,516	15,420,866	314,320	154,740	52,985,064
Financial investments ( <i>Note (2)</i> )	6,616,471	4,541,359	11,879,945	5,593,317	349,964	28,981,056
Others	–	–	–	–	3,557,923	3,557,923
Total assets	31,064,135	23,937,842	27,300,811	5,907,637	4,183,544	92,393,969
<b>Liabilities</b>						
Borrowing from the central bank	915,450	2,084,515	–	–	25,269	3,025,234
Deposits from banks and other financial institutions	235,337	1,173,000	–	–	19,627	1,427,964
Placement from banks and other financial institutions	1,331,100	1,374,820	20,000	–	40,106	2,766,026
Financial assets sold under repurchase agreements	500,000	–	–	–	31	500,031
Deposits from customers	29,019,996	13,841,965	20,540,805	–	1,214,791	64,617,557
Debt securities issued	4,333,482	6,804,896	–	2,000,000	9,468	13,147,846
Others	–	–	–	–	984,021	984,021
Total liabilities	36,335,365	25,279,196	20,560,805	2,000,000	2,293,313	86,468,679
Asset-liability gap	(5,271,230)	(1,341,354)	6,740,006	3,907,637	1,890,231	5,925,290

*Notes:*

- (1) As at December 31, 2018, 2019, 2020 and September 30, 2021, for loans and advances to customers, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB761 million, RMB1,477 million, RMB1,683 million and RMB2,006 million respectively.
- (2) As at December 31, 2018, 2019, 2020 and September 30, 2021, for financial investments, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB514 million, RMB976 million, RMB1,760 million and RMB2,751 million respectively.

**(c) Liquidity risk**

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, Bank of JZCTS monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing Bank of JZCTS's overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles.

The Planning and Finance Department takes the lead to execute liquidity management policies and is responsible for formulating and revising the liquidity management strategies, and for identifying, measuring, monitoring and releasing the liquidity risk of Bank of JZCTS. It is also responsible for managing and forecasting the working capital on a regular basis and ensuring the liquidity of working capital meets management requirements based on the liquidity strategies. The Finance Market Department is responsible for performing the operation following the instructions of the Finance Management Department. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

A substantial portion of Bank of JZCTS's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and loan commitments as at the end of each of the Relevant Periods:

	Years ended December 31, 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	409,858	415,008	–	44,300	74,766	295,942	–	–
Deposits from banks and other financial institutions	2,324,294	2,424,684	4,294	1,225,608	845,634	349,148	–	–
Placements from banks and other financial institutions	3,444,042	3,488,520	–	152,349	2,205,998	1,130,173	–	–
Financial assets sold under repurchase agreements	1,091,161	1,091,487	–	1,091,487	–	–	–	–
Deposits from customers	47,548,056	48,773,740	129,025	22,815,853	3,490,098	12,517,067	9,821,697	–
Debt securities issued	15,370,484	15,400,000	–	–	2,740,000	12,660,000	–	–
Lease liabilities	37,567	42,542	–	1,212	2,438	5,595	22,962	10,335
Total non-derivative financial liabilities	70,225,462	71,635,981	133,319	25,330,809	9,358,934	26,957,925	9,844,659	10,335

**APPENDIX II-A**
**ACCOUNTANTS' REPORT OF BANK OF JZCTS**

	Years ended December 31, 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Borrowing from the central bank	411,720	416,404	–	41,484	46,240	328,680	–	–
Deposits from banks and other financial institutions	1,543,216	1,596,298	3,216	92,497	50,940	1,449,645	–	–
Placements from banks and other financial institutions	2,654,211	2,700,675	–	1,020,348	541,958	1,138,369	–	–
Financial assets sold under repurchase agreements	5,388,450	5,390,284	–	5,390,284	–	–	–	–
Deposits from customers	57,550,699	60,469,651	25,217,969	3,286,754	3,941,971	7,893,507	20,127,314	2,136
Debt securities issued	17,217,362	18,480,432	–	410,000	4,930,000	10,168,000	432,000	2,540,432
Lease liabilities	34,490	38,164	–	1,242	1,656	6,492	26,646	2,128
Total non-derivative financial liabilities	84,800,148	89,091,908	25,221,185	10,242,609	9,512,765	20,984,693	20,585,960	2,544,696

	Years ended December 31, 2020							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Borrowing from the central bank	1,959,368	1,985,423	–	47,987	191,252	1,746,184	–	–
Deposits from banks and other financial institutions	952,984	972,761	2,984	493,331	–	476,446	–	–
Placements from banks and other financial institutions	3,263,934	3,339,097	–	1,281,079	357,830	1,700,188	–	–
Financial assets sold under repurchase agreements	4,700,605	4,703,828	–	4,703,828	–	–	–	–
Deposits from customers	65,442,374	68,109,792	26,167,034	2,880,296	4,383,431	12,979,289	21,699,742	–
Debt securities issued	15,614,183	18,132,000	–	460,000	6,670,000	6,738,000	1,832,000	2,432,000
Lease liabilities	65,432	71,652	–	1,249	1,656	15,653	52,163	931
Total non-derivative financial liabilities	91,998,880	97,314,553	26,170,018	9,867,770	11,604,169	23,655,760	23,583,905	2,432,931

	Nine months ended September 30, 2021							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Borrowing from the central bank	3,025,234	3,058,292	–	89,965	840,250	2,128,077	–	–
Deposits from banks and other financial institutions	1,427,964	1,457,604	5,337	82,427	153,644	1,216,196	–	–
Placements from banks and other financial institutions	2,766,026	2,814,843	–	1,301,595	1,057,820	455,428	–	–
Financial assets sold under repurchase agreements	500,031	500,249	–	500,249	–	–	–	–
Deposits from customers	64,617,557	66,910,859	23,033,957	2,683,787	4,543,749	14,034,841	22,614,525	–
Debt securities issued	13,147,846	14,174,000	–	1,280,000	3,070,000	7,068,000	432,000	2,324,000
Lease liabilities	56,548	61,007	–	796	6,137	9,115	44,028	931
<b>Total non-derivative financial liabilities</b>	<b>85,541,206</b>	<b>88,976,854</b>	<b>23,039,294</b>	<b>5,938,819</b>	<b>9,671,600</b>	<b>24,911,657</b>	<b>23,090,553</b>	<b>2,324,931</b>

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

**(d) Operational risk**

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

Bank of JZCTS establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

**39 FAIR VALUE****(a) Methods and assumptions for measurement of fair value**

Bank of JZCTS adopts the following methods and assumptions when evaluating fair values:

**(i) Debt securities and equity investments**

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of each Relevant Periods.

**(ii) Investments and other non-derivative financial assets**

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the Relevant Periods.

**(iii) Debt securities issued and other non-derivative financial liabilities**

Fair values of debt securities issued are based on their quoted market prices at the end of the Relevant Periods, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the Relevant Periods. Bank of JZCTS has established policies and internal controls with respect to the measurement of fair values, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

**(iv) Derivative financial liabilities**

The fair values of foreign currency forward and swaps contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the Relevant Periods, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows.

**(b) Fair value measurement****(i) Financial assets**

Bank of JZCTS's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, finance lease receivables and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers and finance lease receivables are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values. The fair values of Loans and advances to customers measured at fair value through other comprehensive income, are based on valuation techniques.

Financial investments at fair value through other comprehensive income and financial investments at fair value through profit or loss are stated at fair value. The carrying amount of financial investments at amortised cost is the reasonable approximations of its fair values because, for example, it is short-term in nature or repriced at current market rates frequently.

**(ii) Financial liabilities**

Bank of JZCTS's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers and subordinated debt securities issued.

Financial liabilities designated at fair value through profit or loss is presented with fair value. The book value and fair value of debt securities issued is presented in Note 33. The carrying amounts of other financial liabilities approximate their fair value.

**(c) Fair value hierarchy**

The following table presents the fair value of Bank of JZCTS's financial instruments measured at the end of the Relevant Periods on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
- Level 3: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, and credit spreads. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

	At December 31, 2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	51,502	5,129,228	5,180,730
Financial investments at fair value through other comprehensive income	618,247	1,418,701	–	2,036,948
Loans and advances to customers measured at fair value through other comprehensive income	–	939,576	–	939,576
Total	<u>618,247</u>	<u>2,409,779</u>	<u>5,129,228</u>	<u>8,157,254</u>

	At December 31, 2019			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	267,304	3,441,077	3,708,381
Financial investments at fair value through other comprehensive income	720,238	6,719,562	–	7,439,800
Loans and advances to customers measured at fair value through other comprehensive income	–	3,256,148	–	3,256,148
Total	<u>720,238</u>	<u>10,243,014</u>	<u>3,441,077</u>	<u>14,404,329</u>

		At December 31, 2020			
	Level 1	Level 2	Level 3	Total	
Recurring fair value measurements					
Assets					
Financial assets at fair value through profit or loss	303,534	443,299	2,024,962	2,771,795	
Financial investments at fair value through other comprehensive income	6,952,438	6,203,207	346,592	13,502,237	
Loans and advances to customers measured at fair value through other comprehensive income	—	4,942,674	—	4,942,674	
Total	<u>7,255,972</u>	<u>11,589,180</u>	<u>2,371,554</u>	<u>21,216,706</u>	

		At September 30, 2021			
	Level 1	Level 2	Level 3	Total	
Recurring fair value measurements					
Assets					
Financial assets at fair value through profit or loss	304,374	—	1,651,225	1,955,599	
Financial investments at fair value through other comprehensive income	4,834,051	3,702,297	351,411	8,887,759	
Loans and advances to customers measured at fair value through other comprehensive income	—	3,085,301	—	3,085,301	
Total	<u>5,138,425</u>	<u>6,787,598</u>	<u>2,002,636</u>	<u>13,928,659</u>	

During the Relevant Periods, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

#### 40 ENTRUSTED LENDING BUSINESS

Bank of JZCTS provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. Bank of JZCTS does not take any credit risk in relation to these transactions. Bank of JZCTS acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of Bank of JZCTS and are not recognized in the statement of financial position. Surplus funding is accounted for as deposits from customers.

		At 31 December			At
	2018	2019	2020	30 September	2021
Entrusted loans	<u>1,288,794</u>	<u>1,083,434</u>	<u>1,024,923</u>	<u>1,005,334</u>	
Entrusted funds	<u>(1,288,794)</u>	<u>(1,083,434)</u>	<u>(1,024,923)</u>	<u>(1,005,334)</u>	

**41 COMMITMENTS AND CONTINGENT LIABILITIES**

**(a) Credit commitments**

Bank of JZCTS's credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans commitments represent the amounts should the contracts be fully drawn upon. Bank of JZCTS provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by Bank of JZCTS to pay bills of exchange drawn on customers. Bank of JZCTS expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	<b>At 31 December</b>			<b>At</b>
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>30 September 2021</b>
Acceptances	17,889,610	20,829,330	21,678,207	15,058,939
Letters of credit	35,000	563,000	1,385,900	3,166,909
Letters of guarantees	7,788	1,439	6,273	27,078
	<u>17,932,398</u>	<u>21,393,769</u>	<u>23,070,380</u>	<u>18,252,926</u>
Total	<u>17,932,398</u>	<u>21,393,769</u>	<u>23,070,380</u>	<u>18,252,926</u>

Bank of JZCTS may be exposed to credit risk in all the above credit businesses. Bank Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

**(b) Capital commitments**

As at the end of each of the Relevant Periods, Bank of JZCTS's authorized capital commitments are as follows:

	<b>At 31 December</b>			<b>At</b>
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>30 September 2021</b>
Contracted but not paid for	34,239	19,932	29,949	74,020
Approved but not contracted for	—	—	—	3,141
	<u>34,239</u>	<u>19,932</u>	<u>29,949</u>	<u>77,161</u>
Total	<u>34,239</u>	<u>19,932</u>	<u>29,949</u>	<u>77,161</u>

**(c) Outstanding litigations and disputes**

As at December 31, 2018, 2019, 2020 and 30 September 2021, Bank of JZCTS was the defendant in certain outstanding litigations and disputes with an estimated gross amounts of RMBnil million, RMBnil million, RMBnil million and RMB320 million, respectively. Bank of JZCTS has assessed the impact of the above outstanding litigation and disputes that may lead to an outflow of economic benefits. According to the opinion of Bank of JZCTS's lawyers and external lawyers, it is unlikely for Bank of JZCTS to receive unfavorable ruling in these case. Therefore, Bank of JZCTS don't recognised the litigation provision. Directors of Bank of JZCTS are of the view that these litigations will not have any material adverse effect on Bank of JZCTS's business, financial condition, results of operations or prospects.

**42 SUBSEQUENT EVENTS**

On December 13, 2021, Board of Directors has approved the Merger by Absorption Plan, pursuant to which Bank of JZCTS will be merged by absorption by Zhongyuan Bank Co., Ltd.. The consideration will be satisfied by issuance of shares of Zhongyuan Bank to shareholders of Bank of JZCTS. The Merger by Absorption are subject to a number of conditions precedent, including the approvals from the shareholders of Bank of JZCTS, the approvals from Zhongyuan Bank's shareholders, and approvals from relevant regulatory bodies.

**43 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD ENDED SEPTEMBER 30, 2021**

Up to the date of issue of these Historical Financial Information, a number of amendments, new standards and interpretations are issued which are not yet effective for the nine months period ended September 30, 2021 and which have not been adopted in these Historical Financial Information. These include the following which may be relevant to Bank of JZCTS.

	<b>Effective for accounting period beginning on or after</b>
Amendments to IFRS 3, <i>Reference to the Conceptual Framework</i>	January 1, 2022
Amendments to IAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	January 1, 2022
Amendments to IAS 37, <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	January 1, 2022
Annual Improvements to IFRSs 2018-2020 Cycle	January 1, 2022

Bank of JZCTS is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Historical Financial Information.

**SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by Bank of JZCTS in respect of any period subsequent to September 30, 2021.

*The following is the text of a report set out on II-B-1 to II-B-93, received from reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.*



**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF BANK OF PINGDINGSHAN CO., LTD. TO THE DIRECTORS OF ZHONGYUAN BANK CO., LTD.**

**Introduction**

We report on the historical financial information of Bank of Pingdingshan Co., Ltd. (the "Bank of Pingdingshan") and its subsidiaries (together, the "Bank of Pingdingshan Group") set out on II-B-4 to II-B-93, which comprises the consolidated statements of financial position of the Bank of Pingdingshan Group as at December 31, 2018, 2019, 2020 and September 30, 2021, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended December 31, 2018, 2019, 2020 and the nine months ended September 30, 2021 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-B-4 to II-B-93 forms an integral part of this report, which has been prepared for inclusion in the circular of Zhongyuan Bank Co., Ltd. (the "Zhongyuan Bank") dated 18 February 2022 (the "Circular") in connection with the proposed merger by absorption of the Bank of Pingdingshan.

**Directors' responsibility for Historical Financial Information**

The directors of Zhongyuan Bank are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of Bank of Pingdingshan Group as defined on II-B-4, on which the Historical Financial Information is based, were prepared by the directors of Bank of Pingdingshan Group. The directors of Bank of Pingdingshan are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"), and for such internal control as the directors of Bank of Pingdingshan Group determine is necessary to enable the preparation of the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of Bank of Pingdingshan Group's financial position as at December 31, 2018, 2019, 2020 and September 30, 2021 and of Bank of Pingdingshan Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**Review of stub period corresponding financial information**

We have reviewed the stub period corresponding financial information of Bank of Pingdingshan Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statements for the nine months ended September 30, 2020 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of Bank of Pingdingshan are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our

review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited**

***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-B-4 have been made.

**KPMG**

*Certified Public Accountants*

8th Floor, Prince’s Building

10 Chater Road

Central, Hong Kong

18 February 2022

**HISTORICAL FINANCIAL INFORMATION**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Bank of Pingdingshan Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### Consolidated statements of profit or loss and other comprehensive income

(Expressed in thousands of Renminbi, unless otherwise stated)

		Years ended December 31,			Nine months ended September 30,	
	Note	2018	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Interest income		3,279,722	3,898,315	5,337,411	3,946,918	4,121,640
Interest expense		(1,549,107)	(1,727,723)	(2,537,383)	(1,876,447)	(2,134,531)
<b>Net interest income</b>	4	<u>1,730,615</u>	<u>2,170,592</u>	<u>2,800,028</u>	<u>2,070,471</u>	<u>1,987,109</u>
Fee and commission income		41,131	48,591	59,891	47,196	65,727
Fee and commission expense		(30,421)	(54,929)	(112,154)	(79,643)	(211,258)
<b>Net fee and commission income</b>	5	<u>10,710</u>	<u>(6,338)</u>	<u>(52,263)</u>	<u>(32,447)</u>	<u>(145,531)</u>
Net trading losses	6	(469,465)	(241,363)	(383,603)	(153,263)	(429,525)
Net (losses)/gains arising from investment securities	7	(18)	19,870	(37,484)	(36,218)	(495,858)
Other operating income	8	<u>9,281</u>	<u>9,868</u>	<u>12,979</u>	<u>7,876</u>	<u>19,494</u>
<b>Operating income</b>		<u>1,281,123</u>	<u>1,952,629</u>	<u>2,339,657</u>	<u>1,856,419</u>	<u>935,689</u>
Operating expenses	9	(853,416)	(935,962)	(1,173,338)	(704,646)	(776,094)
Impairment losses on assets	12	(501,199)	(899,696)	(1,113,445)	(1,065,800)	(260,329)
Share of losses of joint venture		<u>(1,011)</u>	<u>(830)</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>(Loss)/Profit before tax</b>		<u>(74,503)</u>	<u>116,141</u>	<u>52,874</u>	<u>85,973</u>	<u>(100,734)</u>
Income tax	13	<u>49,536</u>	<u>12,696</u>	<u>50,482</u>	<u>(9,660)</u>	<u>89,602</u>
<b>(Loss)/profit for the year/period</b>		<u>(24,967)</u>	<u>128,837</u>	<u>103,356</u>	<u>76,313</u>	<u>(11,132)</u>
<b>(Loss)/profit attributable to:</b>						
Equity shareholders of Bank of Pingdingshan		(24,967)	129,522	99,725	68,955	102,770
Non-controlling interests		<u>—</u>	<u>(685)</u>	<u>3,631</u>	<u>7,358</u>	<u>(113,902)</u>
		<u>(24,967)</u>	<u>128,837</u>	<u>103,356</u>	<u>76,313</u>	<u>(11,132)</u>

The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

	<i>Note</i>	Years ended December 31,			Nine months ended September 30,	
		2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2020 <i>RMB'000</i> (unaudited)	2021 <i>RMB'000</i>
<b>Net/(Loss) profit for the year</b>		(24,967)	128,837	103,356	76,313	(11,132)
<b>Other comprehensive income</b>						
<i>Other comprehensive income net of tax attributable to equity shareholders of Bank of Pingdingshan</i>						
Items that may be reclassified subsequently to profit or loss:						
– Financial assets at fair value through other comprehensive income: net movement in the fair value reserve	33(d)(i)	(8,949)	32,923	(52,692)	(14,395)	(70,286)
– Financial assets at fair value through other comprehensive income: net movement in impairment losses	33(d)(ii)	61,157	(53,710)	1,682	460	7,303
Item that will not be reclassified subsequently to profit or loss						
– Remeasurement of net defined benefit liability	33(d)(iii)	(5,330)	(5,110)	(5,110)	(1,397)	(3,760)
<b>Other comprehensive income, net of tax</b>		46,878	(25,897)	(56,120)	(15,332)	(66,743)
<b>Total comprehensive income</b>		21,911	102,940	47,236	60,981	(77,875)
<b>Total comprehensive income attributable to:</b>						
Equity shareholders of Bank of Pingdingshan		21,911	103,625	43,605	53,623	36,027
Non-controlling interests		–	(685)	3,631	7,358	(113,902)
		21,911	102,940	47,236	60,981	(77,875)

The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### Consolidated statements of financial position

(Expressed in thousands of Renminbi, unless otherwise stated)

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
<b>Assets</b>					
Cash and deposits with the central bank	15	8,036,545	10,006,786	13,359,001	10,513,606
Deposits with banks and other financial institutions	16	231,898	454,971	452,140	1,059,070
Placements with banks and other financial institutions	17	–	5,180,828	405,154	902,845
Financial assets held under resale agreements	18	2,608,829	2,477,109	591,268	–
Loans and advances to customers	19	32,611,943	45,291,411	56,203,713	64,688,223
Financial investments:	20				
Financial investments at fair value through profit or loss		7,123,011	8,362,189	7,237,914	9,608,296
Financial investments at fair value through other comprehensive income		985,012	6,686,740	10,009,318	3,978,718
Financial investments at amortised cost		13,486,156	16,294,267	17,655,768	19,247,035
Interest in joint venture	21	35,753	–	–	–
Property and equipment	22	1,394,421	1,589,674	1,610,176	1,509,983
Deferred tax assets	23	1,323,935	1,527,303	1,878,136	2,130,398
Other assets	24	987,451	1,002,766	1,221,004	1,886,104
<b>Total assets</b>		<b>68,824,954</b>	<b>98,874,044</b>	<b>110,623,592</b>	<b>115,524,278</b>
<b>Liabilities and equity</b>					
<b>Liabilities</b>					
Borrowing from the central bank		–	628,338	997,282	1,383,194
Deposits from banks and other financial institutions	26	588,795	1,074,652	237,546	1,329,446
Placements from banks and other financial institutions	27	–	4,357,484	1,607,226	2,731,976
Financial assets sold under repurchase agreements	28	2,810,461	3,538,079	6,508,062	3,440,547
Deposits from customers	29	56,094,513	77,158,482	90,849,090	91,821,453
Income tax payable		–	–	–	33,710
Debt securities issued	30	4,048,437	6,461,742	3,663,511	7,457,025
Other liabilities	31	754,203	962,895	1,021,267	665,194
<b>Total liabilities</b>		<b>64,296,409</b>	<b>94,181,672</b>	<b>104,883,984</b>	<b>108,862,545</b>

The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

		At December 31,		At September 30,	
	Note	2018	2019	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Equity</b>					
Share capital	32	3,393,375	3,393,375	3,732,712	4,105,983
Other equity instruments					
– Perpetual bonds	34	–	–	1,000,000	2,000,000
Capital reserve	33(a)	2,404,871	2,378,974	1,983,517	1,543,503
Surplus reserve	33(b)	516,540	516,540	516,540	516,540
General reserve	33(c)	1,100,270	1,100,270	1,100,270	1,100,270
Accumulated losses		(2,886,511)	(2,756,989)	(2,657,264)	(2,554,494)
 Total equity attributable to equity shareholders of Bank of Pingdingshan		 4,528,545	 4,632,170	 5,675,775	 6,711,802
Non-controlling interests		–	60,202	63,833	(50,069)
 <b>Total equity</b>		 4,528,545	 4,692,372	 5,739,608	 6,661,733
 <b>Total liabilities and equity</b>		 68,824,954	 98,874,044	 110,623,592	 115,524,278

The accompanying notes form part of this Historical Financial Information.

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of Bank of Pingdingshan						
	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Accumulated losses	Non-controlling interests
Note							
Balance at January 1, 2018	2,755,795	-	1,978,352	516,540	1,100,270	(2,861,544)	-
Changes in equity for the year:							
Net loss for the year	-	-	-	-	-	(24,967)	-
Other comprehensive income	-	-	46,878	-	-	-	-
Total comprehensive income	-	-	46,878	-	-	(24,967)	-
Capital invested by investors	362,000	-	655,221	-	-	-	-
Capital reserve converted into share capital	275,580	-	(275,580)	-	-	-	-
Balance at December 31, 2018	3,393,375	-	2,404,871	516,540	1,100,270	(2,886,511)	-

The accompanying notes form part of this Historical Financial Information.

Attributable to equity shareholders of Bank of Pingdingshan									
	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Accumulated losses	Subtotal	Non-controlling interests	Total
Note									
Balance at January 1, 2019	3,393,375	-	2,404,871	516,540	1,100,270	(2,886,511)	4,528,545	-	4,528,545
Changes in equity for the year:									
Net profit/loss for the year	-	-	-	-	-	129,522	129,522	(685)	128,837
Other comprehensive income	-	-	(25,897)	-	-	-	(25,897)	-	(25,897)
Total comprehensive income	-	-	(25,897)	-	-	129,522	103,625	(685)	102,940
Acquisition of subsidiaries	-	-	-	-	-	-	-	60,887	60,887
Balance at December 31, 2019	3,393,375	-	2,378,974	516,540	1,100,270	(2,756,989)	4,632,170	60,202	4,692,372

The accompanying notes form part of this Historical Financial Information.

## ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

The accompanying notes form part of this Historical Financial Information.

Attributable to equity shareholders of Bank of Pingdingshan								
	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Accumulated losses	Subtotal	Non-controlling interests
Note								Total
Unaudited:								
Balance at January 1, 2020	3,393,375	-	2,378,974	516,540	1,100,270	(2,756,989)	4,632,170	60,202
Changes in equity for the period:								
Net profit for the period	-	-	-	-	-	68,955	68,955	7,358
Other comprehensive income	-	-	(15,332)	-	-	-	(15,332)	-
Total comprehensive income	-	-	(15,332)	-	-	68,955	53,623	7,358
Capital reserve converted into share capital	339,337	-	(339,337)	-	-	-	-	-
Balance at September 30, 2020	3,732,712	-	2,024,305	516,540	1,100,270	(2,688,034)	4,685,793	67,560

The accompanying notes form part of this Historical Financial Information.

## ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### Consolidated cash flow statements

(Expressed in thousands of Renminbi, unless otherwise stated)

Note	Years ended December 31,			Nine months ended	
	2018	2019	2020	September 30,	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
<b>Cash flows from operating activities</b>					
(Loss)/Profit before tax	(74,503)	116,141	52,874	85,973	(100,734)
Adjustments for:					
– Impairment losses on assets	501,199	899,696	1,113,445	1,065,800	260,329
– Depreciation and amortization	138,254	140,495	197,317	115,975	137,452
– Net gains on disposal of property and equipment	–	–	–	–	(408)
– Net trading losses	469,465	241,363	383,603	153,263	429,525
– Net losses/(gains) on disposal of investment securities	18	(19,870)	37,484	36,218	495,858
– Interest expense on debts securities issued	101,537	208,380	200,919	167,770	154,805
– Interest expense on lease liabilities	4,530	5,039	4,916	3,687	2,918
	<u>1,140,500</u>	<u>1,591,244</u>	<u>1,990,558</u>	<u>1,628,686</u>	<u>1,379,745</u>
<i>Changes in operating assets</i>					
Net decrease/(increase) in deposits with the central bank	847,541	(320,255)	(730,615)	(820,352)	152,376
Net (increase)/decrease in deposits and placements with banks and other financial institutions	(99,996)	–	(99,996)	710,612	99,996
Net (increase)/decrease in financial assets held for trading	(6,623,011)	(1,739,178)	739,402	229	(2,805,958)
Net increase in loans and advances to customers	(1,956,128)	(13,276,538)	(11,800,817)	(9,428,545)	(8,838,405)
Net decrease/(increase) in other operating assets	<u>464,001</u>	<u>(160,894)</u>	<u>(409,076)</u>	<u>(1,388,383)</u>	<u>(56,821)</u>
	<u>(7,367,593)</u>	<u>(15,496,865)</u>	<u>(12,301,102)</u>	<u>(10,926,439)</u>	<u>(11,448,812)</u>

The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

<i>Note</i>	<b>Years ended December 31,</b>			<b>Nine months ended</b>	
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>September 30,</b>	<b>2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<b>(unaudited)</b>	
<b>Cash flows from operating activities</b>					
<i>Changes in operating liabilities</i>					
Net increase in borrowing from central bank	–	628,338	368,944	314,789	385,484
Net (decrease)/increase in deposits from banks and other financial institutions	(16,166,655)	485,857	(837,105)	(676,457)	1,076,009
Net increase/(decrease) in placements from banks and other financial institutions	–	4,357,484	(2,750,258)	(2,643,683)	1,089,774
Net increase/(decrease) in financial assets sold under repurchase agreements	2,810,461	727,618	2,969,983	1,321,149	(3,069,071)
Net increase in deposits from customers	2,976,201	20,724,719	13,813,481	15,732,290	1,037,547
Net (decrease)/increase in other operating liabilities	(6,040,400)	562,083	(51,040)	(193,458)	(363,366)
	<u>(16,420,393)</u>	<u>27,486,099</u>	<u>13,514,005</u>	<u>13,854,630</u>	<u>156,377</u>
<b>Net cash flows (used in)/ generated from operating activities before income tax paid</b>	(22,647,486)	13,580,478	3,203,461	4,556,877	(9,912,690)
Income tax paid	(1,250,685)	(114,937)	(192,943)	(244,164)	(392,586)
<b>Net cash flows (used in)/ generated from operating activities</b>	<u>(23,898,171)</u>	<u>13,465,541</u>	<u>3,010,518</u>	<u>4,312,713</u>	<u>(10,305,276)</u>
<b>Cash flows from investing activities</b>					
Proceeds from disposal and redemption of investments	26,577,058	30,416,592	197,743,842	178,522,142	177,965,308
Proceeds from disposal of property and equipment, intangible assets and other assets	503	320	44,693	59	647
Payments on acquisition of investments	(7,122,745)	(38,802,226)	(202,660,204)	(179,543,243)	(173,677,796)
Payments on acquisition of property and equipment, intangible assets and other assets	(158,537)	(321,968)	(238,875)	(146,040)	(684,218)
Payments on acquisition of subsidiary	–	(45,360)	–	–	–
<b>Net cash flows generated from/(used in) investing activities</b>	<u>19,296,279</u>	<u>(8,752,642)</u>	<u>(5,110,544)</u>	<u>(1,167,082)</u>	<u>3,603,941</u>

The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

		Years ended December 31,			Nine months ended
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
					(unaudited)
<b>Cash flows from financing activities</b>					
Capital injected by shareholders		1,017,221	–	–	–
Proceeds from issued debt securities/perpetual bonds		4,241,537	12,598,383	14,226,991	10,263,842
Repayment of debts securities issued		(2,250,257)	(10,185,076)	(16,025,222)	(12,569,953)
Interest paid on debts securities issued		(101,537)	(208,381)	(200,919)	(167,770)
Dividends paid		(1,118)	(3,499)	(2)	(2)
Capital element of lease liabilities paid		(1,350)	(15,751)	(14,201)	(10,605)
Interest element of lease liabilities paid		(15,975)	(5,039)	(4,916)	(3,687)
<b>Net cash flows generated from/(used in) financing activities</b>		<u>2,888,521</u>	<u>2,180,637</u>	<u>(2,018,269)</u>	<u>(2,488,175)</u>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	37(a)	(1,713,371)	6,893,536	(4,118,295)	657,456
<b>Cash and cash equivalents as at January 1</b>		<u>6,564,726</u>	<u>4,851,355</u>	<u>11,744,891</u>	<u>11,744,891</u>
<b>Cash and cash equivalents as at December 31/September 30</b>	37(b)	<u>4,851,355</u>	<u>11,744,891</u>	<u>7,626,596</u>	<u>12,402,347</u>
Interest received		<u>3,643,261</u>	<u>3,890,711</u>	<u>5,378,766</u>	<u>3,963,058</u>
Interest paid (excluding interest expense on debts securities issued)		<u>(1,447,570)</u>	<u>(1,494,072)</u>	<u>(2,324,446)</u>	<u>(2,108,037)</u>

The accompanying notes form part of this Historical Financial Information.

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION**

*(Expressed in thousands of Renminbi, unless otherwise stated)*

**1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

Bank of Pingdingshan Co., Ltd. (the “Bank of Pingdingshan”) was established in Pingdingshan, Henan Province, the People’s Republic of China (the “PRC”) on November 17, 2010 with the approval of the former China Banking Regulatory Commission (the former “CBRC”).

Bank of Pingdingshan obtained its financial institution license No. B1116H241040001 from the former CBRC, and obtained its business license with unified social credit code 91410000733866979F from the State Administration for Industry and Commerce of the PRC. Bank of Pingdingshan is regulated by China Banking Insurance Regulatory Commission (the “CBIRC”) authorized by the State Council.

As at September 30, 2021, Bank of Pingdingshan has one head office and 6 branches across Henan Province and one subsidiary. The principal activities of Bank of Pingdingshan and its subsidiary (collectively referred to as the “Bank of Pingdingshan Group”) are the provision of corporate and personal deposits, loans and advances, settlement, financial market business, financial leasing and other financial services as approved by the former CBRC.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IASB”). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, Bank of Pingdingshan Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period ended September 30, 2021. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning January 1, 2021 are set out in Note 46.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

**2 SIGNIFICANT ACCOUNTING POLICIES****(1) Statement of compliance**

The Historical Financial Information has been prepared in accordance with all applicable IFRSs, which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the IASB and the disclosure requirement of the Hong Kong Companies Ordinance. The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange. Significant accounting policies adopted by Bank of Pingdingshan Group are disclosed below.

**(2) Basis of preparation of the Historical Financial Information**

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

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

Judgments made by management in the application of IFRSs that have a significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 2(27).

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

The Historical Financial Information are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of Bank of Pingdingshan Group.

### **(3) Subsidiaries and non-controlling interests**

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

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

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

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

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

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

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

**(4) Associates and joint ventures**

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

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

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

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

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

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

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

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

**(5) Goodwill**

Goodwill represents the excess of

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

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

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

**(6) Translation of foreign currencies**

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

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

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

**(7) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, financial assets held under resale agreements and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(8)(ii).

**(8) Financial instruments**

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

A financial asset or financial liability is recognized in the statements of financial position when Bank of Pingdingshan Group becomes a party to the contractual provisions of a financial instrument. The financial instruments are initially stated at fair value plus directly attributable transaction costs, except for those financial instruments measured at FVTPL for which transaction costs are recognised directly in profit or loss. For an explanation of how Bank of Pingdingshan Group determines fair value of financial instruments, see note 41. These financial instruments are subsequently accounted for as follows, depending on their classification.

*Financial instruments other than equity investments*

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

- amortised cost, if the financial instrument is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the financial instrument is calculated using the effective interest method.
- fair value through other comprehensive income (FVOCI) (recycling), if the contractual cash flows of the financial instrument comprise solely payments of principal and interest and the financial instrument is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial instrument is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

- fair value through profit or loss (FVTPL), if the financial instrument does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the financial instrument (including interest) are recognised in profit or loss.

#### *Equity investments*

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

#### *(ii) Credit losses and impairment of financial assets*

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

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

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

#### *Measurement of ECLs*

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

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

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

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

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

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

ECLs are measured on either of the following bases:

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

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

*Significant increases in credit risk*

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

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

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

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

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

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. Bank of Pingdingshan Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

*Basis of calculation of interest income*

Interest income recognised in accordance with note 2(22)(a) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

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

*Write-off policy*

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when Bank of Pingdingshan Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

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

**(iii) Derivative financial instruments**

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

**(iv) Fair value measurement principles**

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

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

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

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

Bank of Pingdingshan Group obtains market data from the same market where the financial instrument was originated or purchased.

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

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

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

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

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

**(vi) Offsetting**

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

**(9) Financial assets held under resale and repurchase agreements**

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortized cost. Financial assets held under resale agreements are assessed for ECLs in accordance with the policy set out in note 2(8)(ii).

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortized cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognized respectively as interest income and interest expense over the life of each agreement using the effective interest method.

**(10) Perpetual bonds**

At initial recognition, Bank of Pingdingshan Group classifies perpetual bonds issued or their components as financial assets, financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial assets, financial liabilities and equity instruments.

Perpetual bonds issued containing both equity and liability components are accounted for using the accounting policy for convertible instruments containing an equity component. Perpetual bonds issued not containing an equity component are accounted for using the accounting policy for other convertible instruments not containing an equity component.

Perpetual bonds issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the perpetual bonds are redeemed according to the contractual terms, the redemption price is charged to equity.

**(11) Investment in subsidiaries**

In Bank of Pingdingshan Group's consolidated Historical Financial Information, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(3).

In Bank of Pingdingshan's Historical Financial Information, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognized at actual payment cost if Bank of Pingdingshan acquires the investment by cash. The investment is stated at cost less impairment loss in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, Bank of Pingdingshan Group recognizes its share of the cash dividends or profit distribution declared by the investees as investment income.

**(12) Investment property**

Investment property is a property held either for earning rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the statements of financial position at cost less accumulated depreciation and impairment loss. Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

	<b>Estimated useful life</b>	<b>Estimated rate of residual value</b>	<b>Depreciation rate</b>
Premises	20 years	3%	4.85%

**(13) Property and equipment and construction in progress**

Property and equipment are assets held by Bank of Pingdingshan Group for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss. Construction in progress is stated in the statements of financial position at cost less impairment loss.

The cost of a purchased property and equipment comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. Construction in progress is transferred to property and equipment when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to Bank of Pingdingshan Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognized as a separate property and equipment.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

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

Property and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

<b>Asset category</b>	<b>Estimated useful life</b>	<b>Estimated rate of residual value</b>	<b>Depreciation rate</b>
Premises	20 years	3%	4.85%
Motor vehicles	4 years	3%	24.25%
Others	3 – 10 years	3%	9.70% – 32.33%

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

**(14) Leases**

At inception of a contract, Bank of Pingdingshan Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

**(i) As a lessee**

Where the contract contains lease component(s) and non-lease component(s), Bank of Pingdingshan Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, Bank of Pingdingshan Group recognises a right-of-use asset and a lease liability. Lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined,

using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to Bank of Pingdingshan Group by the end of the lease term or the cost of the right-of-use asset reflects that Bank of Pingdingshan Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in Bank of Pingdingshan Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether Bank of Pingdingshan Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

**(ii) As a lessor**

When Bank of Pingdingshan Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset irrespective of whether the legal title to the asset is eventually transferred. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, Bank of Pingdingshan Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis.

When Bank of Pingdingshan Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease.

Under a finance lease, at the commencement date, Bank of Pingdingshan Group recognises the finance lease receivable and derecognises the finance lease asset. The finance lease receivable is initially measured at an amount equal to the net investment in the lease. The net investment in the lease is measured at the aggregate of the unguaranteed residual value and the present value of the lease receivable that are not received at the commencement date, discounted using the interest rate implicit in the lease.

Bank of Pingdingshan Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return. The derecognition and impairment of the finance lease receivable are recognised in accordance with the accounting policy in Note 2(8). Variable lease payments not included in the measurement of net investment in the lease are recognised as income as they are earned.

Lease receipts from operating leases is recognised as income using the straight-line method over the lease term. The initial direct costs incurred in respect of the operating lease are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Variable lease payments not included in lease receipts are recognised as income as they are earned.

**(15) Intangible assets**

The intangible assets of Bank of Pingdingshan Group have finite useful lives. The intangible assets are stated at cost less accumulated amortization and impairment loss. The cost of intangible assets less residual value and impairment loss is amortized on the straight-line method over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

Land use rights	30 – 50 years
Computer software	5 years

**(16) Repossessed assets**

Repossessed assets are physical assets or property rights obtained by Bank of Pingdingshan Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

**(17) Provision for impairment losses on non-financial assets**

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

- property and equipment;
- construction in progress;
- right-of-use asset;
- intangible assets;
- investment property measured using a cost model;
- investments in subsidiaries and joint ventures; and
- goodwill.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A cash-generating unit ("CGU") is the smallest identifiable Group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset Groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset Group are largely independent of the cash inflows from other assets or asset Groups. In identifying an asset Group, Bank of Pingdingshan Group also considers how management monitors Bank of Pingdingshan Group's operations and how management makes decisions about continuing or disposing of Bank of Pingdingshan Group's assets.

The recoverable amount of an asset or CGU, or a Group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, Bank of Pingdingshan Group determines the recoverable amount of the asset Group to which the assets belongs.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognized in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognized accordingly.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognized, the previously recognized impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior periods.

**(18) Employee benefits****(i) Short-term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The defined contribution retirement plans of Bank of Pingdingshan Group include the social pension schemes.

*Social pension schemes*

Pursuant to the relevant laws and regulations in the PRC, Bank of Pingdingshan Group has participated in the social pension schemes for the employees arranged by local government labour and security authorities. Bank of Pingdingshan Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

*Housing fund and other social insurances*

In addition to the retirement benefits above, Bank of Pingdingshan Group has joined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. Bank of Pingdingshan Group makes monthly contributions to the housing fund and other social insurances schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis.

**(ii) Supplementary retirement benefits***Early retirement plan*

Bank of Pingdingshan Group provides early retirement benefit payments to employees who voluntarily agreed to retire early for the period from the date of early retirement to the regulated retirement date. The benefit is discounted to determine the present value based on certain assumptions. The calculation is performed by a qualified actuary using the projected unit credit method. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

*Supplementary retirement plan*

Bank of Pingdingshan Group provides a supplementary retirement plan to its eligible employees. Bank of Pingdingshan Group's obligations in respect of the supplementary retirement plan are calculated by estimating the present value of the total amount of future benefits that Bank of Pingdingshan Group is committed to pay to the employees after their retirement. The calculation is performed by a qualified actuary using the projected unit credit method. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date. The related service cost and net interest from the retirement plan are recognised in profit or loss, and the actuarial gains and losses arising from remeasurements are recognised in other comprehensive income.

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits". Except for the above mentioned, Bank of Pingdingshan Group has no significant responsibilities to pay any other retirement benefits to employees.

**(19) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the Relevant Periods, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, Bank of Pingdingshan Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the Relevant Periods. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each Relevant Periods and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if Bank of Pingdingshan or Bank of Pingdingshan Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, Bank of Pingdingshan or Bank of Pingdingshan Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

**(20) Financial guarantees, provisions and contingent liabilities****(i) Financial guarantees**

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (“holder”) for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognized as deferred income in other liabilities. The deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognized in the statements of financial position if and when it becomes probable that the holder of the guarantee will call upon Bank of Pingdingshan Group under the guarantee, and the amount of that claim on Bank of Pingdingshan Group is expected to exceed the carrying amount of the deferred income.

**(ii) Other provisions and contingent liabilities**

A provision is recognized for an obligation related to a contingency if Bank of Pingdingshan Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

**(21) Fiduciary activities**

Bank of Pingdingshan Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by Bank of Pingdingshan Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

Bank of Pingdingshan Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to Bank of Pingdingshan Group, and Bank of Pingdingshan Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As Bank of Pingdingshan Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

**(22) Income recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Bank of Pingdingshan Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**(a) Interest income**

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, where appropriate, to the book value of the financial asset, or the amortised cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not expected credit losses.

Interest income is calculated by applying the effective interest rate to the book value of financial assets and is included in interest income, except for:

- (i) For purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortised cost; and
- (ii) Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their book value.

**(b) Fee and commission income**

Bank of Pingdingshan Group earns fee and commission income from a diverse range of services it provides to its customers. The fee and commission income recognised by Bank of Pingdingshan Group reflects the amount of consideration to which Bank of Pingdingshan Group expects to be entitled in exchange for transferring promised services to customers, and income is recognised when its performance obligation in contracts is satisfied.

- (i) Bank of Pingdingshan Group recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:
  - The customer simultaneously receives and consumes the benefits provided by Bank of Pingdingshan Group's performance as Bank of Pingdingshan Group performs;
  - The customer controls the service provided by Bank of Pingdingshan Group in the course of performance; or
  - Bank of Pingdingshan Group does not provide service with an alternative use to Bank of Pingdingshan Group, and Bank of Pingdingshan Group has an enforceable right to payment for performance completed to date.
- (ii) In other cases, Bank of Pingdingshan Group recognises revenue at a point in time at which a customer obtains control of the promised services.

**(c) Dividend income**

Dividend income is recognised when the Bank of Pingdingshan Group's right to receive payment is established.

**(d) Net trading income**

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities that are held for trading.

**(e) Government grants**

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that Bank of Pingdingshan Group will comply with the conditions attaching to them. Grants that compensate Bank of Pingdingshan Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate Bank of Pingdingshan Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

**(23) Expenses recognition****(i) Interest expenses**

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

**(ii) Other expenses**

Other expenses are recognized on an accrual basis.

**(24) Dividends**

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of each Relevant Periods are not recognized as a liability at the end of each Relevant Periods but disclosed separately in the notes to the Historical Financial Information.

**(25) Related parties**

- (a) A person, or a close member of that person's family, is related to Bank of Pingdingshan Group if that person:
  - (i) has control or joint control over Bank of Pingdingshan Group;
  - (ii) has significant influence over Bank of Pingdingshan Group; or
  - (iii) is a member of the key management personnel of Bank of Pingdingshan Group or Bank of Pingdingshan Group's parent.
- (b) An entity is related to Bank of Pingdingshan Group if any of the following conditions applies:
  - (i) The entity and Bank of Pingdingshan Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either Bank of Pingdingshan Group or an entity related to Bank of Pingdingshan Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to Bank of Pingdingshan Group or to Bank of Pingdingshan Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

**(26) Segment reporting**

Operating segments are identified from the financial information provided regularly to Bank of Pingdingshan Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of Bank of Pingdingshan Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Bank of Pingdingshan Group operates in a single business segment. Bank of Pingdingshan Group runs banking business in Henan Province, China. Accordingly, no segmental analysis is presented.

**(27) Significant accounting estimates and judgements**

The preparation of the Historical Financial Information 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.

**(a) Measurement of expected credit loss**

The measurement of the expected credit loss allowance for the investment in financial assets and debt instruments measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in note 40(a).

A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit losses;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses.

Detailed information about the judgements and estimates made by Bank of Pingdingshan in the above areas is set out in Note 40(a) credit risk.

**(b) Fair value of financial instruments**

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, and option pricing models. Valuation models established by Bank of Pingdingshan make maximum use of market input and rely as little as possible on Bank of Pingdingshan's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. Bank of Pingdingshan reviews the above estimations and assumptions periodically and makes adjustment if necessary.

**(c) Income taxes**

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Bank of Pingdingshan carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

**(d) Impairment of non-financial assets**

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset Group) may not be obtained reliably, the fair value of the asset may not be estimated reliably. In assessing the present value of future cash flows, significant judgments are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

**(e) Depreciation and amortisation**

Investment properties, property and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each of the years. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

**(f) Determination of control over investees**

Management applies its judgement to determine whether the control indicators set out Note 2(3) indicate that Bank of Pingdingshan controls a non-principal guaranteed wealth management product and an asset management plan.

Bank of Pingdingshan acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether Bank of Pingdingshan controls such a structured entity usually focuses on the assessment of the aggregate economic interests of Bank of Pingdingshan in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by Bank of Pingdingshan, Bank of Pingdingshan's aggregate economic interest is in each case not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, Bank of Pingdingshan has concluded that it acts as agent as opposed to principal for the investors in all cases, and therefore has not consolidated these structured entities.

**3 TAXES**

Bank of Pingdingshan Group's main applicable taxes and tax rates are as follows:

<b>Tax type</b>	<b>Tax basis</b>	<b>Tax rate</b>
Value-added tax (VAT)	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period	3% – 6%
City maintenance and construction tax	Based on VAT paid	5% – 7%
Corporate income tax	Based on taxable profits	25%

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### 4 NET INTEREST INCOME

	Years ended December 31,			Nine months ended September 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
<b>Interest income arising from</b>					
Deposits with the central bank	106,496	103,020	120,449	89,337	95,865
Deposits with banks and other financial institutions	2,378	18,726	35,471	27,410	23,031
Placements with banks and other financial institutions	–	70,269	105,329	97,554	20,589
Loans and advances to customers					
– Corporate loans and advances	1,371,005	1,676,085	2,109,993	1,585,046	1,776,539
– Personal loans and advances	325,888	547,323	880,872	605,847	901,675
– Discounted bills	157,566	223,511	239,037	186,293	142,387
Financial assets held under resale agreements	23,487	58,792	79,537	67,624	60,711
Financial investments	1,292,902	1,200,589	1,766,723	1,287,807	1,100,843
Sub-total	3,279,722	3,898,315	5,337,411	3,946,918	4,121,640
<b>Interest expenses arising from</b>					
Borrowing from the central bank	–	(12,315)	(21,149)	(16,346)	(12,710)
Deposits from banks and other financial institutions	(352,282)	(50,879)	(134,401)	(111,991)	(110,794)
Placements from banks and other financial institutions					
Deposits from customers	(1,079,276)	(1,384,943)	(2,106,762)	(1,531,327)	(1,775,957)
Financial assets sold under repurchase agreements	(16,012)	(71,206)	(74,152)	(49,013)	(80,265)
Debts securities issued	(101,537)	(208,380)	(200,919)	(167,770)	(154,805)
Sub-total	(1,549,107)	(1,727,723)	(2,537,383)	(1,876,447)	(2,134,531)
<b>Net interest income</b>	<u>1,730,615</u>	<u>2,170,592</u>	<u>2,800,028</u>	<u>2,070,471</u>	<u>1,987,109</u>

The interest income and expenses are related to financial instruments which are not measured at fair value through profit or loss.

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### 5 NET FEE AND COMMISSION INCOME

#### (a) Income and expense streams:

	Years ended December 31,			Nine months ended	
	2018	2019	2020	September 30,	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
<b>Fee and commission income</b>					
Bank card services fees	4,219	6,093	2,500	1,896	2,647
Settlement and clearing services fees	2,257	1,359	1,059	756	940
Advisory and consulting fees	–	–	1,132	1,132	2,644
Agency services fees	10,141	16,588	34,234	26,188	47,447
Acceptance and guarantee services fees	24,514	24,551	20,966	17,224	12,049
Sub-total	41,131	48,591	59,891	47,196	65,727
<b>Fee and commission expense</b>	(30,421)	(54,929)	(112,154)	(79,643)	(211,258)
<b>Net fee and commission income</b>	10,710	(6,338)	(52,263)	(32,447)	(145,531)

#### (b) Disaggregation of income:

	Years ended 31 December						Nine months ended 30 September			
	2018		2019		2020		2020		2021	
	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time
	(unaudited)									
Bank card services fees	4,219	–	6,093	–	2,500	–	1,896	–	2,647	–
Settlement and clearing services fees	2,257	–	1,359	–	1,059	–	756	–	940	–
Advisory and consulting fees	–	–	–	–	–	1,132	–	1,132	–	2,644
Agency services fees	–	10,141	–	16,588	–	34,234	–	26,188	–	47,447
Acceptance and guarantee services fees	–	24,514	–	24,551	–	20,966	–	17,224	–	12,049
Total	6,476	34,655	7,452	41,139	3,559	56,332	2,652	44,544	3,587	62,140

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### 6 NET TRADING LOSSES

Note	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
Net losses from debt securities	(a) (469,465)	(241,363)	(383,603)	(153,263)	(429,525)
Total	(469,465)	(241,363)	(383,603)	(153,263)	(429,525)

(a) Net losses from debt securities include gains arising from the buying and selling of, and changes in the fair value of debt securities held for trading.

### 7 NET (LOSSES)/GAINS ARISING FROM INVESTMENT SECURITIES

Net gains arising from investment securities include of net gains of financial investments at fair value through other comprehensive income, net losses on disposal of financial investments at amortised cost and the investment income and fair value changes of financial investments at fair value through profit or loss except for debt securities held for trading.

### 8 OTHER OPERATING INCOME

	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
Government grants	300	1,547	–	–	7,534
Others	8,981	8,321	12,979	7,876	11,960
Total	9,281	9,868	12,979	7,876	19,494

### 9 OPERATING EXPENSES

	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
Staff costs	428,515	481,109	600,648	332,322	340,104
Office expenses	134,138	161,120	198,987	132,785	159,025
Depreciation and amortization	126,809	126,545	182,044	104,521	119,799
Depreciation charge for the right-of-use assets	11,445	13,950	15,273	11,454	17,653
Interest expense on lease liabilities	4,530	5,039	4,916	3,687	2,918
Rental and property management expenses	8,291	9,184	8,673	25,145	8,882
Other general and administrative expenses	139,688	139,015	162,797	94,732	127,713
Total	853,416	935,962	1,173,338	704,646	776,094

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### 10 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The directors of Bank of Pingdingshan Group consider the presentation of such information is not meaningful for the purpose of this report.

### 11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The directors of Bank of Pingdingshan Group consider the presentation of such information is not meaningful for the purpose of this report.

### 12 IMPAIRMENT LOSSES ON ASSETS

	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
Loans and advances to customers	1,030,946	576,042	871,607	1,053,681	683,473
Financial investments	(765,381)	274,685	138,681	46,227	(550,081)
Credit commitments	226,403	30,225	(66,078)	(33,039)	(176,389)
Deposits with banks and other financial institutions	24	(3,973)	(2,699)	(2,710)	(232)
Placements with banks and other financial institutions	–	5	32	–	58
Financial assets held under resale agreements	242	(12)	(175)	–	(321)
Others	8,965	22,724	172,077	1,641	303,821
Total	<u>501,199</u>	<u>899,696</u>	<u>1,113,445</u>	<u>1,065,800</u>	<u>260,329</u>

### 13 INCOME TAX

#### (a) Income tax:

	Note	Years ended December 31,			Nine months ended September 30,	
		2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
Current tax		190,118	201,646	282,787	9,660	139,231
Deferred tax	23(b)	<u>(239,654)</u>	<u>(214,342)</u>	<u>(333,269)</u>	<u>–</u>	<u>(228,833)</u>
Total		<u>(49,536)</u>	<u>(12,696)</u>	<u>(50,482)</u>	<u>9,660</u>	<u>(89,602)</u>

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

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

Note	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000	2021 RMB'000
	(unaudited)				
(Loss)/Profit before tax	<u>(74,503)</u>	<u>116,141</u>	<u>52,874</u>	<u>85,973</u>	<u>(100,734)</u>
Statutory tax rate	25%	25%	25%	25%	25%
Income tax calculated at statutory tax rate	<u>(18,626)</u>	<u>29,035</u>	<u>13,219</u>	<u>21,493</u>	<u>(25,184)</u>
Non-deductible expenses	2,537	3,223	4,622	3,279	1,182
Non-taxable income (i)	<u>(33,447)</u>	<u>(44,954)</u>	<u>(68,323)</u>	<u>(15,112)</u>	<u>(65,600)</u>
Income tax	<u>(49,536)</u>	<u>(12,696)</u>	<u>(50,482)</u>	<u>9,660</u>	<u>(89,602)</u>

(i) The non-taxable income mainly represents the interest income from the PRC government bonds.

### 14 BASIC AND DILUTED EARNINGS PER SHARE

No earnings per share information is presented as the directors of Bank of Pingdingshan Group consider the presentation of such information is not meaningful for the purpose of this report.

### 15 CASH AND DEPOSITS WITH THE CENTRAL BANK

Note	At December 31,			At September 30,
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000
Cash on hand	<u>210,592</u>	<u>141,103</u>	<u>178,347</u>	<u>202,889</u>
Deposits with the central bank				
– Statutory deposit reserves (a)	5,780,000	6,160,016	6,915,567	6,820,152
– Surplus deposit reserves (b)	1,902,407	3,621,882	6,206,238	3,485,673
– Fiscal deposits	<u>143,546</u>	<u>83,785</u>	<u>58,849</u>	<u>1,888</u>
Sub-total	<u>8,036,545</u>	<u>10,006,786</u>	<u>13,359,001</u>	<u>10,510,602</u>
Accrued interest	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,004</u>
Total	<u>8,036,545</u>	<u>10,006,786</u>	<u>13,359,001</u>	<u>10,513,606</u>

(a) Bank of Pingdingshan Group places statutory deposit reserves with the PBOC in accordance with relevant regulations. The statutory deposit reserves are not available for Bank of Pingdingshan's daily business. The subsidiaries of Bank of Pingdingshan are required to place statutory RMB deposits reserve at rates determined by the PBOC.

(b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

**16 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

Analyzed by type and location of counterparty

	At December 31,		At September 30,	
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits in mainland China				
– Banks	231,454	454,955	452,146	1,049,443
– Other financial institutions	–	–	–	9,645
	<u>231,454</u>	<u>454,955</u>	<u>452,146</u>	<u>1,059,088</u>
Total	231,454	454,955	452,146	1,059,088
Accrued interest	468	55	44	22
Less: Provision for impairment losses	(24)	(39)	(50)	(40)
	<u>(24)</u>	<u>(39)</u>	<u>(50)</u>	<u>(40)</u>
Net carrying amount	<u>231,898</u>	<u>454,971</u>	<u>452,140</u>	<u>1,059,070</u>

**17 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

Analyzed by type and location of counterparty

	At December 31,		At September 30,	
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Placements in mainland China				
– Banks	–	4,250,000	100,000	700,000
– Other financial institutions	–	900,000	300,000	200,000
	<u>–</u>	<u>5,150,000</u>	<u>400,000</u>	<u>900,000</u>
Total	–	5,150,000	400,000	900,000
Accrued interest	–	30,832	5,191	3,048
Less: Provision for impairment losses	–	(4)	(37)	(203)
	<u>–</u>	<u>(4)</u>	<u>(37)</u>	<u>(203)</u>
Net carrying amount	<u>–</u>	<u>5,180,828</u>	<u>405,154</u>	<u>902,845</u>

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### 18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

#### (a) Analyzed by type and location of counterparty

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
In mainland China				
– Banks	2,607,164	2,477,220	290,000	–
– Other financial institutions	–	–	300,000	–
Total	2,607,164	2,477,220	590,000	–
Accrued interest	1,907	118	1,323	–
Less: Provision for impairment losses	(242)	(229)	(55)	–
Net carrying amount	2,608,829	2,477,109	591,268	–

#### (b) Analyzed by type of security held

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Debt securities	2,607,164	2,477,220	590,000	–
Accrued interest	1,907	118	1,323	–
Less: Provision for impairment losses	(242)	(229)	(55)	–
Net carrying amount	2,608,829	2,477,109	591,268	–

### 19 LOANS AND ADVANCES TO CUSTOMERS

#### (a) Analyzed by nature

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Loans and advances to customers measured at amortised cost				
Corporate loans and advances	27,558,859	35,364,404	42,197,511	48,240,505
Personal loans and advances				
– Residential mortgage	1,165,304	3,346,515	4,282,696	4,614,012
– Personal consumption loans	760,881	1,781,557	5,369,258	4,579,421
– Personal business loans	2,978,156	3,543,478	3,782,115	4,182,677
– Others	81,431	81,924	67,834	46,771
Sub-total	4,985,772	8,753,474	13,501,903	13,422,881
Accrued interest	96,735	200,324	342,356	381,536

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Less: Provision for loans and advances to customers measured at amortised cost	(4,571,727)	(4,554,387)	(4,673,461)	(4,401,932)
Sub-total	28,069,639	39,763,815	51,368,309	57,642,990
Loans and advances to customers measured at fair value through other comprehensive income				
Discounted bills	4,542,304	5,527,596	4,835,404	7,045,233
Sub-total	4,542,304	5,527,596	4,835,404	7,045,233
Net loans and advances to customers	32,611,943	45,291,411	56,203,713	64,688,223

**(b) Analyzed by economic sector**

	At December 31, 2018		Loans and advances secured by collaterals
	Amount	Percentage	
Renting and business activities	1,522,960	4.11%	669,010
Manufacturing	8,598,793	23.19%	1,255,425
Real estate	1,958,875	5.28%	1,349,875
Wholesale and retail trade	5,592,718	15.08%	2,605,206
Construction	3,878,168	10.46%	1,071,690
Water, environment and public utility	2,161,400	5.83%	188,550
Production and supply of electric power, gas and water	520,000	1.40%	20,000
Agriculture, forestry, animal husbandry and fishery	872,773	2.35%	162,790
Education	347,150	0.94%	170,050
Accommodation and catering	183,772	0.50%	94,772
Transportation, storage and postal services	410,490	1.11%	65,990
Mining	369,000	0.99%	—
Others	1,142,760	3.08%	360,670
Sub-total of corporate loans and advances	27,558,859	74.32%	8,014,028
Personal loans and advances	4,985,772	13.44%	3,563,386
Discounted bills	4,542,304	12.24%	4,542,304
Gross loans and advances to customers	37,086,935	100.00%	16,119,718

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

At December 31, 2019			Loans and advances secured by collaterals
	Amount	Percentage	
Renting and business activities	1,810,490	3.65%	806,540
Manufacturing	8,825,384	17.78%	1,461,821
Real estate	2,777,248	5.59%	2,250,268
Wholesale and retail trade	8,114,681	16.35%	4,175,839
Construction	4,960,322	9.99%	1,806,720
Water, environment and public utility	2,955,146	5.95%	302,000
Production and supply of electric power, gas and water	680,642	1.37%	2,450
Agriculture, forestry, animal husbandry and fishery	1,413,451	2.85%	507,889
Education	492,524	0.99%	169,534
Accommodation and catering	350,302	0.71%	293,902
Transportation, storage and postal services	497,828	1.00%	57,828
Mining	591,026	1.19%	—
Others	1,895,360	3.82%	351,170
Sub-total of corporate loans and advances	35,364,404	71.24%	12,185,961
Personal loans and advances	8,753,474	17.63%	6,380,095
Discounted bills	5,527,596	11.13%	5,527,596
Gross loans and advances to customers	49,645,474	100.00%	24,093,652

At December 31, 2020			Loans and advances secured by collaterals
	Amount	Percentage	
Renting and business activities	3,356,541	5.54%	2,213,188
Manufacturing	9,488,773	15.67%	1,595,050
Real estate	1,554,356	2.57%	1,267,272
Wholesale and retail trade	11,277,050	18.63%	4,766,691
Construction	6,266,929	10.35%	2,260,328
Water, environment and public utility	2,812,996	4.65%	417,400
Production and supply of electric power, gas and water	1,549,794	2.56%	32,450
Agriculture, forestry, animal husbandry and fishery	1,107,718	1.83%	339,119
Education	682,460	1.13%	173,490
Accommodation and catering	280,128	0.46%	246,429
Transportation, storage and postal services	875,562	1.45%	153,062
Mining	1,021,587	1.69%	9,500
Others	1,923,617	3.18%	431,739
Sub-total of corporate loans and advances	42,197,511	69.71%	13,905,718
Personal loans and advances	13,501,903	22.30%	7,169,286
Discounted bills	4,835,404	7.99%	4,835,404
Gross loans and advances to customers	60,534,818	100.00%	25,910,408

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

At September 30, 2021			Loans and advances secured by collaterals
	Amount	Percentage	
Renting and business activities	2,637,003	3.84%	1,915,370
Manufacturing	9,057,759	13.18%	1,354,693
Real estate	1,410,934	2.05%	987,904
Wholesale and retail trade	15,327,807	22.31%	4,432,002
Construction	8,201,303	11.94%	2,833,920
Water, environment and public utility	2,736,331	3.98%	369,685
Production and supply of electric power, gas and water	2,273,987	3.31%	252,450
Agriculture, forestry, animal husbandry and fishery	969,214	1.41%	361,419
Education	635,910	0.93%	102,090
Accommodation and catering	267,729	0.39%	244,739
Transportation, storage and postal services	620,588	0.90%	161,288
Mining	1,385,130	2.02%	66,500
Others	2,716,810	3.95%	863,754
Sub-total of corporate loans and advances	48,240,505	70.21%	13,945,814
Personal loans and advances	13,422,881	19.54%	7,695,162
Discounted bills	7,045,233	10.25%	7,045,233
Gross loans and advances to customers	68,708,619	100.00%	28,686,209

(c) **Analysed by type of collateral**

	At December 31,			At September 30,
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Unsecured loans	3,557,812	6,097,024	11,220,357	12,051,549
Guaranteed loans	17,409,405	19,454,798	23,404,052	27,970,861
Collateralised	8,403,902	13,023,834	15,414,234	15,830,882
Pledged	7,715,816	11,069,818	10,496,175	12,855,327
Gross loans and advances to customers	37,086,935	49,645,474	60,534,818	68,708,619
Accrued interest	96,735	200,324	342,356	381,536
Less: Provision for loans and advances to customers measured at amortised cost	(4,571,727)	(4,554,387)	(4,673,461)	(4,401,932)
Net loans and advances to customers	32,611,943	45,291,411	56,203,713	64,688,223

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### (d) Overdue loans analyzed by overdue period

At December 31, 2018					
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	9,851	556	1,067	–	11,474
Guaranteed loans	140,258	41,279	61,478	2,108	245,123
Collateralised	82,466	17,503	2,164	597	102,730
Pledged	1,388	–	–	–	1,388
Total	233,963	59,338	64,709	2,705	360,715
As a percentage of gross loans and advances to customers	0.63%	0.16%	0.17%	0.01%	0.97%
At December 31, 2019					
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	382,967	8,710	1,661	–	393,338
Guaranteed loans	352,378	372,263	412,344	1,740	1,138,725
Collateralised	154,155	228,698	150,459	2,171	535,483
Pledged	23,754	65,900	187,900	94,400	371,954
Total	913,254	675,571	752,364	98,311	2,439,500
As a percentage of gross loans and advances to customers	1.84%	1.36%	1.52%	0.20%	4.91%
At December 31, 2020					
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	162,086	143,909	51,850	–	357,845
Guaranteed loans	750,119	760,557	839,956	79,355	2,429,987
Collateralised	783,838	190,894	567,386	114,681	1,656,799
Pledged	138,908	226,200	157,415	128,250	650,773
Total	1,834,951	1,321,560	1,616,607	322,286	5,095,404
As a percentage of gross loans and advances to customers	3.03%	2.18%	2.67%	0.53%	8.41%

At September 30, 2021					
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	63,149	87,218	33,274	–	183,641
Guaranteed loans	693,138	479,134	320,539	58,587	1,551,398
Collateralised	347,458	115,044	72,736	97,375	632,613
Pledged	11,931	–	34,944	–	46,875
Total	<u>1,115,676</u>	<u>681,396</u>	<u>461,493</u>	<u>155,962</u>	<u>2,414,527</u>
As a percentage of gross loans and advances to customers	<u>1.62%</u>	<u>0.99%</u>	<u>0.67%</u>	<u>0.23%</u>	<u>3.51%</u>

Overdue loans represented loan, of which the whole or part of the principal or interest were overdue for one day or more.

(e) Loans and advances and provision for impairment losses

At December 31, 2018				
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	24,476,352	4,887,668	3,180,611	32,544,631
Accrued interest	37,414	28,615	30,706	96,735
Less: Provision for impairment losses	<u>(534,533)</u>	<u>(1,462,790)</u>	<u>(2,574,404)</u>	<u>(4,571,727)</u>
Carrying amount of loans and advances to customers measured at amortised cost	23,979,233	3,453,493	636,913	28,069,639
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	<u>4,542,304</u>	<u>–</u>	<u>–</u>	<u>4,542,304</u>
Total carrying amount of loans and advances to customers	<u>28,521,537</u>	<u>3,453,493</u>	<u>636,913</u>	<u>32,611,943</u>

**APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN**

	<b>At December 31, 2019</b>			
	<b>Loans and advances that are assessed for expected credit losses over the next 12 months</b>	<b>Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss</b>	<b>Credit-impaired loans and advances that are assessed for lifetime expected credit loss</b>	<b>Total</b>
Total loans and advances to customers measured at amortised cost	34,475,064	5,501,900	4,140,914	44,117,878
Accrued interest	113,279	60,454	26,591	200,324
Less: Provision for impairment losses	(536,593)	(1,244,085)	(2,773,709)	(4,554,387)
Carrying amount of loans and advances to customers measured at amortised cost	34,051,750	4,318,269	1,393,796	39,763,815
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	5,527,596	—	—	5,527,596
Total carrying amount of loans and advances to customers	39,579,346	4,318,269	1,393,796	45,291,411

	<b>At December 31, 2020</b>			
	<b>Loans and advances that are assessed for expected credit losses over the next 12 months</b>	<b>Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss</b>	<b>Credit-impaired loans and advances that are assessed for lifetime expected credit loss</b>	<b>Total</b>
Total loans and advances to customers measured at amortised cost	44,462,498	5,921,472	5,315,444	55,699,414
Accrued interest	163,756	138,160	40,440	342,356
Less: Provision for impairment losses	(767,399)	(1,253,132)	(2,652,930)	(4,673,461)
Carrying amount of loans and advances to customers measured at amortised cost	43,858,855	4,806,500	2,702,954	51,368,309
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	4,835,404	—	—	4,835,404
Total carrying amount of loans and advances to customers	48,694,259	4,806,500	2,702,954	56,203,713

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

	At September 30, 2021			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	50,280,919	5,333,662	6,048,805	61,663,386
Accrued interest	141,649	70,359	169,528	381,536
Less: Provision for impairment losses	(638,211)	(1,084,128)	(2,679,593)	(4,401,932)
Carrying amount of loans and advances to customers measured at amortised cost	49,784,357	4,319,893	3,538,740	57,642,990
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	7,045,233	–	–	7,045,233
Total carrying amount of loans and advances to customers	56,829,590	4,319,893	3,538,740	64,688,223

**(f) Movements of provision for impairment losses**

- (i) Movements of provision for impairment losses of loans and advances to customers measured at amortised cost:

	At December 31, 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	900,465	808,562	3,319,765	5,028,792
Transferred:				
– to expected credit losses over the next 12 months	39,548	(39,548)	–	–
– to lifetime expected credit losses: not credit-impaired loans	(1,456)	527,301	(525,845)	–
– to lifetime expected credit losses: credit-impaired loans	(4,791)	(165,586)	170,377	–
(Release)/Charge for the year	(399,233)	332,061	1,097,143	1,029,971
Recoveries	–	–	10,673	10,673
Write-offs	–	–	(1,497,709)	(1,497,709)
As at December 31	534,533	1,462,790	2,574,404	4,571,727

	At December 31, 2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	534,533	1,462,790	2,574,404	4,571,727
Transferred:				
– to expected credit losses over the next 12 months	101,067	(99,850)	(1,217)	–
– to lifetime expected credit losses: not credit-impaired loans	(16,397)	389,844	(373,447)	–
– to lifetime expected credit losses: credit-impaired loans	(141,503)	(526,680)	668,183	–
Charge/(Release) for the year	52,810	(12,974)	535,994	575,830
Recoveries	–	–	142,825	142,825
Write-offs/disposals	–	–	(998,258)	(998,258)
Acquisition of subsidiary	6,083	30,955	225,225	262,263
As at December 31	536,593	1,244,085	2,773,709	4,554,387

	At December 31, 2020			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	536,593	1,244,085	2,773,709	4,554,387
Transferred:				
– to expected credit losses over the next 12 months	577,784	(163,516)	(414,268)	–
– to lifetime expected credit losses: not credit-impaired loans	(46,169)	271,469	(225,300)	–
– to lifetime expected credit losses: credit-impaired loans	(59,420)	(611,848)	671,268	–
(Release)/Charge for the year	(241,389)	512,942	600,205	871,758
Recoveries	–	–	151,573	151,573
Write-offs/disposals	–	–	(904,257)	(904,257)
As at December 31	767,399	1,253,132	2,652,930	4,673,461

	At September 30, 2021			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	767,399	1,253,132	2,652,930	4,673,461
Transferred:				
– to expected credit losses over the next 12 months	611,479	(99,623)	(511,856)	–
– to lifetime expected credit losses: not credit-impaired loans	(27,398)	190,571	(163,173)	–
– to lifetime expected credit losses: credit-impaired loans	(24,407)	(543,525)	567,932	–
(Release)/Charge for the period	(688,862)	283,573	1,088,319	683,030
Recoveries	–	–	133,233	133,233
Write-offs/disposals	–	–	(1,087,792)	(1,087,792)
As at September 30	<u>638,211</u>	<u>1,084,128</u>	<u>2,679,593</u>	<u>4,401,932</u>

- (ii) Movements of provision for impairment of loans and advances to customers measured at fair value through other comprehensive income:

	At December 31, 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	–	–	–	–
Charge for the year	<u>975</u>	<u>–</u>	<u>–</u>	<u>975</u>
As at December 31	<u>975</u>	<u>–</u>	<u>–</u>	<u>975</u>

	At December 31, 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	975	–	–	975
Charge for the year	<u>212</u>	<u>–</u>	<u>–</u>	<u>212</u>
As at December 31	<u>1,187</u>	<u>–</u>	<u>–</u>	<u>1,187</u>

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

	At December 31, 2020			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	1,187	–	–	1,187
Release for the year	(151)	–	–	(151)
As at December 31	<u>1,036</u>	<u>–</u>	<u>–</u>	<u>1,036</u>

	At September 30, 2021			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	1,036	–	–	1,036
Charge for the period	443	–	–	443
As at September 30	<u>1,479</u>	<u>–</u>	<u>–</u>	<u>1,479</u>

### 20 FINANCIAL INVESTMENTS

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Financial investments at fair value through profit or loss	(a)	7,123,011	8,362,189	7,237,914	9,608,296
Financial investments at fair value through other comprehensive income	(b)	985,012	6,686,740	10,009,318	3,978,718
Financial investments at amortised cost	(c)	<u>13,486,156</u>	<u>16,294,267</u>	<u>17,655,768</u>	<u>19,247,035</u>
Total		<u>21,594,179</u>	<u>31,343,196</u>	<u>34,903,000</u>	<u>32,834,049</u>

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

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

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Debt securities	(i)				
– Government		–	–	–	144,251
– Policy banks		–	–	–	1,921,700
– Banks and other financial institutions		–	–	–	–
– Corporate		–	–	–	331,847
		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Sub-total		–	–	–	2,397,798
		-----	-----	-----	-----
Listed		–	–	–	373,922
Unlisted		–	–	–	2,023,876
		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Sub-total		–	–	–	2,397,798
		-----	-----	-----	-----
Wealth management products issued by financial institutions		2,636,419	521,006	–	–
Investment management products managed by securities companies		303,416	6,323,047	6,290,184	6,247,550
Investment fund managed by public fund manager		–	79,752	101,370	103,080
Investment management products under trust scheme		4,183,176	1,438,384	846,360	859,868
		<u>4,183,176</u>	<u>1,438,384</u>	<u>846,360</u>	<u>859,868</u>
Total		<u>7,123,011</u>	<u>8,362,189</u>	<u>7,237,914</u>	<u>9,608,296</u>

- (i) As at the Relevant Periods, certain debt securities were pledged for repurchase agreements (Note 25). No other investment was subject to material restrictions in the realization.

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

**(b) Financial investments at fair value through other comprehensive income**

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Debt securities	(i)				
– Government		–	1,143,648	6,657,953	2,163,669
– Policy banks		–	499,816	2,123,068	980,740
– Banks and other financial institutions		–	4,802,742	772,501	541,137
– Corporate		946,359	204,158	287,778	233,323
Sub-total		946,359	6,650,364	9,841,300	3,918,869
Listed		–	90,657	6,359,326	2,245,462
Unlisted		946,359	6,559,707	3,481,974	1,673,407
Sub-total		946,359	6,650,364	9,841,300	3,918,869
Accrued interest		38,653	36,376	168,018	59,849
Total		985,012	6,686,740	10,009,318	3,978,718

- (i) As at the Relevant Periods, certain debt securities were pledged for repurchase agreements (Note 25). No other investment was subject to material restrictions in the realization.
- (ii) Bank of Pingdingshan Group designates non-trading equity investments as financial investments at fair value through other comprehensive income. Bank of Pingdingshan Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earnings during the Relevant Periods.
- (iii) Movements of provision for impairment of financial investments at fair value through other comprehensive income are as follows:

	At December 31, 2018			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Balance at January 1	–	–	82,809	82,809
Charge/(release)for the year	208	–	(22,835)	(22,627)
Balance at December 31	208	–	59,974	60,182

	At December 31, 2019			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit- impaired	Lifetime expected credit losses: credit- impaired	Total
Balance at January 1	208	–	59,974	60,182
Charge/(release) for the year	6,052	–	(59,974)	(53,922)
Balance at December 31	6,260	–	–	6,260

	At December 31, 2020			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit- impaired	Lifetime expected credit losses: credit- impaired	Total
Balance at January 1	6,260	–	–	6,260
(Release)/charge for the year	(5,143)	6,976	–	1,833
Balance at December 31	1,117	6,976	–	8,093

	At September 30, 2021			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit- impaired	Lifetime expected credit losses: credit- impaired	Total
Balance at January 1	1,117	6,976	–	8,093
Release for the period	(339)	(894)	–	(1,233)
Balance at September 30	778	6,082	–	6,860

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### (c) Financial investments at amortised cost

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Debt securities	(i)				
– Government		4,417,282	5,263,204	8,722,999	10,184,721
– Policy banks		2,573,969	1,771,189	59,959	60,334
– Banks and other financial institutions		–	200,000	–	–
– Corporate		–	–	114,921	400,000
Sub-total		6,991,251	7,234,393	8,897,879	10,645,055
Listed		179,443	1,174,560	539,629	9,979,721
Unlisted		6,811,808	6,059,833	8,358,250	665,334
Sub-total		6,991,251	7,234,393	8,897,879	10,645,055
Debt investment plans		–	–	–	100,000
Investment management products managed by securities companies		1,210,225	2,146,375	1,836,525	1,075,525
Investment management products managed by trust plans		5,786,004	7,592,959	7,696,559	7,510,559
Sub-total		6,996,229	9,739,334	9,533,084	8,686,084
Accrued interest		276,234	426,705	467,817	610,060
Less: Provision for impairment losses	(ii)	(777,558)	(1,106,165)	(1,243,012)	(694,164)
Total		13,486,156	16,294,267	17,655,768	19,247,035

(i) As at the Relevant Periods, certain debt securities were pledged for repurchase agreements (Note 25). No other investment was subject to material restrictions in the realization.

(ii) Movements of provision for impairment of financial investments at amortised cost are as follows:

	At December 31, 2018			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Balance at January 1	2,780	–	1,517,532	1,520,312
Transfers:				
– to lifetime expected credit losses: not credit-impaired	–	–	–	–
– to lifetime expected credit losses: credit-impaired	–	–	–	–
Charge/(Release) for the year	4,528	19,250	(766,532)	(742,754)
Balance at December 31	7,308	19,250	751,000	777,558

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

	At December 31, 2019			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Balance at January 1	7,308	19,250	751,000	777,558
Transfers:				
– to expected credit losses over the next 12 months	–	–	–	–
– to lifetime expected credit losses: credit-impaired	(113)	–	113	–
(Release)/Charge for the year	(5,541)	24,543	309,605	328,607
Balance at December 31	<u>1,654</u>	<u>43,793</u>	<u>1,060,718</u>	<u>1,106,165</u>
	At December 31, 2020			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Balance at January 1	1,654	43,793	1,060,718	1,106,165
Transfers:				
– to expected credit losses over the next 12 months	–	–	–	–
– to lifetime expected credit losses: credit-impaired	–	–	–	–
Charge for the year	1,167	38,278	97,402	136,847
Balance at December 31	<u>2,821</u>	<u>82,071</u>	<u>1,158,120</u>	<u>1,243,012</u>
	At September 30, 2021			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Balance at January 1	2,821	82,071	1,158,120	1,243,012
Transfers:				
– to expected credit losses over the next 12 months	–	–	–	–
– to lifetime expected credit losses: credit-impaired	(120)	–	120	–
Charge/(Release) for the period	5,084	(5,417)	(548,515)	(548,848)
Balance at September 30	<u>7,785</u>	<u>76,654</u>	<u>609,725</u>	<u>694,164</u>

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### 21 INVESTMENTS IN SUBSIDIARIES AND INTEREST IN JOINT VENTURE

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Interest in joint venture	(i)	35,753	—	—	—
Investment in subsidiary	(ii)	—	80,283	80,283	—

- (i) Before December 2, 2019, Jiaxian Guangtian County Bank Co., Ltd. is a joint venture in which Bank of Pingdingshan has joint control and a 24% ownership interest. Jiaxian Guangtian County Bank Co., Ltd. is not publicly listed.

Percentages of equity/voting rights%						
					Place of	Business
					incorporation/	sector
					registration	
Name	At December 31,	At December 31,	At December 31,	At September 30,		
	2018	2019	2020	2021		
Jiaxian Guangtian County Bank Co., Ltd.	24%	—	—	—	China	Banking

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

	2018	At December 31, 2019	2020	At September 30, 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Aggregate carrying amount of the joint venture in the consolidated statements of financial position of Bank of Pingdingshan		12,000	—	—
Aggregate amounts of Bank of Pingdingshan's share of results of the joint venture				
– Loss from continuing operations		(1,011)	—	—
– Other comprehensive income		—	—	—
– Total comprehensive income		(1,011)	—	—

- (ii) Investment in subsidiary

Percentages of equity/voting rights%						
					Place of	Business
					incorporation/	sector
					registration	
Name	At December 31,	At December 31,	At December 31,	At September 30,		
	2018	2019	2020	2021		
Jiaxian Guangtian County Bank Co., Ltd.	—	51.28%	51.28%	51.28%	China	Banking

On December 2, 2019, Bank of Pingdingshan acquired additional 27.28% of Jiaxian Guangtian County Bank Co., Ltd. and Jiaxian Guangtian County Bank Co., Ltd. become a subsidiary of Bank of Pingdingshan since then.

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### 22 PROPERTY AND EQUIPMENT

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
<b>Net book value</b>							
As at December 31, 2018	992,961	846	41,519	3,287	42,523	313,285	1,394,421
As at December 31, 2019	1,321,644	526	24,914	3,883	37,998	200,710	1,589,674
As at December 31, 2020	1,463,906	1,173	31,550	3,491	35,337	74,719	1,610,176
As at September 30, 2021	1,441,612	935	30,017	4,689	29,186	3,544	1,509,983

The carrying amount of the premises with incomplete title deeds as December 31, 2018, 2019, 2020 and September 30, 2021 was RMB97.56 million, RMB97.56 million, RMB97.56 million and RMB97.56 million. Bank of Pingdingshan Group is still in the progress of application for the outstanding title deeds for the above premises. The directors of Bank of Pingdingshan Group are of the opinion that there would be no significant cost in obtaining the title deeds.

The net book values of premises as at December 31/September 30 are analyzed by the remaining terms of the leases as follows:

	2018 RMB'000	At December 31, 2019 RMB'000	2020 RMB'000	At September 30, 2021 RMB'000
Held in mainland China				
– Medium-term leases (10 – 50 years)	969,653	1,302,141	1,384,362	1,376,212
– Short-term leases (less than 10 years)	23,308	19,503	79,544	65,400
<b>Total</b>	<b>992,961</b>	<b>1,321,644</b>	<b>1,463,906</b>	<b>1,441,612</b>

The net book value of investment properties as at December 31/September 30 are analyzed by the remaining terms of the leases as follows:

	2018 RMB'000	At December 31, 2019 RMB'000	2020 RMB'000	At September 30, 2021 RMB'000
Held in mainland China				
– Medium-term leases (10 – 50 years)	56,403	56,403	792,341	795,241
– Short-term leases (less than 10 years)	789,673	469,671	380,810	139,673
<b>Total</b>	<b>846,076</b>	<b>526,074</b>	<b>1,173,151</b>	<b>934,914</b>

**23 DEFERRED TAX ASSETS**

**(a) Analyzed by nature**

	2018		At December 31, 2019		2020		At September 30, 2021	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Deferred income tax assets:								
Allowance for impairment losses	5,035,064	1,258,766	5,960,444	1,490,111	7,155,568	1,788,892	6,078,232	1,519,558
Fair value changes of financial assets	171,628	42,907	77,164	19,291	296,188	74,047	1,305,612	326,403
Others	89,048	22,262	71,604	17,901	60,788	15,197	1,137,748	284,437
Net balances	<u>5,295,740</u>	<u>1,323,935</u>	<u>6,109,212</u>	<u>1,527,303</u>	<u>7,512,544</u>	<u>1,878,136</u>	<u>8,521,592</u>	<u>2,130,398</u>

**(b) Movements of deferred tax assets**

	<b>Net balance of deferred tax assets</b>
January 1, 2018	1,081,298
Recognized in profit or loss	239,654
Recognized in other comprehensive income	<u>2,983</u>
December 31, 2018	<u>1,323,935</u>
January 1, 2019	1,323,935
Recognized in profit or loss	214,342
Recognized in other comprehensive income	<u>(10,974)</u>
December 31, 2019	<u>1,527,303</u>
January 1, 2020	1,527,303
Recognized in profit or loss	333,269
Recognized in other comprehensive income	<u>17,564</u>
December 31, 2020	<u>1,878,136</u>
January 1, 2021	1,878,136
Recognized in profit or loss	228,833
Recognized in other comprehensive income	<u>23,429</u>
September 30, 2021	<u>2,130,398</u>

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### 24 OTHER ASSETS

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Intangible assets	(a)	92,023	84,618	83,041	91,889
Reposessed assets		41,020	134,266	144,465	36,052
Interests receivable		7,516	12,613	27,743	43,167
Right-of-use assets		98,548	104,733	98,684	105,852
Other receivables		748,344	666,536	867,071	1,609,144
Total		987,451	1,002,766	1,221,004	1,886,104

#### (a) Intangible assets

	Land use rights	Computer software	Total
<b>Net book value</b>			
As at September 30, 2021	25,875	66,014	91,889
As at December 31, 2020	29,482	53,559	83,041
As at December 31, 2019	30,348	54,270	84,618
As at December 31, 2018	31,214	60,809	92,023

### 25 PLEDGED ASSETS

#### Assets pledged as collateral

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
For repurchase agreements					
– Financial investments at fair value through profit or loss	20(a)	591,111	–	–	–
– Financial investments at fair value through other comprehensive income	20(b)	213,889	530,283	248,536	–
– Financial investments at amortised cost	20(c)	2,739,000	5,974,600	3,540,335	2,808,400
Total		3,544,000	6,504,883	3,788,871	2,808,400

Financial assets pledged by Bank of Pingdingshan Group as collaterals for liabilities which are for repurchase agreements.

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### 26 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analyzed by type and location of counterparty

	2018	At December 31, 2019	2020	At September 30, 2021
	RMB'000	RMB'000	RMB'000	RMB'000
In mainland China				
– Banks	581,660	1,061,085	230,270	1,263,232
– Other financial institutions	96	96	3,921	50,323
Sub-total	581,756	1,061,181	234,191	1,313,555
Accrued interest	7,039	13,471	3,355	15,891
Total	588,795	1,074,652	237,546	1,329,446

### 27 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018	At December 31, 2019	2020	At September 30, 2021
	RMB'000	RMB'000	RMB'000	RMB'000
In mainland China				
– Banks	–	4,335,970	1,598,167	2,697,000
– Other financial institutions	–	–	–	–
Sub-total	–	4,335,970	1,598,167	2,697,000
Outside mainland China	–	–	–	–
Sub-total	–	4,335,970	1,598,167	2,697,000
Accrued interest	–	21,514	9,059	34,976
Total	–	4,357,484	1,607,226	2,731,976

### 28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analyzed by type and location of counterparty

	2018	At December 31, 2019	2020	At September 30, 2021
	RMB'000	RMB'000	RMB'000	RMB'000
In mainland China				
– Banks	2,808,400	3,509,497	6,500,360	3,438,990
– Other financial institutions	–	28,500	–	–
Sub-total	2,808,400	3,537,997	6,500,360	3,438,990
Accrued interest	2,061	82	7,702	1,557
Total	2,810,461	3,538,079	6,508,062	3,440,547

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### (b) Analyzed by collateral

	<b>2018</b>	<b>At December 31, 2019</b>	<b>2020</b>	<b>At September 30, 2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Debt securities	2,808,400	3,537,997	6,500,360	3,438,990
Discounted bills	—	—	—	—
Sub-total	2,808,400	3,537,997	6,500,360	3,438,990
Accrued interest	2,061	82	7,702	1,557
Total	<u>2,810,461</u>	<u>3,538,079</u>	<u>6,508,062</u>	<u>3,440,547</u>

### 29 DEPOSITS FROM CUSTOMERS

	<b>2018</b>	<b>At December 31, 2019</b>	<b>2020</b>	<b>At September 30, 2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Demand deposits				
– Corporate customers	8,701,956	12,134,544	11,584,181	13,136,660
– Individual customers	6,108,313	5,150,661	4,647,325	6,137,869
Sub-total	<u>14,810,269</u>	<u>17,285,205</u>	<u>16,231,506</u>	<u>19,274,529</u>
Time deposits				
– Corporate customers	16,131,373	20,700,192	23,421,895	20,277,560
– Individual customers	12,125,253	22,804,678	34,484,144	38,723,683
Sub-total	<u>28,256,626</u>	<u>43,504,870</u>	<u>57,906,039</u>	<u>59,001,243</u>
Pledged deposits	<u>11,961,809</u>	<u>14,922,286</u>	<u>15,050,010</u>	<u>11,978,123</u>
Inward and outward remittances	<u>85,473</u>	<u>126,536</u>	<u>459,097</u>	<u>393,018</u>
Sub-total	55,114,177	75,838,897	89,646,652	90,646,913
Accrued interest	980,336	1,319,585	1,202,438	1,174,540
Total	<u>56,094,513</u>	<u>77,158,482</u>	<u>90,849,090</u>	<u>91,821,453</u>

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### 30 DEBT SECURITIES ISSUED

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Interbank deposits issued	4,048,437	6,461,742	3,663,511	7,457,025

### 31 OTHER LIABILITIES

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Accrued staff cost	(a)	284,470	343,369	415,909	271,434
Lease liabilities		93,409	102,833	98,973	95,104
Dividend payable		4,712	1,213	1,211	44
Provisions		226,403	256,628	190,550	102,944
Other payable		145,209	258,852	314,624	195,668
Total		<u>754,203</u>	<u>962,895</u>	<u>1,021,267</u>	<u>665,194</u>

#### (a) Accrued staff cost

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Salary, bonuses and allowances payable		101,031	161,097	234,289	97,819
Labor union fee, staff and workers' education fee		2,108	3,198	4,338	1,729
Supplementary retirement benefits payable	(i)	180,976	178,661	176,568	168,159
Social insurance payable		317	308	418	1,305
Housing allowances payable		38	105	296	2,422
Total		<u>284,470</u>	<u>343,369</u>	<u>415,909</u>	<u>271,434</u>

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### (i) Supplementary retirement benefits

The supplementary retirement benefits of Bank of Pingdingshan include early retirement plan and supplementary retirement plan. The early retirement benefits is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to Bank of Pingdingshan employees. Principal actuarial assumptions of Bank of Pingdingshan Group are as follows:

Employee	At December 31,		2020	At
	2018	2019		September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
<b>Early retirement plan</b>				
Discount rate	3%	3%	3%	2.50%
Annual increase rate of internal salary	4.50%	4.50%	4.50%	4.50%
<b>Supplementary retirement plan</b>				
Discount rate	3.50%	3.50%	3.50%	3.25%

### 32 SHARE CAPITAL

Share capital of Bank of Pingdingshan Group as at December 31, 2018, 2019, 2020 and September 30, 2021 represented share capital of Bank of Pingdingshan, which is fully paid.

	At December 31,		2020	At
	2018	2019		September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Number of shares authorised, issued and fully paid at par value of RMB1 each	3,393,375	3,393,375	3,732,712	4,105,983

### 33 RESERVES

#### (a) Capital reserve

	At December 31,		2020	At
	2018	2019		September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Share premium	2,392,151	2,392,151	2,052,814	1,679,543
Others	619	619	619	619
Total	2,392,770	2,392,770	2,053,433	1,680,162

#### (b) Surplus reserve

The surplus reserve at the end of Relevant Periods represented statutory surplus reserve fund and discretionary surplus reserve fund. Pursuant to the Company Law of the PRC and the Article of Association of Bank of Pingdingshan, Bank of Pingdingshan is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

Bank of Pingdingshan may also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

### (c) General reserve

Pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)” issued by the Ministry of Finance, Bank of Pingdingshan is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The balance of the general reserve of Bank of Pingdingshan amounted to RMB1,100 million, RMB1,100 million, RMB1,100 million and RMB1,100 million as at December 31, 2018, 2019 and 2020 and September 30, 2021, respectively.

### (d) Other reserves

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Investment revaluation reserve	(i)	(43,726)	(10,803)	(63,495)	(133,781)
Impairment reserve	(ii)	61,157	7,447	9,129	16,432
Deficit on remeasurement of net defined benefit liability	(iii)	(5,330)	(10,440)	(15,550)	(19,310)
Total		<u>12,101</u>	<u>(13,796)</u>	<u>(69,916)</u>	<u>(136,659)</u>

#### (i) Investment revaluation reserve

		At December 31,			At
		2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
As at January 1		(34,777)	(43,726)	(10,803)	(63,495)
Changes in fair value recognised in other comprehensive income		(11,932)	43,425	(68,891)	(131,993)
Transfer to profit or loss upon disposal		–	472	(1,365)	38,277
Less: deferred income tax		<u>2,983</u>	<u>(10,974)</u>	<u>17,564</u>	<u>23,430</u>
Total		<u>(43,726)</u>	<u>(10,803)</u>	<u>(63,495)</u>	<u>(133,781)</u>

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### (ii) Impairment reserve

	At December 31,			At September 30,
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1	–	61,157	7,447	9,129
Impairment losses recognized in other comprehensive income	61,157	(53,710)	1,682	7,303
Total	61,157	7,447	9,129	16,432

### (iii) Deficit on remeasurement of net defined benefit liability

Deficit on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

	At December 31,			At September 30,
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1	–	5,330	10,440	15,550
Changes in fair value recognised in other comprehensive income	5,330	5,110	5,110	3,760
Total	5,330	10,440	15,550	19,310

## 34 OTHER EQUITY INSTRUMENTS

Perpetual bonds outstanding at the end of the year:

Financial instrument outstanding	Time issued	Classifications	Dividend yield ratio/Interest rate	Issue price	Quantities	In original currency million	In RMB million	Maturity	Conversion conditions
Perpetual bonds	December 4, 2020	Equity	4.8%	RMB100	10,000,000	1,000	1,000	N/A	N/A
Perpetual bonds	June 29, 2021	Equity	4.8%	RMB100	10,000,000	1,000	1,000	N/A	N/A
Book value							2,000		

## 35 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

### (a) Structured entities sponsored by third party institutions in which Bank of Pingdingshan Group holds an interest

Bank of Pingdingshan Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts of interests held by Bank of Pingdingshan Group in unconsolidated structured entities, as well as an analysis of the line items in the consolidated statements of financial position in which relevant assets are recognized as at as at 31 December 2018, 2019, 2020 and 30 September 2021:

	At 31 December 2018		At 31 December 2019		At 31 December 2020		At 30 September 2021	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial investments at amortised cost	6,996,229	6,996,229	9,739,334	9,739,334	9,533,084	9,533,084	8,686,084	8,686,084

As at 31 December 2018, 2019, 2020 and 30 September 2021, the carrying amounts of the unconsolidated structured entities are equal to the maximum exposures.

**(b) Structured entities sponsored by Bank of Pingdingshan Group which Bank of Pingdingshan Group does not consolidate but holds an interest in**

The types of unconsolidated structured entities sponsored by Bank of Pingdingshan Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by Bank of Pingdingshan Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2018, 2019, 2020 and 30 September 2021, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at 31 December 2018, 2019, 2020 and 30 September 2021, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by Bank of Pingdingshan Group, are RMB609.06 million, RMB687.60 million, RMB2,135.13 million and RMB3,723.61 million, respectively.

### 36 CAPITAL MANAGEMENT

Bank of Pingdingshan Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. Bank of Pingdingshan Group calculates the capital adequacy ratio in accordance with guidelines issued by the former CBRC. The capital of Bank of Pingdingshan Group is divided into core tier-one capital, other tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of Bank of Pingdingshan Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

Bank of Pingdingshan Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

Bank of Pingdingshan Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the former CBRC.

The former CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

The capital adequacy ratios and related components of Bank of Pingdingshan Group illustrated below are computed based on Bank of Pingdingshan Group's statutory Historical Financial Information prepared in accordance with PRC GAAP.

Bank of Pingdingshan Group's capital adequacy ratios submitted to CBIRC as at 30 September 2021 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

Core tier-one capital adequacy ratio	9.52%
Tier-one capital adequacy ratio	11.58%
Capital adequacy ratio	12.95%

### 37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Net (decrease)/increase in cash and cash equivalents

	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
Cash and cash equivalents as at December 31/ September 30	4,851,355	11,744,891	7,626,596	12,402,347	5,547,412
Less: Cash and cash equivalents as at January 1	6,564,726	4,851,355	11,744,891	11,744,891	7,626,596
Net (decrease)/increase in cash and cash equivalents	<u>(1,713,371)</u>	<u>6,893,536</u>	<u>(4,118,295)</u>	<u>657,456</u>	<u>(2,079,184)</u>

#### (b) Cash and cash equivalents

	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
Cash on hand	210,592	141,103	178,347	184,077	202,889
Deposits with the central bank	1,902,407	3,621,882	6,206,238	10,328,544	3,485,673
Deposits with banks and other financial institutions	131,434	354,920	252,103	1,099,726	959,052
Financial assets held under resale agreements	2,606,922	2,476,991	589,945	—	—
Placements with banks and other financial institutions	—	5,149,995	399,963	790,000	899,798
Total	<u>4,851,355</u>	<u>11,744,891</u>	<u>7,626,596</u>	<u>12,402,347</u>	<u>5,547,412</u>

**38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS**

**(a) Relationship of related parties:**

**(i) Major shareholders**

Major shareholders include shareholders of Bank of Pingdingshan with direct or indirect 5% or above shareholding, or with the right to appoint a director in the Bank of Pingdingshan.

Shareholding in Bank of Pingdingshan:

	Years ended December 31,			Nine months ended	
	2018	2019	2020	September 30,	2021
				2020	
				(unaudited)	
Pingdingshan Development & Investment Holding Group Co Ltd.	9.72%	9.72%	9.72%	9.72%	9.72%
Zhengzhou Dafang Heavy Industry Machinery Co., Ltd.	8.54%	8.54%	8.54%	8.54%	8.54%
Nanlan High Speed Co., Ltd.	8.12%	8.12%	8.12%	8.12%	8.12%
Xiamen Quanshun Group Luoyang Real Estate Co., Ltd.	6.14%	6.14%	6.14%	6.14%	6.14%

**(ii) Subsidiaries and joint venture of Bank of Pingdingshan**

The detailed information of Bank of Pingdingshan's subsidiaries and joint venture are set out in Note 21.

**(iii) Other related parties**

Other related parties can be individuals or enterprises, which include: members of the board of directors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of Bank of Pingdingshan as set out in Note 38(a) or their controlling shareholders.

**(b) Related party transactions and balances:**

**(i) Transactions between Bank of Pingdingshan and major shareholders:**

	Years ended December 31,			Nine months ended	
	2018	2019	2020	September 30,	2021
	RMB'000	RMB'000	RMB'000	2020	RMB'000
				(unaudited)	
Transactions during the year/period:					
Interest income	42,060	54,046	40,425	31,094	29,621
Interest expense	1,806	2,760	2,691	2,267	559

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

	At 31 December,			At 30 September
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Balances at end of the year/period				
Loans and advances to customers	870,000	600,000	600,000	600,000
Interests receivable	1,940	1,392	1,305	1,186
Deposits from customers	54,727	288,639	65,311	130,448
Interests payable	1,409	171	15	59

*(ii) Transactions between Bank of Pingdingshan and subsidiaries:*

The subsidiary of Bank of Pingdingshan are its related party. The transactions between Bank of Pingdingshan and its subsidiary are eliminated on combination and therefore are not disclosed in this note.

*(iii) Transactions between Bank of Pingdingshan and other related parties and joint venture:*

	Years ended December 31,			Nine months ended September 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Transactions during the year/period:				(unaudited)	
Interest income	51,270	67,929	86,811	10,812	75,501
Interest expense	7,533	13,021	15,407	2,846	19,683

	At 31 December			At 30 September
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Balances at end of the year/period:				
Loans and advances to customers	937,403	1,133,358	1,299,572	1,856,093
Deposits from customers	585,782	903,050	1,186,638	1,862,393

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### (c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of Bank of Pingdingshan Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

#### (i) Transactions between Bank of Pingdingshan and key management personnel

	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
Transactions during the year/period:					
Interest income	72	105	35	35	–
Interest expense	9	39	325	236	256
		At 31 December			At
		2018	2019	2020	30 September 2021
Balances at end of the year/period					
Loans and advances to customers		1,510	2,426	2,426	–
Deposits from customers		2,551	4,950	11,376	8,693

#### (ii) Key management personnel compensation

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

	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
Key management personnel compensation	7,014	32,282	32,559	14,699	15,157

**(d) Loans and advances to directors, supervisors and officers**

Loans and advances to directors, supervisors and officers of Bank of Pingdingshan Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	Years ended December 31,			Nine months ended
	2018	2019	2020	September 30, 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Aggregate amount of relevant loans outstanding at the end of the year/period	1,510	2,426	–	–
Maximum aggregate amount of relevant loans outstanding during the year/period	–	1,000	–	–

There was no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at December 31, 2018, 2019, 2020 and September 30, 2021.

**39 SEGMENT REPORTING**

Since Bank of Pingdingshan Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is Henan Province, PRC. Therefore, no analysis by geographical regions is presented.

**40 RISK MANAGEMENT**

Bank of Pingdingshan Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about Bank of Pingdingshan Group's exposure to each of the above risks and their sources, and Bank of Pingdingshan Group's objectives, policies and procedures for measuring and managing these risks.

Bank of Pingdingshan Group's risk management policies were established to identify and analyze the risks to which Bank of Pingdingshan Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and Bank of Pingdingshan Group's activities. The Internal Audit Department of Bank of Pingdingshan Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

**(a) Credit risk**

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to Bank of Pingdingshan Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

***Credit business***

The board of directors is responsible for setting Bank of Pingdingshan Group's risk management strategy and the overall risk tolerance level. The board also monitors Bank of Pingdingshan Group's risk management process and regularly assesses Bank of Pingdingshan Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The responsible departments for credit risk management include the Credit Approval Department, Credit Management

Department, and Risk Management Department. The Risk Management Department is responsible for implementing Bank of Pingdingshan Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments of branches carry out credit businesses according to Bank of Pingdingshan Group's risk management policies and procedures.

Bank of Pingdingshan Group continuously improves the internal control mechanism and strengthens the management of the credit business. Bank of Pingdingshan Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, Bank of Pingdingshan Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. Bank of Pingdingshan Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, Bank of Pingdingshan Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, Bank of Pingdingshan Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. Bank of Pingdingshan Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, Bank of Pingdingshan Group starts the recovery process according to standardized loan recovery procedures.

Bank of Pingdingshan Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

#### ***Financial markets business***

Bank of Pingdingshan Group sets credit limits for financial markets business operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

#### ***Credit risk management***

The financial assets are categorised by Bank of Pingdingshan Group into the following stages to manage its financial assets' credit risk:

##### *Stage 1*

Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

##### *Stage 2*

Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

##### *Stage 3*

Financial assets that are in default and considered credit-impaired.

Significant increase in credit risk

When one or more quantitative, qualitative standards or upper limits are triggered, Bank of Pingdingshan Group assumes that credit risk on financial assets has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

- The credit spread increases significantly;
- Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status;
- Application of a grace period or debt-restructuring;
- Significant changes with an adverse effect in the borrower's business conditions;
- Less value of the collaterals (for the collateral loans and pledged loans only);
- Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans;
- The borrower is more than 30 days past due.

Bank of Pingdingshan Group uses watch lists to monitor credit risk of financial assets related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

As at December 31, 2018, 2019, 2020 and September 30, 2021, Bank of Pingdingshan Group has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

Definition of "default" and "credit-impaired assets"

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

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- the disappearance of an active market for a security because of financial difficulties of the issuer; or
- overdue more than 90 days.

The above criteria apply to all financial assets of Bank of Pingdingshan Group and they are consistent with the definition of "default" adopted by the internal management of credit risk.

#### Measurement of expected credit losses ("ECL")

Bank of Pingdingshan Group adopts ECL model to measures provision for loss of financial assets based on the stages categorised above.

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

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;
- EAD is the amount that Bank of Pingdingshan Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;
- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by Bank of Pingdingshan Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

Bank of Pingdingshan Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. Bank of Pingdingshan Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, Bank of Pingdingshan Group can calculate the ECL for the future months. The results of calculation for each month are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

Bank of Pingdingshan Group quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

Both the assessment of the significant increase in credit risk and the measurement of ECL involve forward-looking information. Based on the analysis on historical data, Bank of Pingdingshan Group identified critical economic indicators that affect the credit risk and ECL of all asset portfolios, including GDP, industrial added value, CPI, etc.

There has been no significant change in the valuation techniques and key assumptions during the Relevant Periods.

#### Assessing credit risk of financial assets after the amendment of contractual cash flows

In order to achieve maximum collection, Bank of Pingdingshan Group may modify the contractual terms of loans due to business negotiations or financial difficulties of the borrowers at times.

Such rescheduling activities include extended payment term arrangements, payment holidays and payment forgiveness. Rescheduling policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. The restructuring of loans is most common in the management of medium and long-term loans. The risk stage can only be adjusted lower if the rescheduled loans are reviewed for at least 6 consecutive months and the corresponding stage classification criteria is reached.

The credit risk is represented by each type of financial assets as at the end of each Relevant Periods.

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

(i) Financial assets (exclusive interests accrued) analysed by credit quality

	At December 31, 2018							
	Assessed for expected credit losses over the next 12 months	Balance Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss	Total	Assessed for expected credit losses over the next 12 months	Provision for impairment losses Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss	Total
<u>Financial assets measured at amortised cost</u>								
Cash and deposits with the central bank	8,036,545	–	–	8,036,545	–	–	–	–
Deposits with banks and other financial institutions	231,454	–	–	231,454	(24)	–	–	(24)
Placements with banks and other financial institutions	–	–	–	–	–	–	–	–
Financial assets held under resale agreements	2,607,164	–	–	2,607,164	(242)	–	–	(242)
Loans and advances to customers	24,476,352	4,887,668	3,180,611	32,544,631	(534,533)	(1,462,790)	(2,574,404)	(4,571,727)
Financial investments – Debt securities	6,991,251	–	–	6,991,251	(1,258)	–	–	(1,258)
– Other financial investments	3,380,270	200,000	3,415,959	6,996,229	(6,050)	(19,250)	(751,000)	(776,300)
<b>Total</b>	<b>45,723,036</b>	<b>5,087,668</b>	<b>6,596,570</b>	<b>57,407,274</b>	<b>(542,107)</b>	<b>(1,482,040)</b>	<b>(3,325,404)</b>	<b>(5,349,551)</b>
<u>Financial assets at fair value through other comprehensive income</u>								
Loans and advances to customers	4,542,304	–	–	4,542,304	(975)	–	–	(975)
Financial investments – Debt securities	890,902	–	55,457	946,359	(208)	–	(59,974)	(60,182)
<b>Total</b>	<b>5,433,206</b>	<b>–</b>	<b>55,457</b>	<b>5,488,663</b>	<b>(1,183)</b>	<b>–</b>	<b>(59,974)</b>	<b>(61,157)</b>
<b>Credit commitments</b>	<b>31,482,135</b>	<b>2,288,593</b>	<b>80,106</b>	<b>33,850,834</b>	<b>(27,500)</b>	<b>(182,863)</b>	<b>(16,040)</b>	<b>(226,403)</b>

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

At December 31, 2019								
	Balance			Total	Provision for impairment losses			Total
	Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss		Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss	
<u>Financial assets measured at amortised cost</u>								
Cash and deposits								
with the central bank	10,006,786	–	–	10,006,786	–	–	–	–
Deposits with banks and other financial institutions	454,955	–	–	454,955	(39)	–	–	(39)
Placements with banks and other financial institutions	5,150,000	–	–	5,150,000	(4)	–	–	(4)
Financial assets held under resale agreements	2,477,220	–	–	2,477,220	(229)	–	–	(229)
Loans and advances to customers	34,475,064	5,501,900	4,140,914	44,117,878	(536,593)	(1,244,085)	(2,773,709)	(4,554,387)
Financial investments								
– Debt securities	7,234,393	–	–	7,234,393	(1,309)	–	–	(1,309)
– Other financial investments	5,618,375	650,000	3,470,959	9,739,334	(345)	(43,793)	(1,060,718)	(1,104,856)
Total	<u>65,416,793</u>	<u>6,151,900</u>	<u>7,611,873</u>	<u>79,180,566</u>	<u>(538,519)</u>	<u>(1,287,878)</u>	<u>(3,834,427)</u>	<u>(5,660,824)</u>
<u>Financial assets at fair value through other comprehensive income</u>								
Loans and advances to customers	5,527,596	–	–	5,527,596	(1,187)	–	–	(1,187)
Financial investments								
– Debt securities	6,650,364	–	–	6,650,364	(6,260)	–	–	(6,260)
Total	<u>12,177,960</u>	<u>–</u>	<u>–</u>	<u>12,177,960</u>	<u>(7,447)</u>	<u>–</u>	<u>–</u>	<u>(7,447)</u>
Credit commitments	<u>34,204,950</u>	<u>2,561,115</u>	<u>80,272</u>	<u>36,846,337</u>	<u>(27,888)</u>	<u>(212,638)</u>	<u>(16,102)</u>	<u>(256,628)</u>

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

At December 31, 2020								
	Balance			Total	Provision for impairment losses			Total
	Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss		Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss	
<u>Financial assets measured at amortised cost</u>								
Cash and deposits								
with the central bank	13,359,001	–	–	13,359,001	–	–	–	–
Deposits with banks and other financial institutions	452,146	–	–	452,146	(50)	–	–	(50)
Placements with banks and other financial institutions	400,000	–	–	400,000	(37)	–	–	(37)
Financial assets held under resale agreements	590,000	–	–	590,000	(55)	–	–	(55)
Loans and advances to customers	44,462,498	5,921,472	5,315,444	55,699,414	(767,399)	(1,253,132)	(2,652,930)	(4,673,461)
Financial investments								
– Debt securities	8,897,879	–	–	8,897,879	(1,638)	–	–	(1,638)
– Interbank deposits	–	–	–	–	–	–	–	–
– Other financial investments	5,179,825	920,000	3,433,259	9,533,084	(1,182)	(82,071)	(1,158,120)	(1,241,373)
Total	<u>73,341,349</u>	<u>6,841,472</u>	<u>8,748,703</u>	<u>88,931,524</u>	<u>(770,361)</u>	<u>(1,335,203)</u>	<u>(3,811,050)</u>	<u>(5,916,614)</u>
<u>Financial assets at fair value through other comprehensive income</u>								
Loans and advances to customers	4,835,404	–	–	4,835,404	(1,036)	–	–	(1,036)
Financial investments								
– Debt securities	5,839,155	4,002,145	–	9,841,300	(1,117)	(6,976)	–	(8,093)
Total	<u>10,674,559</u>	<u>4,002,145</u>	<u>–</u>	<u>14,676,704</u>	<u>(2,153)</u>	<u>(6,976)</u>	<u>–</u>	<u>(9,129)</u>
Credit commitments	<u>31,513,288</u>	<u>2,090,975</u>	<u>64,167</u>	<u>33,668,430</u>	<u>(22,590)</u>	<u>(155,097)</u>	<u>(12,863)</u>	<u>(190,550)</u>

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

At September 30, 2021								
	Balance				Provision for impairment losses			
	Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss	Total	Assessed for expected credit losses over the next 12 months	Not credit- impaired and assessed for lifetime expected credit loss	Credit- impaired and assessed for lifetime expected credit loss	Total
<u>Financial assets measured at amortised cost</u>								
Cash and deposits with the central bank	10,513,606	–	–	10,513,606	–	–	–	–
Deposits with banks and other financial institutions	1,059,088	–	–	1,059,088	(40)	–	–	(40)
Placements with banks and other financial institutions	900,000	–	–	900,000	(203)	–	–	(203)
Financial assets held under resale agreements	–	–	–	–	–	–	–	–
Loans and advances to customers	50,280,918	5,333,662	6,048,805	61,663,385	(638,211)	(1,084,128)	(2,679,593)	(4,401,932)
Financial investments – Debt securities	10,645,055	–	–	10,645,055	(1,973)	–	–	(1,973)
– Other financial investments	3,711,412	808,847	4,545,994	9,066,253	(5,028)	(76,654)	(610,509)	(692,191)
Total	77,110,079	6,142,509	10,594,799	93,847,387	(645,455)	(1,160,782)	(3,290,102)	(5,096,339)
<u>Financial assets at fair value through other comprehensive income</u>								
Loans and advances to customers	7,045,233	–	–	7,045,233	(1,479)	–	–	(1,479)
Financial investments – Debt securities	3,747,982	170,887	–	3,918,869	(778)	(6,082)	–	(6,860)
Total	10,793,215	170,887	–	10,964,102	(2,257)	(6,082)	–	(8,339)
Credit commitments	22,023,182	1,899,575	64,981	23,987,738	(81,313)	(8,463)	(13,168)	(102,944)

### (b) Market risk

Market risk is the risk of loss, in respect of Bank of Pingdingshan Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring Bank of Pingdingshan Group's market risk to ensure that Bank of Pingdingshan Group has effectively identified, measured and monitored all types of market risk. The Risk and Internal Control Management Committee monitors the market risk management process within the scope authorized by the board of directors, which include review and approval of market risk management strategies, policies and procedures. Bank of Pingdingshan Group is primarily exposed to market risk in its financial markets business. The Financial Market Department is responsible for carrying out capital investments and transactions, as well as monitoring and managing the foreign exchange risk on a daily basis. The Planning and Finance Department is responsible for monitoring and managing the interest rate risk in bank account. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring Bank of Pingdingshan Group's market risk.

Sensitivity analysis is a technique which assesses the sensitivity of Bank of Pingdingshan Group's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on Bank of Pingdingshan Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in Bank of Pingdingshan Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on Bank of Pingdingshan Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorizing each of Bank of Pingdingshan Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on Bank of Pingdingshan Group's economic value.

#### ***Interest rate risk and liquidity risk***

Bank of Pingdingshan Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

#### ***Repricing risk***

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes Bank of Pingdingshan Group's income or its inherent economic value to vary with the movement in interest rates.

The Planning and Finance Department is responsible for measuring, monitoring and managing interest rate risk. Bank of Pingdingshan Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

- (i) The following tables indicate the assets and liabilities as at the end of each of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier:

	At December 31, 2018					Total
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	
<b>Assets</b>						
Cash and deposits with the central bank	8,036,545	—	—	—	—	8,036,545
Deposits with banks and other financial institutions	131,434	99,996	—	—	468	231,898
Placement with banks and other financial institutions	—	—	—	—	—	—

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

	At December 31, 2018					Total
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	
Financial assets held under resale agreements	2,606,922	–	–	–	1,907	2,608,829
Loans and advances to customers (Note (1))	22,480,971	9,596,772	437,465	–	96,735	32,611,943
Financial investments (Note (2))	10,515,899	2,765,595	6,503,179	1,494,618	314,888	21,594,179
Others	–	–	–	–	3,741,560	3,741,560
Total assets	43,771,771	12,462,363	6,940,644	1,494,618	4,155,558	68,824,954
<b>Liabilities</b>						
Borrowing from the central bank	–	–	–	–	–	–
Deposits from banks and other financial institutions	581,756	–	–	–	7,039	588,795
Financial assets sold under repurchase agreements	2,808,400	–	–	–	2,061	2,810,461
Deposits from customers	33,010,826	12,061,460	10,041,891	–	980,336	56,094,513
Debt securities issued	4,048,437	–	–	–	–	4,048,437
Others	–	–	–	–	754,203	754,203
Total liabilities	40,449,419	12,061,460	10,041,891	–	1,743,639	64,296,409
Asset-liability gap	3,322,352	400,903	(3,101,247)	1,494,618	2,411,919	4,528,545

	At December 31, 2019					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank	10,006,786	–	–	–	–	10,006,786
Deposits with banks and other financial institutions	354,920	99,995	–	–	56	454,971
Placement with banks and other financial institutions	4,449,996	700,000	–	–	30,832	5,180,828
Financial assets held under resale agreements	2,476,991	–	–	–	118	2,477,109
Loans and advances to customers <i>(Note (1))</i>	25,812,379	11,401,555	4,467,289	3,409,864	200,324	45,291,411
Financial investments <i>(Note (2))</i>	11,489,677	5,102,070	12,052,057	2,236,312	463,080	31,343,196
Others	–	–	–	–	4,119,743	4,119,743
Total assets	54,590,749	17,303,620	16,519,346	5,646,176	4,814,153	98,874,044

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

	At December 31, 2019					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
<b>Liabilities</b>						
Borrowing from the central bank	–	628,338	–	–	–	628,338
Deposits from banks and other financial institutions	302,752	758,429	–	–	13,471	1,074,652
Placement from banks and other financial institutions	1,450,000	2,885,970	–	–	21,514	4,357,484
Financial assets sold under repurchase agreements	3,537,998	–	–	–	81	3,538,079
Deposits from customers	30,352,557	15,558,488	29,862,568	90,552	1,294,317	77,158,482
Debt securities issued	6,461,742	–	–	–	–	6,461,742
Others	–	–	–	–	962,895	962,895
Total liabilities	42,105,049	19,831,225	29,862,568	90,552	2,292,278	94,181,672
Asset-liability gap	12,485,700	(2,527,605)	(13,343,222)	5,555,624	2,521,875	4,692,372

	At December 31, 2020					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank	13,359,001	–	–	–	–	13,359,001
Deposits with banks and other financial institutions	252,103	199,993	–	–	44	452,140
Placement with banks and other financial institutions	399,963	–	–	–	5,191	405,154
Derivative financial assets						
Financial assets held under resale agreements	589,945	–	–	–	1,323	591,268
Loans and advances to customers (Note (1))	21,261,254	27,052,159	6,964,222	583,722	342,356	56,203,713
Financial investments (Note (2))	9,800,306	6,132,177	14,176,180	4,158,502	635,835	34,903,000
Others	–	–	–	–	4,709,316	4,709,316
Total assets	45,662,572	33,384,329	21,140,402	4,742,224	5,694,065	110,623,592
<b>Liabilities</b>						
Borrowing from the central bank	652,719	344,563	–	–	–	997,282
Deposits from banks and other financial institutions	104,191	130,000	–	–	3,355	237,546
Placement from banks and other financial institutions	639,059	968,167	–	–	–	1,607,226

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

	At December 31, 2020					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
Financial assets sold under repurchase agreements	6,500,360	–	–	–	7,702	6,508,062
Deposits from customers	34,516,137	19,409,791	35,758,009	–	1,165,153	90,849,090
Debt securities issued	3,663,511	–	–	–	–	3,663,511
Others	–	–	–	–	1,021,267	1,021,267
Total liabilities	46,075,977	20,852,521	35,758,009	–	2,197,477	104,883,984
Asset-liability gap	(413,405)	12,531,808	(14,617,607)	4,742,224	3,496,588	5,739,608

	At September 30, 2021					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank	10,510,602	–	–	–	3,004	10,513,606
Deposits with banks and other financial institutions	959,052	99,996	–	–	22	1,059,070
Placement with banks and other financial institutions	899,797	–	–	–	3,048	902,845
Financial assets held under resale agreements	–	–	–	–	–	–
Loans and advances to customers (Note (1))	15,438,658	32,512,332	11,244,250	5,111,447	381,536	64,688,223
Financial investments (Note (2))	12,274,533	2,475,460	12,301,308	5,112,838	669,909	32,834,048
Others	–	–	–	–	5,526,486	5,526,486
Total assets	40,082,642	35,087,788	23,545,558	10,224,285	6,584,005	115,524,278
<b>Liabilities</b>						
Borrowing from the central bank	97,165	1,286,029	–	–	–	1,383,194
Deposits from banks and other financial institutions	128,922	1,184,633	–	–	15,891	1,329,446
Placement from banks and other financial institutions	1,547,000	1,150,000	–	–	34,976	2,731,976
Financial assets sold under repurchase agreements	3,438,990	–	–	–	1,557	3,440,547
Deposits from customers	35,568,591	24,773,085	30,292,886	12,351	1,174,540	91,821,453
Debt securities issued	7,457,025	–	–	–	–	7,457,025
Others	–	–	–	–	698,904	698,904
Total liabilities	48,237,693	28,393,747	30,292,886	12,351	1,925,868	108,862,545
Asset-liability gap	(8,155,051)	6,694,041	(6,747,328)	10,211,934	4,658,137	6,661,733

*Notes:*

- (1) As at December 31, 2018, 2019, 2020 and September 30, 2021, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB106 million, RMB1,267 million, RMB856 million and RMB924 million respectively.
- (2) As at December 31, 2018, 2019, 2020 and September 30, 2021, for financial investments, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB3,144 million, RMB1,398 million, RMB333 million and RMB333 million respectively.

**Foreign currency risk**

Bank of Pingdingshan Group's currency risk mainly arises from foreign currency deposits with banks and other financial institutions. Bank of Pingdingshan Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

Bank of Pingdingshan Group operates mainly in the PRC with most of the transactions settled in RMB. Management considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of Bank of Pingdingshan Group denominated in the currencies other than the respective functional currencies of Bank of Pingdingshan Group's entities.

**(c) Liquidity risk**

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, Bank of Pingdingshan Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing Bank of Pingdingshan Group's overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles.

The Planning and Finance Department takes the lead to execute liquidity management policies and is responsible for formulating and revising the liquidity management strategies, and for identifying, measuring, monitoring and releasing the liquidity risk of Bank of Pingdingshan. It is also responsible for managing and forecasting the working capital on a regular basis and ensuring the liquidity of working capital meets management requirements based on the liquidity strategies. The Finance Market Department is responsible for performing the operation following the instructions of the Finance Management Department. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

A substantial portion of Bank of Pingdingshan Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and loan commitments as at the end of each of the Relevant Periods:

	Years ended December 31, 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Deposits from banks and other financial institutions	588,795	596,402	106,849	182,268	104,600	202,685	-	-
Placements from banks and other financial institutions	-	-	-	-	-	-	-	-

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

	Years ended December 31, 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Financial assets sold under repurchase agreements	2,810,461	2,810,461	–	2,810,461	–	–	–	–
Deposits from customers	56,094,513	59,936,811	22,117,874	6,083,468	5,136,151	12,682,610	13,916,708	–
Debt securities issued	4,048,437	4,231,564	–	531,501	296,414	3,403,649	–	–
Lease liabilities	93,409	115,879	–	3,301	1,198	16,694	77,588	17,098
Total non-derivative financial liabilities	63,635,615	67,691,117	22,224,723	9,610,999	5,538,363	16,305,638	13,994,296	17,098

	Years ended December 31, 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Borrowing from the central bank	628,338	637,413	–	–	–	637,413	–	–
Deposits from banks and other financial institutions	1,074,652	1,077,322	36,974	25,272	234,800	780,276	–	–
Placements from banks and other financial institutions	4,357,484	4,417,347	–	1,058,414	403,883	2,955,050	–	–
Financial assets sold under repurchase agreements	3,538,079	3,538,079	–	3,538,079	–	–	–	–
Deposits from customers	77,158,482	77,429,029	19,899,864	4,942,653	5,312,273	15,736,971	31,428,337	108,931
Debt securities issued	6,461,742	6,658,735	–	365,671	682,791	5,610,273	–	–
Lease liabilities	102,833	124,180	–	3,701	1,667	18,934	83,316	16,562
<b>Total non-derivative financial liabilities</b>	<b>93,321,610</b>	<b>93,882,105</b>	<b>19,936,838</b>	<b>9,933,790</b>	<b>6,635,414</b>	<b>25,738,917</b>	<b>31,511,653</b>	<b>125,493</b>

	Years ended December 31, 2020							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Borrowing from the central bank	997,282	1,002,127	1,719	–	652,715	347,693	–	–
Deposits from banks and other financial institutions	237,546	244,256	82,580	156	25,123	136,397	–	–
Placements from banks and other financial institutions	1,607,226	1,635,260	–	180,629	457,666	996,965	–	–
Financial assets sold under repurchase agreements	6,508,062	6,508,062	–	6,508,062	–	–	–	–
Deposits from customers	90,849,090	94,436,884	20,340,715	7,703,297	6,676,818	19,642,452	40,073,602	–
Debt securities issued	3,663,511	3,776,374	–	50,129	1,583,900	2,142,345	–	–
Lease liabilities	98,973	116,521	–	3,908	1,710	21,016	77,443	12,444
Total non-derivative financial liabilities	103,961,690	107,719,484	20,425,014	14,446,181	9,397,932	23,286,868	40,151,045	12,444

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

	Nine months ended September 30, 2021							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Borrowing from the central bank	1,383,194	1,398,417	7,348	78,893	109,801	1,202,375	–	–
Deposits from banks and other financial institutions	1,329,446	1,345,337	134,463	604,406	–	606,468	–	–
Placements from banks and other financial institutions	2,731,976	2,770,021	–	753,272	827,642	1,189,107	–	–
Financial assets sold under repurchase agreements	3,440,547	3,440,547	–	3,440,547	–	–	–	–
Deposits from customers	91,821,453	94,084,899	21,638,824	8,699,012	5,254,645	25,096,120	33,381,439	14,859
Debt securities issued	7,457,025	7,654,382	–	1,368,675	2,441,347	3,844,360	–	–
Lease liabilities	95,104	102,798	–	1,204	4,209	16,309	66,037	15,039
<b>Total non-derivative financial liabilities</b>	<b>108,258,745</b>	<b>110,796,401</b>	<b>21,780,635</b>	<b>14,946,009</b>	<b>8,637,644</b>	<b>31,954,739</b>	<b>33,447,476</b>	<b>29,898</b>

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

### (d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

Bank of Pingdingshan Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

**41 FAIR VALUE**

**(a) Methods and assumptions for measurement of fair value**

Bank of Pingdingshan Group adopts the following methods and assumptions when evaluating fair values:

**(i) Debt securities and equity investments**

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of each Relevant Periods.

**(ii) Investments and other non-derivative financial assets**

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the Relevant Periods.

**(iii) Debt securities issued and other non-derivative financial liabilities**

Fair values of debt securities issued are based on their quoted market prices at the end of the Relevant Periods, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the Relevant Periods. Bank of Pingdingshan Group has established policies and internal controls with respect to the measurement of fair values, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

**(iv) Derivative financial liabilities**

The fair values of foreign currency forward and swaps contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the Relevant Periods, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows.

**(b) Fair value measurement**

**(i) Financial assets**

Bank of Pingdingshan Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, finance lease receivables and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers and finance lease receivables are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values. The fair values of Loans and advances to customers measured at fair value through other comprehensive income, are based on valuation techniques.

Financial investments at fair value through other comprehensive income and financial investments at fair value through profit or loss are stated at fair value. The carrying amount of financial investments at amortised cost is the reasonable approximations of its fair values because, for example, it is short-term in nature or repriced at current market rates frequently.

**(ii) Financial liabilities**

Bank of Pingdingshan Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers and subordinated debt securities issued.

Financial liabilities designated at fair value through profit or loss is presented with fair value. The book value and fair value of debt securities issued is presented in Note 33. The carrying amounts of other financial liabilities approximate their fair value.

**(c) Fair value hierarchy**

The following table presents the fair value of Bank of Pingdingshan's financial instruments measured at the end of the Relevant Periods on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
- Level 3: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, and credit spreads. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

	<b>At December 31, 2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	2,636,419	4,486,592	7,123,011
Financial investments at fair value through other comprehensive income	–	985,012	–	985,012
Loans and advances to customers measured at fair value through other comprehensive income	–	4,542,304	–	4,542,304
Total	–	8,163,735	4,486,592	12,650,327

	<b>At December 31, 2019</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	6,923,805	1,438,384	8,362,189
Financial investments at fair value through other comprehensive income	91,829	6,594,911	–	6,686,740
Loans and advances to customers measured at fair value through other comprehensive income	–	5,527,596	–	5,527,596
Total	91,829	19,046,312	1,438,384	20,576,525

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

	At December 31, 2020			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	6,391,554	846,360	7,237,914
Financial investments at fair value through other comprehensive income	3,522,930	6,486,388	–	10,009,318
Loans and advances to customers measured at fair value through other comprehensive income	–	4,835,404	–	4,835,404
Total	<u>3,522,930</u>	<u>17,713,346</u>	<u>846,360</u>	<u>22,082,636</u>

	At September 30, 2021			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	373,921	8,249,462	984,913	9,608,296
Financial investments at fair value through other comprehensive income	2,268,218	1,710,501	–	3,978,719
Loans and advances to customers measured at fair value through other comprehensive income	–	7,045,233	–	7,045,233
Total	<u>2,642,139</u>	<u>17,005,196</u>	<u>984,913</u>	<u>20,632,248</u>

During the Relevant Periods, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

### 42 ENTRUSTED LENDING BUSINESS

Bank of Pingdingshan Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. Bank of Pingdingshan Group does not take any credit risk in relation to these transactions. Bank of Pingdingshan Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of Bank of Pingdingshan Group and are not recognized in the statement of financial position. Surplus funding is accounted for as deposits from customers.

	At			
	2018	At 31 December 2019	2020	30 September 2021
Entrusted loans	<u>980,634</u>	<u>1,267,332</u>	<u>1,117,643</u>	<u>555,335</u>

**43 COMMITMENTS AND CONTINGENT LIABILITIES**

**(a) Credit commitments**

Bank of Pingdingshan Group's credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans commitments represent the amounts should the contracts be fully drawn upon. Bank of Pingdingshan Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by Bank of Pingdingshan Group to pay bills of exchange drawn on customers. Bank of Pingdingshan Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	<b>At 31 December</b>			<b>At</b>
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>30 September 2021</b>
Credit card commitments	196,584	205,440	227,300	235,857
Acceptances	–	40,000	1,685,460	3,241,613
Letters of credit	33,378,116	36,314,808	31,474,151	20,286,109
Letters of guarantees	276,134	286,089	281,519	224,159
<b>Total</b>	<b>33,850,834</b>	<b>36,846,337</b>	<b>33,668,430</b>	<b>23,987,738</b>

Bank of Pingdingshan Group may be exposed to credit risk in all the above credit businesses. Group Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

**(b) Capital commitments**

As at the end of each of the Relevant Periods, Bank of Pingdingshan Group's authorized capital commitments are as follows:

	<b>At 31 December</b>			<b>At</b>
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>30 September 2021</b>
Contracted but not paid for	–	1,742	7	50,940
Approved but not contracted for	286,152	298,800	42,998	276,244
<b>Total</b>	<b>286,152</b>	<b>300,542</b>	<b>43,005</b>	<b>327,184</b>

**(c) Outstanding litigations and disputes**

As at December 31, 2018, 2019, 2020 and 30 September 2021, Bank of Pingdingshan Group and Bank of Pingdingshan was the defendant in certain outstanding litigations and disputes with an estimated gross amounts of nil, nil, nil and RMB110,000, respectively. Bank of Pingdingshan Group has assessed the impact of the above outstanding litigation and disputes that may lead to an outflow of economic benefits. According to the opinion of Bank of Pingdingshan Group's lawyers and external lawyers, it is unlikely for Bank of Pingdingshan Group to receive unfavourable ruling in these cases. Therefore, Bank of Pingdingshan Group don't recognise the litigation provision. Directors of Bank of Pingdingshan are of the view that these litigations will not have any material adverse effect on Bank of Pingdingshan Group's business, financial condition, results of operations or prospects.

## APPENDIX II-B ACCOUNTANTS' REPORT OF BANK OF PINGDINGSHAN

### 44 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	At December 31, 2018 RMB'000	2019 RMB'000	2020 RMB'000	At September 30, 2021 RMB'000
<b>Assets</b>					
Cash and deposits with the central bank		8,036,545	9,899,478	13,216,388	10,345,991
Deposits with banks and other financial institutions		231,898	390,640	401,504	340,062
Placements with banks and other financial institutions		–	5,180,827	405,154	902,845
Financial assets held under resale agreements		2,608,829	2,477,109	591,268	–
Loans and advances to customers		32,611,943	44,787,284	55,504,234	64,166,185
Financial investments:					
Financial investments at fair value through profit or loss		7,123,011	8,362,189	7,237,914	9,608,296
Financial investments at fair value through other comprehensive income		985,012	6,686,740	10,009,318	3,978,718
Financial investments at amortised cost		13,486,156	16,294,267	17,655,768	19,247,035
Investments in subsidiaries and joint venture	21	35,753	80,283	80,283	–
Property and equipment		1,394,421	1,576,262	1,593,798	1,494,996
Deferred tax assets		1,323,935	1,527,304	1,878,136	2,130,398
Other assets		987,451	991,716	1,187,124	1,874,125
<b>Total</b>		<u>68,824,954</u>	<u>98,254,099</u>	<u>109,760,889</u>	<u>114,088,651</u>

	<i>Note</i>	At December 31, 2018 RMB'000	2019 RMB'000	2020 RMB'000	At September 30, 2021 RMB'000
<b>Liabilities and equity</b>					
<b>Liabilities</b>					
Borrowing from central bank		–	548,338	851,579	1,195,465
Deposits from banks and other financial institutions		588,795	1,684,999	1,023,141	1,709,612
Placements from banks and other financial institutions		–	4,357,484	1,607,226	2,731,976
Financial assets sold under repurchase agreements		2,810,461	3,538,079	6,508,062	3,440,547
Deposits from customers		56,094,513	76,077,164	89,448,214	90,120,221
Income tax payable		–	–	–	33,710
Debt securities issued		4,048,437	6,461,742	3,663,511	7,457,025
Other liabilities		754,203	961,056	1,017,060	659,446
<b>Total liabilities</b>		<u>64,296,409</u>	<u>93,628,862</u>	<u>104,118,793</u>	<u>107,348,002</u>
<b>Equity</b>					
Share capital		3,393,375	3,393,375	3,732,712	4,105,983
Other equity instruments					
- Perpetual bonds		–	–	1,000,000	2,000,000
Capital reserve		2,404,871	2,378,974	1,983,517	1,543,502
Surplus reserve		516,540	516,540	516,540	516,540
General reserve		1,100,270	1,100,270	1,100,270	1,100,270
Accumulated losses		(2,886,511)	(2,763,922)	(2,690,943)	(2,525,646)
<b>Total equity</b>		<u>4,528,545</u>	<u>4,625,237</u>	<u>5,642,096</u>	<u>6,740,649</u>
<b>Total liabilities and equity</b>		<u>68,824,954</u>	<u>98,254,099</u>	<u>109,760,889</u>	<u>114,088,651</u>

#### 45 SUBSEQUENT EVENTS

On December 6, 2021, Board of Directors has approved the Merger by Absorption Plan, pursuant to which Bank of Pingdingshan will be merged by absorption by Zhongyuan Bank Co., Ltd.. The consideration will be satisfied by issuance of shares of Zhongyuan Bank to shareholders of Bank of Pingdingshan. The Merger by Absorption are subject to a number of conditions precedent, including the approvals from the shareholders of Bank of Pingdingshan, the approvals from Zhongyuan Bank's shareholders, and approvals from relevant regulatory bodies.

#### 46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD ENDED SEPTEMBER 30, 2021

Up to the date of issue of these Historical Financial Information, a number of amendments, new standards and interpretations are issued which are not yet effective for the nine months period ended September 30, 2021 and which have not been adopted in these Historical Financial Information. These include the following which may be relevant to Bank of Pingdingshan Group.

	Effective for accounting period beginning on or after
Amendments to IFRS 3, <i>Reference to the Conceptual Framework</i>	January 1, 2022
Amendments to IAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	January 1, 2022
Amendments to IAS 37, <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	January 1, 2022
Annual Improvements to IFRSs 2018-2020 Cycle	January 1, 2022

Bank of Pingdingshan Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated Historical Financial Information.

#### SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Bank of Pingdingshan Group in respect of any period subsequent to September 30, 2021.

*The following is the text of a report set out on II-C-1 to II-C-94, received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.*



**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF BANK OF LUOYANG CO., LTD. TO THE DIRECTORS OF ZHONGYUAN BANK CO., LTD.**

**Introduction**

We report on the historical financial information of Bank of Luoyang Co., Ltd. ("Bank of Luoyang") and its subsidiaries (together, "Bank of Luoyang Group") set out on II-C-4 to II-C-94, which comprises the consolidated statements of financial position of Bank of Luoyang Group as at December 31, 2018, 2019, 2020 and September 30, 2021 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended at December 31, 2018, 2019, 2020 and the nine months ended 30 September 2021 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-C-4 to II-C-94 forms an integral part of this report, which has been prepared for inclusion in the circular of Zhongyuan Bank Co., Ltd dated 18 February 2022 (the "Circular") in connection with the proposed merger by absorption of Bank of Luoyang Group.

**Directors' responsibility for Historical Financial Information**

The directors of Zhongyuan Bank Co., Ltd. are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of Bank of Luoyang Group as defined on page II-C-4, on which the Historical Financial Information is based, were prepared by the directors of Bank of Luoyang. The directors of Bank of Luoyang are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"), and for such internal control as the directors of Bank of Luoyang determine is necessary to enable the preparation of the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of Bank of Luoyang Group's financial position as at December 31, 2018, 2019, 2020 and September 30, 2021 and of Bank of Luoyang Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**Review of stub period corresponding financial information**

We have reviewed the stub period corresponding financial information of Bank of Luoyang Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statements for the nine months ended September 30, 2020 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of Bank of Luoyang are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our

review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited**

***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-C-4 have been made.

**KPMG**

*Certified Public Accountants*

8th Floor, Prince’s Building

10 Chater Road

Central, Hong Kong

18 February 2022

**HISTORICAL FINANCIAL INFORMATION**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of Bank of Luoyang Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### Consolidated statements of profit or loss and other comprehensive income

(Expressed in thousands of Renminbi, unless otherwise stated)

		Years ended December 31,			Nine months ended	
	Note	2018	2019	2020	September 30,	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Interest income		12,161,007	13,477,147	13,405,187	9,959,372	10,185,006
Interest expense		(5,778,716)	(6,509,440)	(6,397,656)	(4,722,469)	(5,441,881)
<b>Net interest income</b>	4	<u>6,382,291</u>	<u>6,967,707</u>	<u>7,007,531</u>	<u>5,236,903</u>	<u>4,743,125</u>
Fee and commission income		445,654	416,496	471,712	345,535	506,610
Fee and commission expense		(209,790)	(243,914)	(320,760)	(229,410)	(260,839)
<b>Net fee and commission income</b>	5	<u>235,864</u>	<u>172,582</u>	<u>150,952</u>	<u>116,125</u>	<u>245,771</u>
Net trading gains	6	8,258	24,471	253,072	195,825	254,810
Net gains arising from investment securities	7	388,552	383,327	183,962	121,421	347,743
Other operating income	8	<u>14,992</u>	<u>26,048</u>	<u>13,383</u>	<u>8,523</u>	<u>7,901</u>
<b>Operating income</b>		<u>7,029,957</u>	<u>7,574,135</u>	<u>7,608,900</u>	<u>5,678,797</u>	<u>5,599,350</u>
Operating expenses	9	(1,514,630)	(1,623,014)	(1,649,319)	(946,986)	(1,220,323)
Impairment losses on assets	12	<u>(3,887,693)</u>	<u>(3,855,046)</u>	<u>(3,884,371)</u>	<u>(3,216,715)</u>	<u>(3,242,200)</u>
<b>Profit before tax</b>		<u>1,627,634</u>	<u>2,096,075</u>	<u>2,075,210</u>	<u>1,515,096</u>	<u>1,136,827</u>
Income tax	13	<u>(331,251)</u>	<u>(441,728)</u>	<u>(482,064)</u>	<u>(353,557)</u>	<u>(158,121)</u>
<b>Net profit for the year/period</b>		<u>1,296,383</u>	<u>1,654,347</u>	<u>1,593,146</u>	<u>1,161,539</u>	<u>978,706</u>
<b>Net profit attributable to:</b>						
Equity shareholders of Bank of						
Luoyang Group		1,031,879	1,358,175	1,269,279	893,547	750,636
Non-controlling interests		<u>264,504</u>	<u>296,172</u>	<u>323,867</u>	<u>267,992</u>	<u>228,070</u>
		<u>1,296,383</u>	<u>1,654,347</u>	<u>1,593,146</u>	<u>1,161,539</u>	<u>978,706</u>

The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

		Years ended December 31,			Nine months ended	
	Note	2018	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(unaudited)				
Net profit for the year/period		1,296,383	1,654,347	1,593,146	1,161,539	978,706
Other comprehensive income						
Other comprehensive income net of tax attributable to equity shareholders of Bank of Luoyang Group						
Items that may be reclassified subsequently to profit or loss:						
– Financial assets at fair value through other comprehensive income: net movement in the fair value reserve	33(a)(i)	13,540	12,739	(74,205)	(55,654)	328,434
– Financial assets at fair value through other comprehensive income: net movement in impairment losses	33(a)(ii)	126,094	65,062	126,646	94,985	135,231
Items that will not be reclassified subsequently to profit or loss						
– Remeasurement of net defined benefit liability	33(a)(iii)	(855)	177	42	32	–
Other comprehensive income net of tax attributable to non-controlling interests		310	(27)	(772)	(579)	1,756
Other comprehensive income, net of tax		139,089	77,951	51,711	38,784	465,421
Total comprehensive income		1,435,472	1,732,298	1,644,857	1,200,323	1,444,127
Total comprehensive income attributable to:						
Equity shareholders of						
Bank of Luoyang Group		1,170,658	1,436,153	1,321,762	932,910	1,214,301
Non-controlling interests		264,814	296,145	323,095	267,413	229,826
		1,435,472	1,732,298	1,644,857	1,200,323	1,444,127

The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### Consolidated statements of financial position

(Expressed in thousands of Renminbi, unless otherwise stated)

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
<b>Assets</b>					
Cash and deposits with the central bank	15	23,599,518	21,391,981	18,995,091	19,266,219
Deposits with banks and other financial institutions	16	2,494,176	2,736,956	2,652,852	5,433,171
Placements with banks and other financial institutions	17	902,052	1,213,258	2,925,357	5,118,582
Financial assets held under resale agreements	18	14,275,493	18,221,850	4,660,012	13,982,229
Loans and advances to customers	19	83,246,976	101,732,489	119,860,254	136,060,094
Financial investments:	20				
Financial investments at fair value through profit or loss		16,375,672	19,868,780	29,158,255	14,837,509
Financial investments at fair value through other comprehensive income		36,161,431	36,454,898	29,276,670	31,485,094
Financial investments at amortised cost		46,525,499	41,184,146	34,263,540	31,932,896
Finance lease receivables	21	20,513,691	20,763,831	22,291,956	25,026,983
Property and equipment	22	669,356	674,229	684,118	564,162
Deferred tax assets	23	2,831,660	3,320,870	3,662,332	4,372,890
Other assets	24	962,900	1,135,235	1,915,680	1,740,392
<b>Total assets</b>		<u>248,558,424</u>	<u>268,698,523</u>	<u>270,346,117</u>	<u>289,820,221</u>
<b>Liabilities and equity</b>					
<b>Liabilities</b>					
Borrowing from the central bank		13,717,329	11,907,993	8,871,884	8,372,919
Deposits from banks and other financial institutions	26	11,271,470	8,971,651	4,269,340	4,676,520
Placements from banks and other financial institutions	27	20,811,426	17,282,445	18,081,910	16,241,817
Financial assets sold under repurchase agreements	28	17,084,749	19,374,302	13,219,490	8,196,842
Deposits from customers	29	134,934,795	155,459,241	165,786,759	192,617,538
Income tax payable		465,095	116,435	140,054	267,218
Debt securities issued	30	32,247,841	36,143,058	38,437,445	34,223,631
Other liabilities	31	2,979,760	3,160,167	3,756,548	3,997,211
<b>Total liabilities</b>		<u>233,512,465</u>	<u>252,415,292</u>	<u>252,563,430</u>	<u>268,593,696</u>

The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

		At December 31,		At September 30,	
	Note	2018	2019	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Equity</b>					
Share capital	32	5,300,000	6,890,000	6,890,000	6,890,000
Other equity instruments					
– Perpetual bond	34	–	–	–	1,999,711
Capital reserve	33	91,646	169,624	222,107	685,772
Surplus reserve	33	1,548,178	1,683,996	1,810,924	1,885,988
General reserve	33	3,292,649	3,701,489	4,015,495	4,015,495
Retained earnings		2,740,641	1,566,658	2,395,003	3,070,575
Total equity attributable to equity					
shareholders of Bank of Luoyang Group		12,973,114	14,011,767	15,333,529	18,547,541
Non-controlling interests		2,072,845	2,271,464	2,449,158	2,678,984
<b>Total equity</b>		15,045,959	16,283,231	17,782,687	21,226,525
<b>Total liabilities and equity</b>		248,558,424	268,698,523	270,346,117	289,820,221

The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### Consolidated cash flow statements

(Expressed in thousands of Renminbi, unless otherwise stated)

Note	Years ended December 31,			Nine months ended September 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
<b>Cash flows from operating activities</b>					
Profit before tax	1,627,634	2,096,075	2,075,210	1,515,096	1,136,827
Adjustments for:					
– Impairment losses on assets	3,887,693	3,855,046	3,884,371	3,216,715	3,242,200
– Depreciation and amortization	223,243	240,533	247,791	186,068	221,472
– Unrealized foreign exchange (gains)/losses	(8,043)	(2,709)	7,833	2,035	169
– Net (gains)/losses on disposal of property and equipment	(636)	(1,277)	(482)	(369)	2,738
– Net trading gains	–	(13,440)	(47,197)	(37,621)	(77,172)
– Net gains on disposal of investment securities	(388,552)	(383,327)	(183,962)	(121,421)	(347,743)
– Interest expense on debts securities issued	1,047,243	1,264,415	1,068,400	821,300	881,166
– Interest expense on lease liabilities	16,391	14,199	12,069	9,052	8,876
	<u>6,404,973</u>	<u>7,069,515</u>	<u>7,064,033</u>	<u>5,590,855</u>	<u>5,068,533</u>
<i>Changes in operating assets</i>					
Net decrease/(increase) in deposits with the central bank	2,633,750	2,090,663	970,555	827,916	(162,756)
Net decrease/(increase) in deposits and placements with banks and other financial institutions	684,104	–	(200,000)	(250,000)	(1,894,378)
Net (increase)/decrease in financial assets held for trading	(215)	(5,755,369)	(7,143,094)	(5,448,221)	5,183,894
Net increase in loans and advances to customers	(16,224,238)	(20,047,272)	(19,888,673)	(13,916,804)	(17,633,071)
Net increase in finance lease receivables	(2,526,893)	(493,705)	(1,977,598)	(1,231,138)	(2,735,027)
Net decrease/(increase) in other operating assets	<u>685,682</u>	<u>(299,193)</u>	<u>(937,843)</u>	<u>(588,783)</u>	<u>(487,662)</u>
	<u>(14,747,810)</u>	<u>(24,504,876)</u>	<u>(29,176,653)</u>	<u>(20,607,030)</u>	<u>(17,729,000)</u>

The accompanying notes form part of this Historical Financial Information.

<i>Note</i>	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
<b>Cash flows from operating activities</b>					
<i>Changes in operating liabilities</i>					
Net decrease in borrowing from central bank	(1,252,000)	(1,809,336)	(3,036,109)	(2,450,658)	(242,488)
Net (decrease)/increase in deposits from banks and other financial institutions	(844,111)	(2,303,700)	(4,649,078)	(4,423,809)	401,612
Net increase/(decrease) in placements from banks and other financial institutions	684,455	(3,482,043)	799,841	539,480	(1,817,503)
Net (decrease)/increase in financial assets sold under repurchase agreements	(741,704)	2,290,726	(6,150,951)	(5,613,213)	(5,021,289)
Net increase in deposits from customers	7,365,951	19,635,517	10,598,842	6,949,232	26,255,319
Net (decrease)/increase in other operating liabilities	(510,450)	(1,557,692)	(1,018,718)	(3,557,897)	69,573
	<u>4,702,141</u>	<u>12,773,472</u>	<u>(3,456,173)</u>	<u>(8,556,865)</u>	<u>19,645,224</u>
<b>Net cash flows (used in)/generated from operating activities before income tax paid</b>	(3,640,696)	(4,661,889)	(25,568,793)	(23,573,040)	6,984,757
Income tax paid	(949,293)	(1,520,686)	(1,170,762)	(829,873)	(233,536)
<b>Net cash flows (used in)/generated from operating activities</b>	<u>(4,589,989)</u>	<u>(6,182,575)</u>	<u>(26,739,555)</u>	<u>(24,402,913)</u>	<u>6,751,221</u>
<b>Cash flows from investing activities</b>					
Proceeds from disposal and redemption of investments	49,271,180	53,390,969	56,657,586	43,433,139	38,966,114
Proceeds from disposal of property and equipment, intangible assets and other assets	8,556	3,467	2,826	1,734	–
Payments on acquisition of investments	(56,707,690)	(45,942,611)	(44,651,334)	(34,320,417)	(29,726,064)
Payments on acquisition of property and equipment, intangible assets and other assets	(228,067)	(252,424)	(208,427)	(176,375)	(153,286)
<b>Net cash flows (used in)/generated from investing activities</b>	<u>(7,656,021)</u>	<u>7,199,401</u>	<u>11,800,651</u>	<u>8,938,081</u>	<u>9,086,764</u>

The accompanying notes form part of this Historical Financial Information.

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

		Years ended December 31,			Nine months ended September 30,	
	Note	2018	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
<b>Cash flows from financing activities</b>						
Proceeds from issued debt securities/perpetual bonds		55,724,965	47,732,545	78,414,307	67,810,732	45,170,509
Repayment of debts securities issued		(42,950,000)	(44,710,000)	(76,830,000)	(60,622,534)	(48,280,000)
Dividends paid and interest paid on debts securities issued		(357,677)	(886,150)	(491,881)	(398,912)	(116,161)
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net cash flows generated from/(used in) financing activities</b>		<u>12,417,288</u>	<u>2,136,395</u>	<u>1,092,426</u>	<u>6,789,286</u>	<u>(3,225,652)</u>
		-----	-----	-----	-----	-----
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>						
		8,043	2,709	(7,833)	(2,035)	(169)
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
		-----	-----	-----	-----	-----
<b>Net increase/(decrease) in cash and cash equivalents</b>	37(a)	179,321	3,155,930	(13,854,311)	(8,677,581)	12,612,164
<b>Cash and cash equivalents as at January 1</b>		<u>24,913,601</u>	<u>25,092,922</u>	<u>28,248,852</u>	<u>28,248,852</u>	<u>14,394,541</u>
		-----	-----	-----	-----	-----
<b>Cash and cash equivalents as at December 31/September 30</b>	37(b)	<u>25,092,922</u>	<u>28,248,852</u>	<u>14,394,541</u>	<u>19,571,271</u>	<u>27,006,705</u>
		-----	-----	-----	-----	-----
<b>Interest received</b>		<u>13,385,708</u>	<u>13,350,376</u>	<u>13,094,106</u>	<u>9,310,632</u>	<u>9,391,486</u>
		-----	-----	-----	-----	-----
<b>Interest paid (excluding interest expense on debts securities issued)</b>		<u>(4,838,948)</u>	<u>(4,523,347)</u>	<u>(5,734,827)</u>	<u>(4,203,220)</u>	<u>(4,810,244)</u>
		-----	-----	-----	-----	-----

The accompanying notes form part of this Historical Financial Information.

**Consolidated statements of changes in equity***(Expressed in thousands of Renminbi, unless otherwise stated)*

	Attributable to equity shareholders of Bank of Luoyang Group								
	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at January 1, 2018	2,650,000	-	2,603,697	1,444,990	2,855,069	2,249,530	11,803,286	1,849,841	13,653,127
Changes in equity for the year:									
Net profit for the year	-	-	-	-	-	1,031,879	1,031,879	264,504	1,296,383
Other comprehensive income	-	-	138,779	-	-	-	138,779	310	139,089
Total comprehensive income	-	-	138,779	-	-	1,031,879	1,170,658	264,814	1,435,472
Purchase of non-controlling interests									
Capital reserve converted into share capital	2,650,000	-	(2,650,000)	-	-	-	-	-	-
Share capital invested by non-controlling interests holders	-	-	(830)	-	-	-	(830)	78,941	78,111
Appropriation to surplus reserve	-	-	-	103,188	-	(103,188)	-	-	-
Appropriation to general reserve	-	-	-	-	437,580	(437,580)	-	-	-
Cash dividends to non-controlling interests	-	-	-	-	-	-	-	(120,751)	(120,751)
Balance at December 31, 2018	5,300,000	-	91,646	1,548,178	3,292,649	2,740,641	12,973,114	2,072,845	15,045,959

The accompanying notes form part of this Historical Financial Information.

	Attributable to equity shareholders of Bank of Luoyang Group						
	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Subtotal
Balance at January 1, 2019	5,300,000	-	91,646	1,548,178	3,292,649	2,740,641	12,973,114
Changes in equity for the year:							
Net profit for the year	-	-	-	-	-	1,358,175	1,358,175
Other comprehensive income	-	-	77,978	-	-	-	77,978
Total comprehensive income	-	-	77,978	-	-	1,358,175	1,436,153
Retained earnings converted into share capital	1,590,000	-	-	-	-	(1,590,000)	-
Appropriation to surplus reserve	-	-	-	135,818	-	(135,818)	-
Appropriation to general reserve	-	-	-	-	408,840	(408,840)	-
Cash dividends on common shares	-	-	-	-	-	(397,500)	(397,500)
Balance at December 31, 2019	6,890,000	-	169,624	1,683,996	3,701,489	1,566,658	14,011,767
						2,072,845	15,045,959
						(27)	1,654,347
							77,951
						296,145	1,732,298
							(495,026)
						2,271,464	16,283,231

The accompanying notes form part of this Historical Financial Information.

	Attributable to equity shareholders of Bank of Luoyang Group								
	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Unaudited:									
Balance at January 1, 2020	6,890,000	–	169,624	1,683,996	3,701,489	1,566,658	14,011,767	2,271,464	16,283,231
Changes in equity for the period:									
Net profit for the period	–	–	–	–	–	893,547	893,547	267,992	1,161,539
Other comprehensive income	–	–	39,363	–	–	–	39,363	(579)	38,784
Total comprehensive income	–	–	39,363	–	–	893,547	932,910	267,413	1,200,323
Balance at September 30, 2020	6,890,000	–	208,987	1,683,996	3,701,489	2,460,205	14,944,677	2,538,877	17,483,554

The accompanying notes form part of this Historical Financial Information.

## ACCOUNTANTS' REPORT OF BANK OF LUOYANG

The accompanying notes form part of this Historical Financial Information.

	Attributable to equity shareholders of Bank of Luoyang Group								
	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at January 1, 2021	6,890,000	-	222,107	1,810,924	4,015,495	2,395,003	15,333,529	2,449,158	17,782,687
Changes in equity for the period:									
Net profit for the period	-	-	-	-	-	750,636	750,636	228,070	978,706
Other comprehensive income	-	-	463,665	-	-	-	463,665	1,756	465,421
Total comprehensive income	-	-	463,665	-	-	750,636	1,214,301	229,826	1,444,127
Appropriation to surplus reserve	-	-	-	75,064	-	(75,064)	-	-	-
Appropriation to general reserve	-	-	-	-	-	-	-	-	-
Issue of perpetual bond	-	1,999,711	-	-	-	-	1,999,711	-	1,999,711
Balance at September 30, 2021	6,890,000	1,999,711	685,772	1,885,988	4,015,495	3,070,575	18,547,541	2,678,984	21,226,525

The accompanying notes form part of this Historical Financial Information.

**Notes to the Historical Financial Information**

*(Expressed in thousands of Renminbi, unless otherwise stated)*

**1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

Bank of Luoyang was established in Luoyang, Henan Province, the People's Republic of China (the "PRC") on 2009 with the approval of the former China Banking Regulatory Commission (the former "CBRC").

Bank of Luoyang obtained its financial institution license no. B0183H241030001 from the former CBRC, and obtained its business license with unified social credit code 914100001711393654 from the State Administration for Industry and Commerce of the PRC. Bank of Luoyang Group is regulated by China Banking Insurance Regulatory Commission (the "CBIRC") authorized by the State Council.

The principal activities of Bank of Luoyang and its subsidiary are the provision of corporate and personal deposits, loans and advances, settlement, financial market business, financial leasing and other financial services as approved by the former CBRC.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, Bank of Luoyang Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period ended September 30, 2021. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning January 1, 2021 are set out in Note 46.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

As at the date of this report, Bank of Luoyang has direct or indirect interests in the following subsidiary, which are private companies:

Company name	Place and date of incorporation/ establishment	Particulars of issued and paid-up capital	Proportion of ownership interest		
			Held by Bank of Luoyang Group	Held by the subsidiary	Principal activities
Henan Luanchuan Minfeng County Bank Co., Ltd.	China June 12, 2008	152,400	30.33%	–	Banking
Mengjin Minfeng County Bank Co., Ltd.	China November 23, 2011	150,000	34.58%	–	Banking
Shenzhen Nanshan Baosheng County Bank Co., Ltd.	China March 15, 2011	713,500	42.05%	–	Banking
BOL Financial Leasing Co., Ltd.	China December 18, 2014	2,000,000	57.50%	–	Leasing

Bank of Luoyang has over 50% representation on the board of directors of Henan Luanchuan Minfeng County Bank Co., Ltd., Mengjin Minfeng County Bank Co., Ltd., Shenzhen Nanshan Baosheng County Bank Co., Ltd. and has control over them.

All companies comprising Bank of Luoyang Group have adopted 31 December as their financial year end date.

## **2 SIGNIFICANT ACCOUNTING POLICIES**

### **(1) Statement of compliance**

The Historical Financial Information has been prepared in accordance with all applicable IFRSs, which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the IASB and the disclosure requirement of the Hong Kong Companies Ordinance. The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange. Significant accounting policies adopted by Bank of Luoyang Group are disclosed below.

### **(2) Basis of preparation of the Historical Financial Information**

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

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

Judgments made by management in the application of IFRSs that have a significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 2(27).

The measurement basis used in the preparation of the Historical Financial Information is the historical basis, except that the financial instruments classified as fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL) and derivative financial instruments (see Note 2(8)(iii)) are stated at their fair value as explained in the accounting policies.

The Historical Financial Information are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of Bank of Luoyang Group.

### **(3) Subsidiaries and non-controlling interests**

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

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

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

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

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

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

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

#### **(4) Associates and joint ventures**

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

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

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

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

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

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

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

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

#### **(5) Goodwill**

Goodwill represents the excess of

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

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

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

#### **(6) Translation of foreign currencies**

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

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

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

**(7) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, financial assets held under resale agreements and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(8)(ii).

**(8) Financial instruments*****(i) Recognition and measurement of financial assets and liabilities***

A financial asset or financial liability is recognized in the statements of financial position when Bank of Luoyang Group becomes a party to the contractual provisions of a financial instrument. The financial instruments are initially stated at fair value plus directly attributable transaction costs, except for those financial instruments measured at FVTPL for which transaction costs are recognised directly in profit or loss. For an explanation of how Bank of Luoyang Group determines fair value of financial instruments, see Note 41. These financial instruments are subsequently accounted for as follows, depending on their classification.

*Financial instruments other than equity investments*

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

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

*Equity investments*

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

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

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

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

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

*Measurement of ECLs*

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

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

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

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

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

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

ECLs are measured on either of the following bases:

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

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

*Significant increases in credit risk*

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

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

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

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

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

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. Bank of Luoyang Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

*Basis of calculation of interest income*

Interest income recognised in accordance with Note 2(22)(a) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;

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

*Write-off policy*

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when Bank of Luoyang Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

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

**(iii) Derivative financial instruments**

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

**(iv) Fair value measurement principles**

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

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

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

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

Bank of Luoyang Group obtains market data from the same market where the financial instrument was originated or purchased.

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

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

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

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

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

**(vi) *Offsetting***

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

**(9) *Financial assets held under resale and repurchase agreements***

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortized cost. Financial assets held under resale agreements are assessed for ECLs in accordance with the policy set out in Note 2(8)(ii).

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortized cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognized respectively as interest income and interest expense over the life of each agreement using the effective interest method.

**(10) *Perpetual bonds***

At initial recognition, Bank of Luoyang Group classifies perpetual bonds issued or their components as financial assets, financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial assets, financial liabilities and equity instruments.

Perpetual bonds issued containing both equity and liability components are accounted for using the accounting policy for convertible instruments containing an equity component. Perpetual bonds issued not containing an equity component are accounted for using the accounting policy for other convertible instruments not containing an equity component.

Perpetual bonds issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the perpetual bonds are redeemed according to the contractual terms, the redemption price is charged to equity.

#### (11) Investment in subsidiaries

In Bank of Luoyang Group's consolidated Historical Financial Information, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(3).

In Bank of Luoyang Group's Historical Financial Information, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognized at actual payment cost if Bank of Luoyang Group acquires the investment by cash. The investment is stated at cost less impairment loss in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, Bank of Luoyang Group recognizes its share of the cash dividends or profit distribution declared by the investees as investment income.

#### (12) Investment property

Investment property is a property held either for earning rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the statements of financial position at cost less accumulated depreciation and impairment loss. Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	20 years	3%	4.85%

#### (13) Property and equipment and construction in progress

Property and equipment are assets held by Bank of Luoyang Group for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss. Construction in progress is stated in the statements of financial position at cost less impairment loss.

The cost of a purchased property and equipment comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. Construction in progress is transferred to property and equipment when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to Bank of Luoyang Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognized as a separate property and equipment.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

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

Property and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	20 years	3%	4.85%
Motor vehicles	4 years	3%	24.25%
Others	3 – 10 years	3%	9.70% – 32.33%

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

#### (14) Leases

At inception of a contract, Bank of Luoyang Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

##### (i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), Bank of Luoyang Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, Bank of Luoyang Group recognises a right-of-use asset and a lease liability. Lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to Bank of Luoyang Group by the end of the lease term or the cost of the right-of-use asset reflects that Bank of Luoyang Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in Bank of Luoyang Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether Bank of Luoyang Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

**(ii) As a lessor**

When Bank of Luoyang Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset irrespective of whether the legal title to the asset is eventually transferred. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, Bank of Luoyang Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis.

When Bank of Luoyang Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease.

Under a finance lease, at the commencement date, Bank of Luoyang Group recognises the finance lease receivable and derecognises the finance lease asset. The finance lease receivable is initially measured at an amount equal to the net investment in the lease. The net investment in the lease is measured at the aggregate of the unguaranteed residual value and the present value of the lease receivable that are not received at the commencement date, discounted using the interest rate implicit in the lease.

Bank of Luoyang Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return. The derecognition and impairment of the finance lease receivable are recognised in accordance with the accounting policy in Note 2(8). Variable lease payments not included in the measurement of net investment in the lease are recognised as income as they are earned.

Lease receipts from operating leases is recognised as income using the straight-line method over the lease term. The initial direct costs incurred in respect of the operating lease are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Variable lease payments not included in lease receipts are recognised as income as they are earned.

**(15) Intangible assets**

The intangible assets of Bank of Luoyang Group have finite useful lives. The intangible assets are stated at cost less accumulated amortization and impairment loss. The cost of intangible assets less residual value and impairment loss is amortized on the straight-line method over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

Land use rights	30 – 50 years
Computer software	5 years

**(16) Repossessed assets**

Repossessed assets are physical assets or property rights obtained by Bank of Luoyang Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

**(17) Provision for impairment losses on non-financial assets**

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

- property and equipment;
- construction in progress;
- right-of-use asset;
- intangible assets;

- investment property measured using a cost model;
- investments in subsidiaries and joint ventures; and
- goodwill.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A cash-generating unit (“CGU”) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, Bank of Luoyang Group also considers how management monitors Bank of Luoyang Group’s operations and how management makes decisions about continuing or disposing of Bank of Luoyang Group’s assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called “asset”) is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, Bank of Luoyang Group determines the recoverable amount of the asset group to which the assets belongs.

An asset’s fair value less costs to sell is the amount determined by the price of a sale agreement in an arm’s length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognized in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognized accordingly.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognized, the previously recognized impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset’s carrying amount that would have been determined had no impairment loss been recognized in prior periods.

#### **(18) Employee benefits**

##### ***(i) Short-term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The defined contribution retirement plans of Bank of Luoyang Group include the social pension schemes.

##### *Social pension schemes*

Pursuant to the relevant laws and regulations in the PRC, Bank of Luoyang Group has participated in the social pension schemes for the employees arranged by local government labour and security authorities. Bank of Luoyang Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

*Housing fund and other social insurances*

In addition to the retirement benefits above, Bank of Luoyang Group has joined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. Bank of Luoyang Group makes monthly contributions to the housing fund and other social insurances schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis.

**(ii) Supplementary retirement benefits***Early retirement plan*

Bank of Luoyang Group provides early retirement benefit payments to employees who voluntarily agreed to retire early for the period from the date of early retirement to the regulated retirement date. The benefit is discounted to determine the present value based on certain assumptions. The calculation is performed by a qualified actuary using the projected unit credit method. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

*Supplementary retirement plan*

Bank of Luoyang Group provides a supplementary retirement plan to its eligible employees. Bank of Luoyang Group's obligations in respect of the supplementary retirement plan are calculated by estimating the present value of the total amount of future benefits that Bank of Luoyang Group is committed to pay to the employees after their retirement. The calculation is performed by a qualified actuary using the projected unit credit method. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date. The related service cost and net interest from the retirement plan are recognised in profit or loss, and the actuarial gains and losses arising from remeasurements are recognised in other comprehensive income.

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits". Except for the above mentioned, Bank of Luoyang Group has no significant responsibilities to pay any other retirement benefits to employees.

**(19) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the Relevant Periods, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, Bank of Luoyang Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the Relevant Periods. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each Relevant Periods and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if Bank of Luoyang Group or Bank of Luoyang has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, Bank of Luoyang Group or Bank of Luoyang intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

**(20) Financial guarantees, provisions and contingent liabilities**

**(i) Financial guarantees**

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (“holder”) for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognized as deferred income in other liabilities. The deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognized in the statements of financial position if and when it becomes probable that the holder of the guarantee will call upon Bank of Luoyang Group under the guarantee, and the amount of that claim on Bank of Luoyang Group is expected to exceed the carrying amount of the deferred income.

**(ii) Other provisions and contingent liabilities**

A provision is recognized for an obligation related to a contingency if Bank of Luoyang Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

**(21) Fiduciary activities**

Bank of Luoyang Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by Bank of Luoyang Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

Bank of Luoyang Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to Bank of Luoyang Group, and Bank of Luoyang Group grants loans to third parties ("entrusted loans") under instructions of the customers. As Bank of Luoyang Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

**(22) Income recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Bank of Luoyang Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**(a) Interest income**

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, where appropriate, to the book value of the financial asset, or the amortised cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not expected credit losses.

Interest income is calculated by applying the effective interest rate to the book value of financial assets and is included in interest income, except for:

- (i) For purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortised cost; and
- (ii) Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their book value.

**(b) Fee and commission income**

Bank of Luoyang Group earns fee and commission income from a diverse range of services it provides to its customers. The fee and commission income recognised by Bank of Luoyang Group reflects the amount of consideration to which Bank of Luoyang Group expects to be entitled in exchange for transferring promised services to customers, and income is recognised when its performance obligation in contracts is satisfied.

- (i) Bank of Luoyang Group recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:
  - The customer simultaneously receives and consumes the benefits provided by Bank of Luoyang Group's performance as Bank of Luoyang Group performs;

- The customer controls the service provided by Bank of Luoyang Group in the course of performance; or
- Bank of Luoyang Group does not provide service with an alternative use to Bank of Luoyang Group, and Bank of Luoyang Group has an enforceable right to payment for performance completed to date.

- (ii) In other cases, Bank of Luoyang Group recognises revenue at a point in time at which a customer obtains control of the promised services.

**(c) Dividend income**

Dividend income is recognised when Bank of Luoyang Group's right to receive payment is established.

**(d) Net trading income**

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities that are held for trading.

**(e) Government grants**

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that Bank of Luoyang Group will comply with the conditions attaching to them. Grants that compensate Bank of Luoyang Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate Bank of Luoyang Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

**(23) Expenses recognition**

**(i) Interest expenses**

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

**(ii) Other expenses**

Other expenses are recognized on an accrual basis.

**(24) Dividends**

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of each Relevant Periods are not recognized as a liability at the end of each Relevant Periods but disclosed separately in the notes to the Historical Financial Information.

**(25) Related parties**

- (a) A person, or a close member of that person's family, is related to Bank of Luoyang Group if that person:
- (i) has control or joint control over Bank of Luoyang Group;
  - (ii) has significant influence over Bank of Luoyang Group; or
  - (iii) is a member of the key management personnel of Bank of Luoyang Group or Bank of Luoyang.
- (b) An entity is related to Bank of Luoyang Group if any of the following conditions applies:
- (i) The entity and Bank of Luoyang Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either Bank of Luoyang Group or an entity related to Bank of Luoyang Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to Bank of Luoyang Group or to Bank of Luoyang Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

#### **(26) Segment reporting**

Operating segments are identified from the financial information provided regularly to Bank of Luoyang Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of Bank of Luoyang Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Bank of Luoyang Group operates in a single business segment. Bank of Luoyang Group runs banking business in Henan Province, China. Accordingly, no segmental analysis is presented.

#### **(27) Significant accounting estimates and judgements**

The preparation of the Historical Financial Information 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.

##### ***(a) Measurement of expected credit loss***

The measurement of the expected credit loss allowance for the investment in financial assets and debt instruments measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit losses;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses.

Detailed information about the judgements and estimates made by Bank of Luoyang Group in the above areas is set out in Note 40(a) credit risk.

**(b) Fair value of financial instruments**

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, and option pricing models. Valuation models established by Bank of Luoyang Group make maximum use of market input and rely as little as possible on Bank of Luoyang Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. Bank of Luoyang Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

**(c) Income taxes**

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Bank of Luoyang Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

**(d) Impairment of non-financial assets**

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) may not be obtained reliably, the fair value of the asset may not be estimated reliably. In assessing the present value of future cash flows, significant judgments are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

**(e) Depreciation and amortisation**

Investment properties, property and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each of the years. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

**(f) Determination of control over investees**

Management applies its judgement to determine whether the control indicators set out Note 2(3) indicate that Bank of Luoyang Group controls a non-principal guaranteed wealth management product and an asset management plan.

Bank of Luoyang Group acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether Bank of Luoyang Group controls such a structured entity usually focuses on the assessment of the aggregate economic interests of Bank of Luoyang Group in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by Bank of Luoyang Group, Bank of Luoyang Group's aggregate economic interest is in each case not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, the Bank has concluded that it acts as agent as opposed to principal for the investors in all cases, and therefore has not consolidated these structured entities.

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### 3 TAXES

Bank of Luoyang Group's main applicable taxes and tax rates are as follows:

Tax type	Tax basis	Tax rate
Value-added tax (VAT)	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period	3% – 6%
City maintenance and construction tax	Based on VAT paid	5% – 7%
Corporate income tax	Based on taxable profits	25%

### 4 NET INTEREST INCOME

	Years ended December 31,			Nine months ended September 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
<b>Interest income arising from</b>					
Deposits with the central bank	261,128	237,152	197,737	149,317	157,570
Deposits with banks and other financial institutions	52,415	34,271	32,838	6,131	23,869
Placements with banks and other financial institutions	55,612	43,322	68,134	44,256	139,995
Loans and advances to customers					
– Corporate loans and advances	3,524,184	3,985,301	4,310,126	3,475,634	3,552,476
– Personal loans and advances	1,147,509	1,308,519	1,857,310	1,331,076	1,692,491
– Discounted bills	629,814	670,308	615,635	421,437	433,801
Financial assets held under resale agreements	319,457	268,752	145,275	98,137	144,493
Financial investments	4,501,509	5,077,108	4,316,041	3,234,256	2,781,419
Finance lease receivables	1,669,379	1,852,414	1,862,091	1,199,128	1,258,892
Sub-total	12,161,007	13,477,147	13,405,187	9,959,372	10,185,006
<b>Interest expenses arising from</b>					
Borrowing from the central bank	(314,002)	(242,827)	(126,675)	(97,946)	(52,216)
Deposits from banks and other financial institutions	(381,976)	(360,769)	(203,202)	(174,757)	(73,552)
Placements from banks and other financial institutions	(914,587)	(746,040)	(680,609)	(456,858)	(568,654)
Deposits from customers	(2,811,842)	(3,553,033)	(4,050,417)	(2,988,746)	(3,616,096)
Financial assets sold under repurchase agreements	(309,066)	(342,356)	(268,353)	(182,862)	(250,197)
Debts securities issued	(1,047,243)	(1,264,415)	(1,068,400)	(821,300)	(881,166)
Sub-total	(5,778,716)	(6,509,440)	(6,397,656)	(4,722,469)	(5,441,881)
<b>Net interest income</b>	<u>6,382,291</u>	<u>6,967,707</u>	<u>7,007,531</u>	<u>5,236,903</u>	<u>4,743,125</u>

The interest income and expenses are related to financial instruments which are not measured at fair value through profit or loss.

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### 5 NET FEE AND COMMISSION INCOME

#### (a) Income and expense streams:

	Years ended December 31,			Nine months ended	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
<b>Fee and commission income</b>					
Underwriting fees	149,690	158,136	222,664	159,016	144,632
Wealth management business fees	152,896	175,724	180,299	139,644	140,682
Bank card services fees	5,939	3,886	2,255	33	30
Settlement and clearing services fees	22,726	13,353	13,120	10,085	168,359
Advisory and consulting fees	58,467	2,015	617	504	7,810
Agency services fees	2,015	4,489	3,869	2,455	1,763
Acceptance and guarantee services fees	53,921	58,893	48,888	33,798	43,334
Sub-total	445,654	416,496	471,712	345,535	506,610
<b>Fee and commission expense</b>	(209,790)	(243,914)	(320,760)	(229,410)	(260,839)
<b>Net fee and commission income</b>	235,864	172,582	150,952	116,125	245,771

#### (b) Disaggregation of income:

	Years ended December 31,						Nine months ended September 30,			
	2018	2019		2020			2020	2021		
	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time
							(unaudited)		(unaudited)	
Underwriting fees	149,690	–	158,136	–	222,664	–	159,016	–	144,632	–
Wealth management business fees	–	152,896	–	175,724	–	180,299	–	139,644	–	140,682
Bank card services fees	5,939	–	3,886	–	2,255	–	33	–	30	–
Settlement and clearing services fees	22,726	–	13,353	–	13,120	–	10,085	–	168,359	–
Advisory and consulting fees	–	58,467	–	2,015	–	617	–	504	–	7,810
Agency services fees	–	2,015	–	4,489	–	3,869	–	2,455	–	1,763
Acceptance and guarantee services fees	–	53,921	–	58,893	–	48,888	–	33,798	–	43,334
Total	178,355	267,299	175,375	241,121	238,039	233,673	169,134	176,401	313,021	193,589

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### 6 NET TRADING GAINS

	<i>Note</i>	Years ended December 31,			Nine months ended September 30,	
		2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2020 <i>RMB'000</i> <i>(unaudited)</i>	2021 <i>RMB'000</i>
Net gains from debt securities	(a)	215	21,762	260,905	197,860	254,979
Net foreign exchange gains/(losses)	(b)	8,043	2,709	(7,833)	(2,035)	(169)
Total		<u>8,258</u>	<u>24,471</u>	<u>253,072</u>	<u>195,825</u>	<u>254,810</u>

(a) Net gains from debt securities include gains arising from the buying and selling of, and changes in the fair value of debt securities held for trading.

(b) Net foreign exchange gains/(losses) mainly included gains/(losses) from the purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into Renminbi.

### 7 NET GAINS ARISING FROM INVESTMENT SECURITIES

Net gains arising from investment securities include of net gains on disposal of financial investments at fair value through other comprehensive income, net losses on disposal of financial investments at amortised cost and the investment income and fair value changes of financial investments at fair value through profit or loss except for debt securities held for trading.

### 8 OTHER OPERATING INCOME

	Years ended December 31,			Nine months ended September 30,	
	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2020 <i>RMB'000</i> <i>(unaudited)</i>	2021 <i>RMB'000</i>
Government grants	4,938	18,310	12,462	7,205	5,603
Others	10,054	7,738	921	1,318	2,298
Total	<u>14,992</u>	<u>26,048</u>	<u>13,383</u>	<u>8,523</u>	<u>7,901</u>

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### 9 OPERATING EXPENSES

	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
Staff costs	970,117	1,065,743	1,078,122	570,248	673,339
Office expenses	160,053	171,214	208,715	100,478	170,363
Depreciation and amortization	128,072	123,330	123,977	93,207	145,980
Depreciation charge for the right-of-use assets	95,171	117,203	123,814	92,861	75,492
Interest expense on lease liabilities	16,391	14,199	12,069	9,052	8,876
Property management expenses	9,765	9,172	9,226	6,213	12,045
Other general and administrative expenses	135,061	122,153	93,396	74,927	134,228
Total	<u>1,514,630</u>	<u>1,623,014</u>	<u>1,649,319</u>	<u>946,986</u>	<u>1,220,323</u>

### 10 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The directors of Bank of Luoyang Group consider the presentation of such information is not meaningful for the purpose of this report.

### 11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The directors of Bank of Luoyang Group consider the presentation of such information is not meaningful for the purpose of this report.

### 12 IMPAIRMENT LOSSES ON ASSETS

Impairment losses on assets mainly included impairment losses on loans and advances to customers, financial investments and other credit assets.

	Years ended December 31,			Nine months ended September 30,	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
Loans and advances to customers	2,435,015	1,589,811	1,810,689	1,439,086	1,342,854
Financial investments	1,142,181	1,888,135	1,713,036	1,456,081	971,518
Credit commitments	62,728	9,907	(11,843)	(10,067)	331,050
Deposits with banks and other financial institutions	339	(11)	(292)	(248)	1,082
Placements with banks and other financial institutions	61	(596)	290	247	466
Financial assets held under resale agreements	(2,793)	499	(2,183)	(1,856)	2,223
Finance lease receivables	186,682	307,137	323,823	275,250	187,213
Others	63,480	60,164	50,851	58,222	405,794
Total	<u>3,887,693</u>	<u>3,855,046</u>	<u>3,884,371</u>	<u>3,216,715</u>	<u>3,242,200</u>

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### 13 INCOME TAX

#### (a) Income tax:

		Years ended December 31,			Nine months ended	
	Note	2018	2019	2020	September 30,	2021
		RMB'000	RMB'000	RMB'000	2020	2021
					(unaudited)	
Current tax		1,291,436	975,063	840,764	1,018,233	859,661
Deferred tax	23(b)	(960,185)	(533,335)	(358,700)	(664,676)	(701,540)
Total		<u>331,251</u>	<u>441,728</u>	<u>482,064</u>	<u>353,557</u>	<u>158,121</u>

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

		Years ended December 31,			Nine months ended	
	Note	2018	2019	2020	September 30,	2021
		RMB'000	RMB'000	RMB'000	2020	2021
					(unaudited)	
Profit before tax		<u>1,627,634</u>	<u>2,096,075</u>	<u>2,075,210</u>	<u>1,515,096</u>	<u>1,136,827</u>
Statutory tax rate		25%	25%	25%	25%	25%
Income tax calculated at statutory tax rate		<u>406,909</u>	<u>524,019</u>	<u>518,803</u>	<u>378,774</u>	<u>284,207</u>
Non-deductible expenses		15,676	16,554	58,669	26,226	80,628
Non-taxable income	(i)	<u>(91,334)</u>	<u>(98,845)</u>	<u>(95,408)</u>	<u>(51,443)</u>	<u>(206,714)</u>
Income tax		<u>331,251</u>	<u>441,728</u>	<u>482,064</u>	<u>353,557</u>	<u>158,121</u>

- (i) The non-taxable income mainly represents the interest income from the PRC government bonds and dividends from securities funds.

### 14 BASIC AND DILUTED EARNINGS PER SHARE

No earnings per share information is presented as the directors of Bank of Luoyang consider the presentation of such information is not meaningful for the purpose of this report.

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### 15 CASH AND DEPOSITS WITH THE CENTRAL BANK

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Cash on hand		456,523	423,919	383,396	457,724
Deposits with the central bank					
– Statutory deposit reserves	(a)	14,380,571	12,542,542	11,578,750	11,721,784
– Surplus deposit reserves	(b)	8,470,068	8,385,798	6,999,986	7,034,030
– Fiscal deposits		292,356	39,722	32,959	52,681
Sub-total		23,142,995	20,968,062	18,611,695	18,808,495
Total		23,599,518	21,391,981	18,995,091	19,266,219

(a) Bank of Luoyang Group places statutory deposit reserves with the PBOC in accordance with relevant regulations. The statutory deposit reserves are not available for Bank of Luoyang Group's daily business. The subsidiaries of Bank of Luoyang Group are required to place statutory RMB deposits reserve at rates determined by the PBOC.

(b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

### 16 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

		At December 31,			At
		2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Deposits in mainland China					
– Banks		2,297,559	2,735,475	2,650,452	5,433,836
– Other financial institutions		600	600	710	919
Sub-total		2,298,159	2,736,075	2,651,162	5,434,755
Deposits outside mainland China					
– Banks		194,310	699	1,810	5
Total		2,492,469	2,736,774	2,652,972	5,434,760
Accrued interest		2,419	883	289	472
Less: Provision for impairment losses		(712)	(701)	(409)	(2,061)
Net carrying amount		2,494,176	2,736,956	2,652,852	5,433,171

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### 17 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Placements in mainland China				
– Banks	500,000	–	–	–
– Other financial institutions	400,000	1,200,000	2,900,000	5,100,000
Total	900,000	1,200,000	2,900,000	5,100,000
Accrued interest	3,058	13,667	26,056	19,747
Less: Provision for impairment losses	(1,006)	(409)	(699)	(1,165)
Net carrying amount	902,052	1,213,258	2,925,357	5,118,582

### 18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
In mainland China				
– Banks	14,275,180	18,212,819	1,249,254	2,829,920
– Other financial institutions	–	–	3,408,806	11,145,926
Total	14,275,180	18,212,819	4,658,060	13,975,846
Accrued interest	3,317	12,534	3,271	9,925
Less: Provision for impairment losses	(3,004)	(3,503)	(1,319)	(3,542)
Net carrying amount	14,275,493	18,221,850	4,660,012	13,982,229

(b) Analysed by type of security held

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Debt securities	6,759,768	14,094,204	4,208,739	13,626,672
Discounted bills	7,515,412	4,118,615	449,321	349,174
Accrued interest	3,317	12,534	3,271	9,925
Less: Provision for impairment losses	(3,004)	(3,503)	(1,319)	(3,542)
Net carrying amount	14,275,493	18,221,850	4,660,012	13,982,229

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### 19 LOANS AND ADVANCES TO CUSTOMERS

#### (a) Analysed by nature

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Loans and advances to customers measured at amortised cost				
Corporate loans and advances	62,015,144	72,006,176	72,928,659	80,735,700
Personal loans and advances				
– Reemployment loans for laid-off workers	2,707,349	2,078,077	1,910,200	1,859,156
– Personal business loans	4,261,430	4,733,533	6,428,519	7,513,642
– Residential mortgage	1,904,809	4,070,692	8,867,152	10,709,165
– Personal automobile loans	45,330	29,395	13,176	9,316
– Others	4,542,546	6,855,565	8,832,834	12,275,374
Sub-total	13,461,464	17,767,262	26,051,881	32,366,653
Accrued interest	189,359	314,413	360,768	372,767
Less: Provision for loans and advances to customers measured at amortised cost	(5,827,383)	(5,949,017)	(5,950,008)	(6,770,003)
Sub-total	69,838,584	84,138,834	93,391,300	106,705,117
Loans and advances to customers measured at fair value through other comprehensive income				
Corporate loans and advances	–	467,338	8,306,133	10,467,399
Discounted bills	13,408,392	17,126,317	18,162,821	18,887,578
Sub-total	13,408,392	17,593,655	26,468,954	29,354,977
Net loans and advances to customers	83,246,976	101,732,489	119,860,254	136,060,094

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

(b) Analysed by economic sector

At December 31, 2018			Loans and advances secured by collaterals
	Amount	Percentage	
Manufacturing	18,794,433	21.14%	5,123,656
Wholesale and retail trade	10,104,791	11.37%	3,425,589
Real estate	7,652,270	8.61%	2,749,383
Construction	7,278,931	8.19%	2,231,046
Renting and business activities	4,396,732	4.95%	1,006,168
Water, environment and public utility	3,520,178	3.96%	607,590
Production and supply of electric power, gas and water	3,089,876	3.48%	269,900
Mining	614,147	0.69%	138,460
Residential service and other service sector	225,988	0.25%	50,830
Education	90,700	0.10%	44,300
Others	6,247,098	7.03%	1,126,647
Sub-total of corporate loans and advances	62,015,144	69.77%	16,773,569
Personal loans and advances	13,461,464	15.14%	4,100,607
Discounted bills	13,408,392	15.09%	9,628,902
Gross loans and advances to customers	88,885,000	100.00%	30,503,078

At December 31, 2019			Loans and advances secured by collaterals
	Amount	Percentage	
Manufacturing	19,630,120	18.28%	4,181,461
Real estate	11,657,687	10.86%	3,913,120
Wholesale and retail trade	10,139,198	9.44%	2,999,887
Renting and business activities	8,519,828	7.94%	3,483,087
Construction	6,847,458	6.38%	2,335,820
Production and supply of electric power, gas and water	3,085,226	2.87%	75,409
Water, environment and public utility	2,998,298	2.79%	660,500
Mining	957,728	0.89%	175,110
Residential service and other service sector	227,730	0.21%	54,230
Education	38,900	0.04%	—
Others	8,371,341	7.80%	1,107,485
Sub-total of corporate loans and advances	72,473,514	67.50%	18,986,109
Personal loans and advances	17,767,262	16.55%	6,596,191
Discounted bills	17,126,317	15.95%	7,771,147
Gross loans and advances to customers	107,367,093	100.00%	33,353,447

## At December 31, 2020

	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	19,620,573	15.64%	3,267,580
Renting and business activities	15,326,041	12.21%	6,648,218
Wholesale and retail trade	12,813,972	10.21%	3,105,063
Real estate	11,499,514	9.17%	4,441,451
Construction	7,548,474	6.02%	3,084,180
Production and supply of electric power, gas and water	2,940,032	2.34%	191,800
Water, environment and public utility	2,484,330	1.98%	542,750
Mining	684,024	0.54%	108,060
Residential service and other service sector	106,762	0.09%	24,840
Education	45,800	0.04%	20,000
Others	8,165,270	6.51%	1,287,031
Sub-total of corporate loans and advances	81,234,792	64.75%	22,720,973
Personal loans and advances	26,051,881	20.77%	13,110,931
Discounted bills	18,162,821	14.48%	8,919,680
Gross loans and advances to customers	125,449,494	100.00%	44,751,584

## At September 30, 2021

	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	21,055,813	14.78%	3,891,210
Renting and business activities	19,596,991	13.76%	7,713,374
Wholesale and retail trade	14,216,635	9.98%	3,599,648
Real estate	11,171,554	7.84%	5,068,114
Construction	9,080,077	6.37%	3,531,354
Water, environment and public utility	3,180,466	2.23%	617,580
Production and supply of electric power, gas and water	3,162,548	2.22%	199,160
Mining	1,796,553	1.26%	110,060
Education	123,595	0.09%	37,000
Residential service and other service sector	118,674	0.08%	23,840
Others	7,700,193	5.41%	1,574,488
Sub-total of corporate loans and advances	91,203,099	64.02%	26,365,828
Personal loans and advances	32,366,653	22.72%	16,065,314
Discounted bills	18,887,578	13.26%	11,745,930
Gross loans and advances to customers	142,457,330	100.00%	54,177,072

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### (c) Analysed by type of collateral

	At December 31,		At September 30,	
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Unsecured loans	10,517,939	15,665,957	19,861,964	27,215,340
Guaranteed loans	47,863,983	58,347,689	60,835,946	61,064,918
Collateralised	12,175,280	18,601,028	28,027,967	32,997,592
Pledged	18,327,798	14,752,419	16,723,617	21,179,480
Gross loans and advances to customers	88,885,000	107,367,093	125,449,494	142,457,330
Accrued interest	189,359	314,413	360,768	372,767
Less: Provision for loans and advances to customers measured at amortised cost	(5,827,383)	(5,949,017)	(5,950,008)	(6,770,003)
Net loans and advances to customers	83,246,976	101,732,489	119,860,254	136,060,094

### (d) Overdue loans analysed by overdue period

	At December 31, 2018				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	46,622	8,669	13,737	26,984	96,012
Guaranteed loans	1,881,927	973,120	1,008,948	26,571	3,890,566
Collateralised	554,105	196,853	257,353	28,312	1,036,623
Pledged	634,825	9,487	29,500	47	673,859
Total	3,117,479	1,188,129	1,309,538	81,914	5,697,060
As a percentage of gross loans and advances to customers	3.51%	1.34%	1.47%	0.09%	6.41%

At December 31, 2019					
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	75,239	110,970	1,640	47	187,896
Guaranteed loans	603,282	689,871	504,776	80,963	1,878,892
Collateralised	280,786	176,266	148,867	49,755	655,674
Pledged	22,350	11,854	246,479	–	280,683
Total	981,657	988,961	901,762	130,765	3,003,145
As a percentage of gross loans and advances to customers	0.91%	0.92%	0.84%	0.12%	2.79%

At December 31, 2020					
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	165,049	104,225	–	–	269,274
Guaranteed loans	1,013,004	401,098	349,987	47,902	1,811,991
Collateralised	263,508	244,995	250,568	33,792	792,863
Pledged	2,530	21,637	232,683	–	256,850
Total	1,444,091	771,955	833,238	81,694	3,130,978
As a percentage of gross loans and advances to customers	1.15%	0.62%	0.66%	0.07%	2.50%

At September 30, 2021					
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	45,231	86,419	12,726	14,996	159,372
Guaranteed loans	5,003,438	1,951,097	378,096	75,662	7,408,293
Collateralised	489,885	757,082	377,784	44,910	1,669,661
Pledged	1,699	52,980	228,838	–	283,517
Total	5,540,253	2,847,578	997,444	135,568	9,520,843
As a percentage of gross loans and advances to customers	3.89%	2.00%	0.70%	0.10%	6.69%

Overdue loans represented loan, of which the whole or part of the principal or interest were overdue for one day or more.

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### (e) Loans and advances and provision for impairment losses

	At December 31, 2018			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
Total loans and advances to customers measured at amortised cost	59,997,113	8,003,278	7,476,217	75,476,608
Accrued interest	182,000	2,502	4,857	189,359
Less: Provision for impairment losses	(229,056)	(1,523,459)	(4,074,868)	(5,827,383)
Carrying amount of loans and advances to customers measured at amortised cost	59,950,057	6,482,321	3,406,206	69,838,584
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	13,408,392	—	—	13,408,392
Total carrying amount of loans and advances to customers	73,358,449	6,482,321	3,406,206	83,246,976
	At December 31, 2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
Total loans and advances to customers measured at amortised cost	73,889,252	8,445,775	7,438,411	89,773,438
Accrued interest	218,150	25,685	70,578	314,413
Less: Provision for impairment losses	(256,733)	(1,193,961)	(4,498,323)	(5,949,017)
Carrying amount of loans and advances to customers measured at amortised cost	73,850,669	7,277,499	3,010,666	84,138,834
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	17,583,655	—	10,000	17,593,655
Total carrying amount of loans and advances to customers	91,434,324	7,277,499	3,020,666	101,732,489

	At December 31, 2020			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
Total loans and advances to customers measured at amortised cost	79,511,995	12,224,746	7,243,799	98,980,540
Accrued interest	263,855	37,744	59,169	360,768
Less: Provision for impairment losses	(395,241)	(1,599,133)	(3,955,634)	(5,950,008)
Carrying amount of loans and advances to customers measured at amortised cost	79,380,609	10,663,357	3,347,334	93,391,300
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	26,458,954	—	10,000	26,468,954
Total carrying amount of loans and advances to customers	105,839,563	10,663,357	3,357,334	119,860,254
	At September 30, 2021			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
Total loans and advances to customers measured at amortised cost	93,087,773	13,208,681	6,805,899	113,102,353
Accrued interest	283,812	39,648	49,307	372,767
Less: Provision for impairment losses	(1,270,523)	(2,513,715)	(2,985,765)	(6,770,003)
Carrying amount of loans and advances to customers measured at amortised cost	92,101,062	10,734,614	3,869,441	106,705,117
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	27,545,859	1,559,914	249,204	29,354,977
Total carrying amount of loans and advances to customers	119,646,921	12,294,528	4,118,645	136,060,094

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

**(f) The balances of provision for impairment losses**

- (i) The balances of provision for impairment of loans and advances to customers measured at amortised cost are as follows:

	At December 31, 2018			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	354,794	1,529,952	3,728,455	5,613,201
Transferred:				
– to expected credit losses over the next 12 months	53,846	(4,116)	(49,730)	–
– to lifetime expected credit losses: not credit-impaired loans	(6,137)	9,019	(2,882)	–
– to lifetime expected credit losses: credit-impaired loans	(61,515)	(52,712)	114,227	–
(Release)/Charge for the year	(111,932)	41,316	2,472,814	2,402,198
Recoveries	–	–	20,106	20,106
Write-offs/disposals	–	–	(2,208,122)	(2,208,122)
As at December 31	<u>229,056</u>	<u>1,523,459</u>	<u>4,074,868</u>	<u>5,827,383</u>

	At December 31, 2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	229,056	1,523,459	4,074,868	5,827,383
Transferred:				
– to expected credit losses over the next 12 months	21,860	(51)	(21,809)	–
– to lifetime expected credit losses: not credit-impaired loans	(3,308)	12,861	(9,553)	–
– to lifetime expected credit losses: credit-impaired loans	(27,415)	(42,153)	69,568	–
Charge/(Release) for the year	36,540	(300,155)	1,791,714	1,528,099
Recoveries	–	–	175,698	175,698
Write-offs/disposals	–	–	(1,582,163)	(1,582,163)
As at December 31	<u>256,733</u>	<u>1,193,961</u>	<u>4,498,323</u>	<u>5,949,017</u>

	At December 31, 2020			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	256,733	1,193,961	4,498,323	5,949,017
Transferred:				
– to expected credit losses over the next 12 months	43,111	(5,309)	(37,802)	–
– to lifetime expected credit losses: not credit-impaired loans	(2,433)	8,121	(5,688)	–
– to lifetime expected credit losses: credit-impaired loans	(14,195)	(51,744)	65,939	–
Charge/(Release) for the year	112,025	454,104	1,053,720	1,619,849
Recoveries	–	–	163,657	163,657
Write-offs/disposals	–	–	(1,782,515)	(1,782,515)
As at December 31	<u>395,241</u>	<u>1,599,133</u>	<u>3,955,634</u>	<u>5,950,008</u>

	At September 30, 2021			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	395,241	1,599,133	3,955,634	5,950,008
Transferred:				
– to expected credit losses over the next 12 months	–	–	–	–
– to lifetime expected credit losses: not credit-impaired loans	(1,354)	1,354	–	–
– to lifetime expected credit losses: credit-impaired loans	(1,158)	(4,847)	6,005	–
Charge/(Release) for the period	877,794	918,075	(626,253)	1,169,616
Recoveries	–	–	164,837	164,837
Write-offs	–	–	(514,458)	(514,458)
As at September 30	<u>1,270,523</u>	<u>2,513,715</u>	<u>2,985,765</u>	<u>6,770,003</u>

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

- (ii) The balances of provision for impairment of loans and advances to customers measured at fair value through other comprehensive income are as follows:

At December 31, 2018				
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	9,373	–	–	9,373
Charge for the year	32,817	–	–	32,817
As at December 31	42,190	–	–	42,190

At December 31, 2019				
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	42,190	–	–	42,190
Charge for the year	51,712	–	10,000	61,712
As at December 31	93,902	–	10,000	103,902

At December 31, 2020				
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	93,902	–	10,000	103,902
Charge for the year	190,840	–	–	190,840
As at December 31	284,742	–	10,000	294,742

At September 30, 2021				
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	284,742	–	10,000	294,742
(Release)/Charge for the period	(62,529)	230,706	5,061	173,238
As at September 30	222,213	230,706	15,061	467,980

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### 20 FINANCIAL INVESTMENTS

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Financial investments at fair value through profit or loss	(a)	16,375,672	19,868,780	29,158,255	14,837,509
Financial investments at fair value through other comprehensive income	(b)	36,161,431	36,454,898	29,276,670	31,485,094
Financial investments at amortised cost	(c)	46,525,499	41,184,146	34,263,540	31,932,896
Total		<u>99,062,602</u>	<u>97,507,824</u>	<u>92,698,465</u>	<u>78,255,499</u>

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

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Debt securities	(i)				
– Government		–	648,810	1,779,148	111,327
– Policy banks		–	2,007,379	1,995,747	2,525,803
– Banks and other financial institutions		–	3,131,554	8,765,405	4,538,677
– Corporate		–	–	205,035	288,384
Sub-total		–	5,787,743	12,745,335	7,464,191
Listed		–	648,810	1,779,148	399,711
Unlisted		–	5,138,933	10,966,187	7,064,480
Sub-total		–	5,787,743	12,745,335	7,464,191
Wealth management products issued by financial institutions		11,075,709	8,908,345	12,895,869	5,986,495
Investment management products managed by securities companies		803,395	1,601,112	–	–
Investment management products under trust plans		3,828,859	1,447,997	423,208	336,600
Investment fund managed by public fund manager		651,636	2,107,510	3,058,442	1,008,894
Equity investments		16,073	16,073	35,401	41,329
Sub-total		<u>16,375,672</u>	<u>14,081,037</u>	<u>16,412,920</u>	<u>7,373,318</u>
Total		<u>16,375,672</u>	<u>19,868,780</u>	<u>29,158,255</u>	<u>14,837,509</u>

(i) As at the Relevant Periods, certain debt securities were pledged for repurchase agreements (Note 25). No other investment was subject to material restrictions in the realization.

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### (b) Financial investments at fair value through other comprehensive income

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Debt securities	(i)				
– Government		6,585,891	5,531,536	7,737,857	9,414,917
– Policy banks		12,320,948	16,052,862	20,221,644	21,008,008
– Banks and other financial institutions		16,739,948	14,284,694	201,828	–
– Corporate		–	–	718,908	631,712
Sub-total		35,646,787	35,869,092	28,880,237	31,054,637
Listed		6,585,891	5,531,536	7,776,721	9,355,368
Unlisted		29,060,896	30,337,556	21,103,516	21,699,269
Sub-total		35,646,787	35,869,092	28,880,237	31,054,637
Other equity investments		250	250	250	7,971
Accrued interest		514,394	585,556	396,183	422,486
Total		36,161,431	36,454,898	29,276,670	31,485,094

- (i) As at the Relevant Periods, certain debt securities were pledged for repurchase agreements (Note 25). No other investment was subject to material restrictions in the realization.
- (ii) Movements of provision for impairment of financial investments at fair value through other comprehensive income are as follows:

	At December 31, 2018			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Balance at January 1	4,776	–	–	4,776
Charge for the year	1,371	–	–	1,371
Balance at December 31	6,147	–	–	6,147

	At December 31, 2019			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Balance at January 1	6,147	–	–	6,147
Charge for the year	5,173	–	–	5,173
Balance at December 31	11,320	–	–	11,320

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

	At December 31, 2020			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Balance at January 1	11,320	–	–	11,320
Release for the year	(7,538)	–	–	(7,538)
Balance at December 31	<u>3,782</u>	<u>–</u>	<u>–</u>	<u>3,782</u>

	At September 30, 2021			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Balance at January 1	3,782	–	–	3,782
Charge for the period	8,185	–	–	8,185
Balance at September 30	<u>11,967</u>	<u>–</u>	<u>–</u>	<u>11,967</u>

(c) Financial investments at amortised cost

	At December 31,			At September 30,
Note	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Debt securities	(i)			
– Government	4,925,601	3,068,334	3,758,173	3,758,388
– Policy banks	9,860,242	6,428,709	3,748,324	2,930,347
– Banks and other financial institutions	<u>3,639,646</u>	<u>1,109,804</u>	<u>100,000</u>	<u>100,000</u>
Sub-total	<u>18,425,489</u>	<u>10,606,847</u>	<u>7,606,497</u>	<u>6,788,735</u>
Listed	4,925,601	3,068,334	3,408,173	3,408,388
Unlisted	13,499,888	7,538,513	4,198,324	3,380,347
Sub-total	<u>18,425,489</u>	<u>10,606,847</u>	<u>7,606,497</u>	<u>6,788,735</u>
Investment management products managed by trust plans	<u>32,028,230</u>	<u>35,191,856</u>	<u>31,655,623</u>	<u>30,324,016</u>
Accrued interest	2,236,318	2,936,981	3,972,958	4,755,016
Less: Provision for impairment losses	(ii) <u>(6,164,538)</u>	<u>(7,551,538)</u>	<u>(8,971,538)</u>	<u>(9,934,871)</u>
Total	<u>46,525,499</u>	<u>41,184,146</u>	<u>34,263,540</u>	<u>31,932,896</u>

- (i) As at the Relevant Periods, certain debt securities were pledged for repurchase agreements (Note 25). No other investment was subject to material restrictions in the realization.

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

(ii) The Balance of provision for impairment of financial investments at amortised cost are as follows:

	At December 31, 2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	
Balance at January 1	19,483	220,595	4,783,650	5,023,728
Charge for the year	1,706	91,033	1,048,071	1,140,810
Balance at December 31	21,189	311,628	5,831,721	6,164,538

	At December 31, 2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	
Balance at January 1	21,189	311,628	5,831,721	6,164,538
Transfers:				
– to lifetime expected credit losses: not credit-impaired	(2,822)	2,822	–	–
Charge for the year	1,744	488,950	1,392,268	1,882,962
Write-offs	–	–	(495,962)	(495,962)
Balance at December 31	20,111	803,400	6,728,027	7,551,538

	At December 31, 2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	
Balance at January 1	20,111	803,400	6,728,027	7,551,538
Transfers:				
– to lifetime expected credit losses: not credit-impaired	(450)	450	–	–
(Release)/Charge for the year	(4,772)	(364,950)	2,090,296	1,720,574
Write-offs	–	–	(300,574)	(300,574)
Balance at December 31	14,889	438,900	8,517,749	8,971,538

	At September 30, 2021			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	
Balance at January 1	14,889	438,900	8,517,749	8,971,538
Charge for the year	7,662	428,994	526,677	963,333
Balance at September 30	22,551	867,894	9,044,426	9,934,871

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### 21 FINANCE LEASE RECEIVABLES

		At December 31,			At
	Note	2018	2019	2020	September 30, 2021
Minimum finance lease receivables	(i)	23,503,505	24,036,483	25,863,394	29,048,106
Less: unearned finance lease income	(i)	<u>(2,593,394)</u>	<u>(2,625,866)</u>	<u>(2,719,258)</u>	<u>(3,051,423)</u>
Present value of finance lease receivables	(i)	<u>20,910,111</u>	<u>21,410,617</u>	<u>23,144,136</u>	<u>25,996,683</u>
Accrued interest		253,495	310,266	350,271	355,760
Less: provision for impairment losses	(ii)	<u>(649,915)</u>	<u>(957,052)</u>	<u>(1,202,451)</u>	<u>(1,325,460)</u>
Total		<u>20,513,691</u>	<u>20,763,831</u>	<u>22,291,956</u>	<u>25,026,983</u>

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

	At December 31, 2018		
	Minimum finance lease receivables	Unearned finance leases income	Present value of finance lease receivables
Less than 1 year	974,868	(36,698)	938,170
1 year to 2 years	2,713,103	(174,771)	2,538,332
2 years to 3 years	6,913,114	(677,688)	6,235,426
3 years to 5 years	12,283,706	(1,626,138)	10,657,568
More than 5 years	<u>618,714</u>	<u>(78,099)</u>	<u>540,615</u>
Total	<u>23,503,505</u>	<u>(2,593,394)</u>	<u>20,910,111</u>

	At December 31, 2019		
	Minimum finance lease receivables	Unearned finance leases income	Present value of finance lease receivables
Less than 1 year	1,325,276	(62,202)	1,263,074
1 year to 2 years	4,204,136	(319,358)	3,884,778
2 years to 3 years	8,827,399	(877,215)	7,950,184
3 years to 5 years	9,489,656	(1,355,725)	8,133,931
More than 5 years	<u>190,016</u>	<u>(11,366)</u>	<u>178,650</u>
Total	<u>24,036,483</u>	<u>(2,625,866)</u>	<u>21,410,617</u>

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	At December 31, 2020		
	Minimum finance lease receivables	Unearned finance leases income	Present value of finance lease receivables
Less than 1 year	2,481,402	(136,255)	2,345,147
1 year to 2 years	6,222,054	(468,756)	5,753,298
2 years to 3 years	6,257,398	(682,265)	5,575,133
3 years to 5 years	10,656,491	(1,404,625)	9,251,866
More than 5 years	246,049	(27,357)	218,692
Total	25,863,394	(2,719,258)	23,144,136

	At September 30, 2021		
	Minimum finance lease receivables	Unearned finance leases income	Present value of finance lease receivables
Less than 1 year	2,696,187	(139,234)	2,556,953
1 year to 2 years	4,920,406	(434,078)	4,486,328
2 years to 3 years	8,052,081	(801,221)	7,250,860
3 years to 5 years	13,379,432	(1,676,890)	11,702,542
Total	29,048,106	(3,051,423)	25,996,683

(ii) Movements of provision for impairment losses:

	At December 31, 2018			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit- impaired	Lifetime expected credit losses: credit- impaired	Total
Balance at January 1	456,613	2,419	4,201	463,233
Transfers:				
– to lifetime expected credit losses: not credit-impaired	(37,351)	37,351	–	–
– to lifetime expected credit losses: credit-impaired	(3,280)	–	3,280	–
(Release)/charge for the year	(71,347)	208,627	49,402	186,682
Balance at December 31	344,635	248,397	56,883	649,915

	At December 31, 2019			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit- impaired	Lifetime expected credit losses: credit- impaired	Total
Balance at January 1	344,635	248,397	56,883	649,915
Transfers:				
– to expected credit losses over the next 12 months	44,478	(44,478)	–	–
– to lifetime expected credit losses: not credit-impaired	(37,990)	37,990	–	–
Charge/(release) for the year	167,137	144,453	(4,453)	307,137
Balance at December 31	518,260	386,362	52,430	957,052

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

	At December 31, 2020			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Balance at January 1	518,260	386,362	52,430	957,052
Transfers:				
– to expected credit losses over the next 12 months	317,798	(317,798)	–	–
– to lifetime expected credit losses: not credit-impaired	(6,748)	6,748	–	–
– to lifetime expected credit losses: credit-impaired	–	(20,056)	20,056	–
(Release)/charge for the year	(278,758)	479,514	123,067	323,823
Write-offs	–	–	(78,424)	(78,424)
Balance at December 31	<u>550,552</u>	<u>534,770</u>	<u>117,129</u>	<u>1,202,451</u>

	At September 30, 2021			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Balance at January 1	550,552	534,770	117,129	1,202,451
Transfers:				
– to expected credit losses over the next 12 months	120,802	(120,802)	–	–
– to lifetime expected credit losses: not credit-impaired	(46,659)	46,659	–	–
– to lifetime expected credit losses: credit-impaired	(371)	(96,033)	96,404	–
Charge/(release) for the period	306,815	(146,458)	26,856	187,213
Write-offs	–	–	(64,204)	(64,204)
Balance at September 30	<u>931,139</u>	<u>218,136</u>	<u>176,185</u>	<u>1,325,460</u>

### 22 PROPERTY AND EQUIPMENT

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
<b>Net book value</b>							
As at December 31, 2018	<u>390,309</u>	<u>–</u>	<u>118,260</u>	<u>2,616</u>	<u>18,134</u>	<u>140,037</u>	<u>669,356</u>
As at December 31, 2019	<u>426,624</u>	<u>–</u>	<u>99,507</u>	<u>2,677</u>	<u>16,372</u>	<u>129,049</u>	<u>674,229</u>
As at December 31, 2020	<u>415,656</u>	<u>–</u>	<u>89,375</u>	<u>3,441</u>	<u>14,695</u>	<u>160,951</u>	<u>684,118</u>
As at September 30, 2021	<u>399,337</u>	<u>–</u>	<u>68,303</u>	<u>3,273</u>	<u>12,874</u>	<u>80,375</u>	<u>564,162</u>

The carrying amount of the premises with incomplete title deeds as December 31, 2018, 2019, 2020 and September 30, 2021 was RMB35 million, RMB62 million, RMB50 million and RMB43 million. Bank of Luoyang Group is still in the progress of application for the outstanding title deeds for the above premises. The directors of Bank of Luoyang Group are of the opinion that there would be no significant cost in obtaining the title deeds.

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

The net book values of premises as at December 31/September 30 are analysed by the remaining terms of the leases as follows:

	At December 31,		At September 30,	
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Held in mainland China				
– Long-term leases (over 50 years)	14,830	14,035	13,363	14,535
– Medium-term leases (10 – 50 years)	301,879	346,291	343,265	322,747
– Short-term leases (less than 10 years)	73,600	66,298	59,028	62,055
Total	<u>390,309</u>	<u>426,624</u>	<u>415,656</u>	<u>399,337</u>

### 23 DEFERRED TAX ASSETS

#### (a) Analysed by nature

	2018		At December 31, 2019		2020		At September 30, 2021	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets/ (liabilities):								
Allowance for impairment losses	12,671,900	3,167,975	15,216,216	3,804,054	17,301,988	4,325,497	20,103,372	5,025,843
Accrued staff cost payable	412,416	103,104	597,928	149,482	835,500	208,875	1,000,508	250,127
Fair value changes of financial assets	104,224	26,056	55,184	13,796	74,548	18,637	26,480	6,620
Deferred income	394,604	98,651	760,108	190,027	761,588	190,397	685,496	171,374
Others	(2,256,504)	(564,126)	(3,345,956)	(836,489)	(4,324,296)	(1,081,074)	(4,324,296)	(1,081,074)
Net balances	<u>11,326,640</u>	<u>2,831,660</u>	<u>13,283,480</u>	<u>3,320,870</u>	<u>14,649,328</u>	<u>3,662,332</u>	<u>17,491,560</u>	<u>4,372,890</u>

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### (b) Movements of deferred tax assets

	Net balance of deferred tax assets
January 1, 2018	1,918,645
Recognized in profit or loss	950,831
Recognized in other comprehensive income	(37,816)
December 31, 2018	<u>2,831,660</u>
January 1, 2019	2,831,660
Recognized in profit or loss	498,473
Recognized in other comprehensive income	(9,263)
December 31, 2019	<u>3,320,870</u>
January 1, 2020	3,320,870
Recognized in profit or loss	336,502
Recognized in other comprehensive income	4,960
December 31, 2020	<u>3,662,332</u>
January 1, 2021	3,662,332
Recognized in profit or loss	752,939
Recognized in other comprehensive income	(42,381)
September 30, 2021	<u><u>4,372,890</u></u>

### 24 OTHER ASSETS

		At December 31,			At September 30,
	Note	2018	2019	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000
Intangible assets	(a)	70,268	125,784	124,410	124,891
Reposessed assets		169,926	243,145	252,960	187,542
Interests receivable		63,320	102,465	417,528	701,432
Right-of-use assets		347,756	285,857	310,964	288,133
Leasehold improvements		69,442	55,675	62,245	74,229
Payment and collection clearance accounts		99,061	45,797	36,595	65,467
Other receivables		<u>143,127</u>	<u>276,512</u>	<u>710,978</u>	<u>298,698</u>
Total		<u><u>962,900</u></u>	<u><u>1,135,235</u></u>	<u><u>1,915,680</u></u>	<u><u>1,740,392</u></u>

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### (a) Intangible assets

	Land use rights	Computer software	Leasing license	Total
<b>Net book value</b>				
As at September 30, 2021	15,594	109,297	–	124,891
As at December 31, 2020	17,286	107,124	–	124,410
As at December 31, 2019	17,847	107,937	–	125,784
As at December 31, 2018	18,408	51,860	–	70,268

## 25 PLEDGED ASSETS

### Assets pledged as collateral

	<i>Note</i>	At December 31, 2018 RMB'000	2019 RMB'000	2020 RMB'000	At September 30, 2021 RMB'000
For repurchase agreements					
– Discounted bills		6,339,476	5,844,802	8,326,051	13,218,895
– Financial investments at fair value through profit or loss	20(a)	–	401,120	3,910,387	–
– Financial investments at fair value through other comprehensive income	20(b)	7,370,096	11,311,780	–	1,328,964
– Financial investments at amortised cost	20(c)	3,999,437	2,387,421	1,218,553	–
Total		17,709,009	19,945,123	13,454,991	14,547,859

Financial assets pledged by Bank of Luoyang Group as collaterals for liabilities which are for repurchase agreements.

## 26 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

### Analysed by type and location of counterparty

	At December 31, 2018 RMB'000	2019 RMB'000	2020 RMB'000	At September 30, 2021 RMB'000
In mainland China				
– Banks	9,443,869	3,154,830	1,879,903	1,512,783
– Other financial institutions	1,759,562	5,744,901	2,370,750	3,139,482
Sub-total	11,203,431	8,899,731	4,250,653	4,652,265
Accrued interest	68,039	71,920	18,687	24,255
Total	11,271,470	8,971,651	4,269,340	4,676,520

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### 27 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
In mainland China				
– Banks	20,541,700	17,059,657	16,859,498	16,041,995
– Other financial institutions	–	–	1,000,000	–
Sub-total	20,541,700	17,059,657	17,859,498	16,041,995
Accrued interest	269,726	222,788	222,412	199,822
Total	20,811,426	17,282,445	18,081,910	16,241,817

### 28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

#### (a) Analysed by type and location of counterparty

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
In mainland China				
– Banks	17,078,276	19,369,002	13,218,051	8,196,762
Sub-total	17,078,276	19,369,002	13,218,051	8,196,762
Accrued interest	6,473	5,300	1,439	80
Total	17,084,749	19,374,302	13,219,490	8,196,842

#### (b) Analysed by collateral

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Debt securities	10,738,800	13,524,200	4,892,000	8,196,762
Discounted bills	6,339,476	5,844,802	8,326,051	–
Sub-total	17,078,276	19,369,002	13,218,051	8,196,762
Accrued interest	6,473	5,300	1,439	80
Total	17,084,749	19,374,302	13,219,490	8,196,842

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### 29 DEPOSITS FROM CUSTOMERS

	2018	At December 31, 2019	2020	At September 30, 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Demand deposits				
– Corporate customers	30,436,685	27,156,655	25,396,842	29,178,513
– Individual customers	11,173,212	11,054,514	12,142,177	11,894,646
	<u>41,609,897</u>	<u>38,211,169</u>	<u>37,539,019</u>	<u>41,073,159</u>
Time deposits				
– Corporate customers	32,317,849	41,776,657	39,190,319	45,096,797
– Individual customers	43,873,582	58,374,639	74,669,195	88,574,241
	<u>76,191,431</u>	<u>100,151,296</u>	<u>113,859,514</u>	<u>133,671,038</u>
Pledged deposits	14,162,558	13,258,466	10,888,893	13,759,679
Inward and outward remittances	220,990	199,462	131,809	170,678
	<u>132,184,876</u>	<u>151,820,393</u>	<u>162,419,235</u>	<u>188,674,554</u>
Sub-total	132,184,876	151,820,393	162,419,235	188,674,554
Accrued interest	2,749,919	3,638,848	3,367,524	3,942,984
	<u>134,934,795</u>	<u>155,459,241</u>	<u>165,786,759</u>	<u>192,617,538</u>
Total	<u>134,934,795</u>	<u>155,459,241</u>	<u>165,786,759</u>	<u>192,617,538</u>

### 30 DEBT SECURITIES ISSUED

	2018	At December 31, 2019	2020	At September 30, 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interbank deposits issued	24,423,408	28,834,587	30,008,372	25,506,834
Financial bonds	3,200,000	2,700,000	6,369,617	6,500,000
Tier-two capital bonds	4,500,000	4,499,445	2,000,000	2,000,000
	<u>32,123,408</u>	<u>36,034,032</u>	<u>38,377,989</u>	<u>34,006,834</u>
Sub-total	32,123,408	36,034,032	38,377,989	34,006,834
Accrued interest	124,433	109,026	59,456	216,797
	<u>32,247,841</u>	<u>36,143,058</u>	<u>38,437,445</u>	<u>34,223,631</u>
Total	<u>32,247,841</u>	<u>36,143,058</u>	<u>38,437,445</u>	<u>34,223,631</u>

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### 31 OTHER LIABILITIES

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Finance lease deposits		1,248,122	1,443,531	1,567,203	1,827,561
Accrued staff cost	(a)	488,101	656,544	711,631	444,528
Lease liabilities		338,298	275,031	278,965	256,509
Dividend payable		19,705	20,327	29,963	29,483
Provisions		62,728	72,635	60,792	391,842
Payment and collection clearance accounts		109,374	192,205	477,673	615,811
Other payable		713,432	499,894	630,321	431,477
Total		<u>2,979,760</u>	<u>3,160,167</u>	<u>3,756,548</u>	<u>3,997,211</u>

#### (a) Accrued staff cost

		At December 31,			At
	Note	2018	2019	2020	September 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Salary, bonuses and allowances payable		446,736	604,150	653,315	393,088
Labor union fee, staff and workers' education fee		838	835	663	254
Supplementary retirement benefits payable	(i)	33,065	34,266	34,201	33,680
Social insurance payable		7,423	17,238	23,452	17,506
Housing allowances payable		39	55	—	—
Total		<u>488,101</u>	<u>656,544</u>	<u>711,631</u>	<u>444,528</u>

#### (i) Supplementary retirement benefits

The supplementary retirement benefits of Bank of Luoyang Group include early retirement plan and supplementary retirement plan. The early retirement benefits is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to Bank of Luoyang Group's employees. Principal actuarial assumptions of Bank of Luoyang Group are as follows:

Employee	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
<b>Early retirement plan</b>				
Discount rate	2.90%	2.90%	2.90%	2.90%
Annual increase rate of internal salary	4.00%	4.00%	4.00%	4.00%
<b>Supplementary retirement plan</b>				
Discount rate	3.70%	3.80%	3.80%	3.80%

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### 32 SHARE CAPITAL

Share capital of Bank of Luoyang as at December 31, 2018, 2019, 2020 and September 30, 2021 is fully paid.

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Number of shares authorised, issued and fully paid at par value of RMB1 each	5,300,000	6,890,000	6,890,000	6,890,000

### 33 RESERVES

#### (a) Capital reserve

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Share premium	142,833	142,833	142,833	142,833
Changes in fair value recognized in other comprehensive income (i)	(182,698)	(169,959)	(244,164)	84,270
Impairment losses recognized in other comprehensive income (ii)	136,706	201,768	328,414	463,645
Changes on remeasurement of defined benefit liabilities (iii)	(5,195)	(5,018)	(4,976)	(4,976)
Total	91,646	169,624	222,107	685,772

#### (i) Investment revaluation reserve

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
As at January 1	(196,238)	(182,698)	(169,959)	(244,164)
Changes in fair value recognised in other comprehensive income	639,599	2,845	(11,041)	(171,982)
Transfer to profit or loss upon disposal	(621,546)	14,140	(87,899)	609,894
Less: deferred income tax	(4,513)	(4,246)	24,735	(109,478)
Total	(182,698)	(169,959)	(244,164)	84,270

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### (ii) Impairment reserve

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
As at January 1	10,612	136,706	201,768	328,414
Impairment losses recognized in other comprehensive income	168,126	86,750	168,862	180,308
Less: deferred income tax	(42,032)	(21,688)	(42,216)	(45,077)
Total	<u>136,706</u>	<u>201,768</u>	<u>328,414</u>	<u>463,645</u>

### (iii) Deficit on remeasurement of net defined benefit liability

Deficit on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
As at January 1	(4,340)	(5,195)	(5,018)	(4,976)
Changes in fair value recognised in other comprehensive income	(855)	177	42	—
Total	<u>(5,195)</u>	<u>(5,018)</u>	<u>(4,976)</u>	<u>(4,976)</u>

### (b) Surplus reserve

The surplus reserve at the end of Relevant Periods represented statutory surplus reserve fund and discretionary surplus reserve fund. Pursuant to the Commercial Bank Law of the PRC and the Article of Association of Bank of Luoyang Group, Bank of Luoyang Group is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

Bank of Luoyang Group may also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

### (c) General reserve

Pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the Ministry of Finance, Bank of Luoyang Group is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis.

**34 OTHER EQUITY INSTRUMENTS**

**Perpetual bonds outstanding at the end of the year/period:**

Financial instrument outstanding	Time issued	Classifications	Dividend yield ratio/ Interest rate	Issue price	Quantities	In original currency million	In RMB million	Maturity	Conversion conditions
Perpetual bonds	June 26, 2021	Equity	4.80%	100CNY	20,000,000	2,000	2,000	June 26, 2026	None
Less: issuing cost							0.29		
Book value as at September 30, 2021							1,999.71		

**35 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES**

**(a) Structured entities sponsored by third party institutions in which Bank of Luoyang Group holds an interest**

Bank of Luoyang Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts of interests held by Bank of Luoyang Group in unconsolidated structured entities, as well as an analysis of the line items in the consolidated statements of financial position in which relevant assets are recognized as at as at December 31, 2018, 2019, 2020 and September 30, 2021:

	At December 31, 2018		At December 31, 2019		At December 31, 2020		At September 30, 2021	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	16,359,599	16,359,599	14,064,964	14,064,964	16,377,519	16,377,519	7,331,989	7,331,989
Financial investments at amortised cost	33,932,996	33,932,996	37,923,037	37,923,037	35,513,409	35,513,409	34,972,997	34,972,997
Total	50,292,595	50,292,595	51,988,001	51,988,001	51,890,928	51,890,928	42,304,986	42,304,986

As at December 31, 2018, 2019, 2020 and September 30, 2021, the carrying amounts of the unconsolidated structured entities are equal to the maximum exposures.

**(b) Structured entities sponsored by Bank of Luoyang Group which Bank of Luoyang Group does not consolidate but holds an interest in**

The types of unconsolidated structured entities sponsored by Bank of Luoyang Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by Bank of Luoyang Group includes investments in units issued by these structured entities and fees charged by providing management services. As at December 31, 2018, 2019, 2020 and September 30, 2021, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at December 31, 2018, 2019, 2020 and September 30, 2021, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by Bank of Luoyang Group, are RMB30.64 billion, RMB27.96 billion, RMB24.34 billion and RMB23.64 billion, respectively.

### 36 CAPITAL MANAGEMENT

Bank of Luoyang Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. Bank of Luoyang Group calculates the capital adequacy ratio in accordance with guidelines issued by the former CBRC. The capital of Bank of Luoyang Group is divided into core tier-one capital, other tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of Bank of Luoyang Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

Bank of Luoyang Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

Bank of Luoyang Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the former CBRC.

The former CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of Bank of Luoyang Group illustrated below are computed based on Bank of Luoyang Group's statutory Historical Financial Information prepared in accordance with PRC GAAP.

Bank of Luoyang Group's capital adequacy ratios submitted to CBIRC as at September 30, 2021 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

Core tier-one capital adequacy ratio	11.99%
Tier-one capital adequacy ratio	13.10%
Capital adequacy ratio	15.43%

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### 37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Net increase/(decrease) in cash and cash equivalents

	Years ended December 31,			Nine months ended September 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Cash and cash equivalents as at December 31/September 30	25,092,922	28,248,852	14,394,541	19,571,271	27,006,705
Less: Cash and cash equivalents as at January 1	(24,913,601)	(25,092,922)	(28,248,852)	(28,248,852)	(14,394,541)
Net increase/(decrease) in cash and cash equivalents	179,321	3,155,930	(13,854,311)	(8,677,581)	12,612,164

#### (b) Cash and cash equivalents

	Years ended December 31,			Nine months ended September 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Cash on hand	456,523	423,919	383,396	482,921	457,724
Deposits with the central bank	8,470,068	8,385,798	6,999,986	4,867,882	7,034,030
Deposits with banks and other financial institutions	2,292,469	2,536,774	2,252,972	1,133,729	5,238,264
Financial assets held under resale agreements	13,273,862	16,902,361	4,358,187	13,086,739	13,776,687
Placements with banks and other financial institutions	600,000	—	400,000	—	500,000
Total	25,092,922	28,248,852	14,394,541	19,571,271	27,006,705

### 38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

#### (a) Relationship of related parties:

##### (i) Major shareholders

Major shareholders include shareholders of Bank of Luoyang with direct or indirect 5% or above shareholding, or with the right to appoint a director in Bank of Luoyang.

Shareholding in Bank of Luoyang:

	Years ended December 31,			Nine months ended September 30,	
	2018	2019	2020	2020	2021
				(unaudited)	
Luoyang Municipal Finance Bureau	17.12%	17.12%	17.12%	17.12%	17.12%
Henan Zhaoteng Investment Group Co., Ltd.	8.32%	8.32%	8.32%	8.32%	8.32%

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	Years ended December 31,			Nine months ended	
	2018	2019	2020	September 30, 2020	2021
				(unaudited)	
Jiangsu Wuzhong Pharmaceutical Development Co., Ltd.	7.55%	7.55%	7.55%	7.55%	7.55%
Yto (Luoyang) Diesel Engine Co., Ltd.	4.06%	4.06%	4.06%	4.06%	4.06%
Luoyang Municipal Construction Investment Co., Ltd.	3.64%	3.64%	3.64%	3.64%	3.64%
Luoyang Zijin Yinhui Metal Smelt Co., Ltd.	0.10%	0.10%	0.10%	0.10%	0.10%

**(ii) Subsidiaries and joint venture of Bank of Luoyang**

The detailed information of Bank of Luoyang's subsidiaries and joint venture are set out in Note 1.

**(iii) Other related parties**

Other related parties can be individuals or enterprises, which include: members of the board of directors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of Bank of Luoyang as set out in Note 38(a) or their controlling shareholders.

**(b) Related party transactions and balances:**

**(i) Transactions between Bank of Luoyang Group and major shareholders:**

	Years ended December 31,			Nine months ended
	2018	2019	2020	September 30, 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Transactions during the year/period:				
Interest income	52,546	47,903	46,498	72,451
Interest expense	10,521	6,437	6,217	9,227
	At December 31,			At
	2018	2019	2020	September 30, 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Balances at end of the year/period				
Loans and advances to customers	1,086,000	814,900	965,068	776,460
Interests receivable	1,795	1,296	1,149	3,335
Deposits from banks and other financial institutions	200,947	1,700	1,480	436
Deposits from customers	523,728	574,664	678,156	776,139
Interests payable	273	863	1,836	380
	Years ended December 31,			Nine months ended
	2018	2019	2020	September 30, 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Credit commitments:				
Acceptances	87,761	34,740	1,680	1,400

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**(d) Loans and advances to directors, supervisors and officers**

Loans and advances to directors, supervisors and officers of Bank of Luoyang disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	<b>Years ended December 31,</b>			<b>September 30,</b>
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Aggregate amount of relevant loans outstanding at the end of the year/period	8,214	16,585	17,572	12,121
Maximum aggregate amount of relevant loans outstanding during the year/period	8,214	16,685	17,665	12,121

There was no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at December 31, 2018, 2019, 2020 and September 30, 2020 and 2021.

**39 SEGMENT REPORTING**

Since Bank of Luoyang Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is in Henan Province, PRC. Therefore, no analysis by geographical regions is presented.

**40 RISK MANAGEMENT**

Bank of Luoyang Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about Bank of Luoyang Group's exposure to each of the above risks and their sources, and Bank of Luoyang Group's objectives, policies and procedures for measuring and managing these risks.

Bank of Luoyang Group's risk management policies were established to identify and analyze the risks to which Bank of Luoyang Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and Bank of Luoyang Group's activities. The Internal Audit Department of Bank of Luoyang Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

**(a) Credit risk**

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to Bank of Luoyang Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

***Credit business***

The board of directors is responsible for setting Bank of Luoyang Group's risk management strategy and the overall risk tolerance level. The board also monitors Bank of Luoyang Group's risk management process and regularly assesses Bank of Luoyang Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The responsible departments for credit risk management include the Credit Approval Department, Credit Management Department, and Risk Management Department. The Risk Management Department is responsible for implementing Bank of Luoyang Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is

also responsible for formulating risk management policies. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments of branches carry out credit businesses according to Bank of Luoyang Group's risk management policies and procedures.

Bank of Luoyang Group continuously improves the internal control mechanism and strengthens the management of the credit business. Bank of Luoyang Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, Bank of Luoyang Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. Bank of Luoyang Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, Bank of Luoyang Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, Bank of Luoyang Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. Bank of Luoyang Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, Bank of Luoyang Group starts the recovery process according to standardized loan recovery procedures.

Bank of Luoyang Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

#### ***Financial markets business***

Bank of Luoyang Group sets credit limits for financial markets business operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

#### ***Credit risk management***

The financial assets are categorized by Bank of Luoyang Group into the following stages to manage its financial assets' credit risk:

##### ***Stage 1***

Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

##### ***Stage 2***

Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

##### ***Stage 3***

Financial assets that are in default and considered credit-impaired.

*Significant increase in credit risk*

When one or more quantitative, qualitative standards or upper limits are triggered, Bank of Luoyang Group assumes that credit risk on financial assets has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

- The credit spread increases significantly;
- Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status;
- Application of a grace period or debt-restructuring;
- Significant changes with an adverse effect in the borrower's business conditions;
- Less value of the collaterals (for the collateral loans and pledged loans only);
- Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans;
- The borrower is more than 30 days past due.

Bank of Luoyang Group uses watch lists to monitor credit risk of financial assets related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

As at December 31, 2018, 2019, 2020 and September 30, 2021, Bank of Luoyang Group has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

*Definition of "default" and "credit-impaired assets"*

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

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- the disappearance of an active market for a security because of financial difficulties of the issuer; or
- overdue more than 90 days.

The above criteria apply to all financial assets of Bank of Luoyang Group and they are consistent with the definition of "default" adopted by the internal management of credit risk.

*Measurement of expected credit losses ("ECL")*

Bank of Luoyang Group adopts ECL model to measures provision for loss of financial assets based on the stages categorised above.

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

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;
- EAD is the amount that Bank of Luoyang Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;
- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by Bank of Luoyang Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

Bank of Luoyang Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. Bank of Luoyang Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, Bank of Luoyang Group can calculate the ECL for the future months. The results of calculation for each month are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

Bank of Luoyang Group quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

Both the assessment of the significant increase in credit risk and the measurement of ECL involve forward-looking information. Based on the analysis on historical data, Bank of Luoyang Group identified critical economic indicators that affect the credit risk and ECL of all asset portfolios, including GDP, industrial added value, CPI, etc.

There has been no significant change in the valuation techniques and key assumptions during the Relevant Periods.

*Assessing credit risk of financial assets after the amendment of contractual cash flows*

In order to achieve maximum collection, Bank of Luoyang Group may modify the contractual terms of loans due to business negotiations or financial difficulties of the borrowers at times.

Such rescheduling activities include extended payment term arrangements, payment holidays and payment forgiveness. Rescheduling policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. The restructuring of loans is most common in the management of medium and long-term loans. The risk stage can only be adjusted lower if the rescheduled loans are reviewed for at least 6 consecutive months and the corresponding stage classification criteria is reached.

## (i) Financial assets (excluding accrued interest) analysed by credit quality

	At December 31, 2018				
	Balance		Provision for impairment losses		
	Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired and assessed for lifetime expected credit loss
			Total		Total
Financial assets measured at amortised cost					
Cash and deposits with the central bank	23,599,518	-	23,599,518	-	-
Deposits with banks and other financial institutions	2,492,469	-	2,492,469	(712)	(712)
Placements with banks and other financial institutions	900,000	-	900,000	(1,006)	(1,006)
Financial assets held under resale agreements	14,275,180	-	14,275,180	(3,004)	(3,004)
Loans and advances to customers	59,997,113	8,003,278	75,476,608	(229,056)	(4,074,868)
Financial investments	35,346,100	4,596,900	50,453,719	(21,189)	(5,831,721)
Finance lease receivables	19,045,894	1,760,737	20,910,111	(344,635)	(6,164,538)
				(248,397)	(56,883)
Total	155,656,274	14,360,915	188,107,605	(599,602)	(9,963,472)
Financial assets at fair value through other comprehensive income					
Loans and advances to customers	13,408,392	-	13,408,392	(42,190)	(42,190)
Financial investments	35,647,037	-	35,647,037	(6,147)	(6,147)
Total	49,055,429	-	49,055,429	(48,337)	(48,337)
Credit commitments	45,670,129	-	45,670,129	(62,728)	(62,728)

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	At December 31, 2020				
	Balance		Provision for impairment losses		
	Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired and assessed for lifetime expected credit loss	Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss
Financial assets measured at amortised cost					
Cash and deposits with the central bank	18,995,091	-	-	-	-
Deposits with banks and other financial institutions	2,652,972	-	-	(409)	(409)
Placements with banks and other financial institutions	2,900,000	-	-	(699)	(699)
Financial assets held under resale agreements	4,658,060	-	-	(1,319)	(1,319)
Loans and advances to customers	79,511,995	12,224,746	7,243,799	(395,241)	(3,955,634)
Financial investments	21,718,360	5,529,925	12,013,835	(14,889)	(8,517,749)
Finance lease receivables	19,772,995	3,186,412	184,729	(550,552)	(117,129)
Total	150,209,473	20,941,083	19,442,363	(963,109)	(12,590,512)
Financial assets at fair value through other comprehensive income					
Loans and advances to customers	26,458,954	-	10,000	(284,742)	(10,000)
Financial investments	28,880,487	-	-	(3,782)	-
Total	55,339,441	-	10,000	(288,524)	(10,000)
Credit commitments	44,146,304	-	-	(60,792)	-

	At September 30, 2021						
	Balance		Provision for impairment losses				
	Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired and assessed for lifetime expected credit loss	Total	Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired and assessed for lifetime expected credit loss
Financial assets measured at amortised cost							
Cash and deposits with the central bank	19,266,219	-	-	19,266,219	-	-	-
Deposits with banks and other financial institutions	5,434,760	-	-	5,434,760	(2,061)	-	-
Placements with banks and other financial institutions	5,100,000	-	-	5,100,000	(1,165)	-	-
Financial assets held under resale agreements	13,975,846	-	-	13,975,846	(3,542)	-	-
Loans and advances to customers	93,087,773	13,208,681	6,805,899	113,102,353	(1,270,523)	(2,513,715)	(2,985,765)
Financial investments	18,916,876	5,581,925	12,613,950	37,112,751	(22,551)	(867,894)	(9,044,426)
Finance lease receivables	22,999,970	2,591,707	405,006	25,996,683	(931,139)	(218,136)	(176,185)
Total	178,781,444	21,382,313	19,824,855	219,988,612	(2,230,981)	(3,599,745)	(12,206,376)
Financial assets at fair value through other comprehensive income							
Loans and advances to customers	27,545,859	1,559,914	249,204	29,354,977	(222,213)	(230,706)	(15,061)
Financial investments	31,062,608	-	-	31,062,608	(11,967)	-	-
Total	58,608,467	1,559,914	249,204	60,417,585	(234,180)	(230,706)	(15,061)
Credit commitments	48,173,203	2,820,933	303,025	51,297,161	(58,104)	(68,249)	(5,458)

**(b) Market risk**

Market risk is the risk of loss, in respect of Bank of Luoyang Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring Bank of Luoyang Group's market risk to ensure that Bank of Luoyang Group has effectively identified, measured and monitored all types of market risk. The Risk and Internal Control Management Committee monitors the market risk management process within the scope authorized by the board of directors, which include review and approval of market risk management strategies, policies and procedures. Bank of Luoyang Group is primarily exposed to market risk in its financial markets business. The Financial Market Department is responsible for carrying out capital investments and transactions, as well as monitoring and managing the foreign exchange risk on a daily basis. The Planning and Finance Department is responsible for monitoring and managing the interest rate risk in bank account. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring Bank of Luoyang Group's market risk.

Sensitivity analysis is a technique which assesses the sensitivity of Bank of Luoyang Group's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on Bank of Luoyang Group's economic value.

***Interest rate risk and liquidity risk***

Bank of Luoyang Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

***Repricing risk***

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes Bank of Luoyang Group's income or its inherent economic value to vary with the movement in interest rates.

The Planning and Finance Department is responsible for measuring, monitoring and managing interest rate risk. Bank of Luoyang Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

- (i) The following tables indicate the assets and liabilities as at the end of each of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier:

	At December 31, 2018					Total
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	
<b>Assets</b>						
Cash and deposits with the central bank	23,142,995	–	–	–	456,523	23,599,518
Deposits with banks and other financial institutions	2,291,910	199,847	–	–	2,419	2,494,176
Placement with banks and other financial institutions	799,307	99,687	–	–	3,058	902,052

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

	At December 31, 2018					Total
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	
Financial assets held under resale agreements	13,872,573	399,603	–	–	3,317	14,275,493
Loans and advances to customers (Note (1))	19,961,194	45,535,410	13,506,310	4,054,703	189,359	83,246,976
Financial investments (Note (2))	22,110,318	26,828,493	40,223,614	6,865,405	3,034,772	99,062,602
Finance lease receivables (Note (3))	16,065,053	4,195,143	–	–	253,495	20,513,691
Others	–	–	–	–	4,463,916	4,463,916
Total assets	98,243,350	77,258,183	53,729,924	10,920,108	8,406,859	248,558,424
<b>Liabilities</b>						
Borrowing from the central bank	7,090,000	6,508,000	–	–	119,329	13,717,329
Deposits from banks and other financial institutions	4,603,431	6,600,000	–	–	68,039	11,271,470
Placement from banks and other financial institutions	10,900,780	9,640,920	–	–	269,726	20,811,426
Financial assets sold under repurchase agreements	17,068,408	9,868	–	–	6,473	17,084,749
Deposits from customers	64,217,080	21,991,807	45,504,174	–	3,221,734	134,934,795
Debt securities issued	12,600,971	12,323,092	2,700,000	4,499,345	124,433	32,247,841
Others	–	–	–	–	3,444,855	3,444,855
Total liabilities	116,480,670	57,073,687	48,204,174	4,499,345	7,254,589	233,512,465
Asset-liability gap	(18,237,320)	20,184,496	5,525,750	6,420,763	1,152,270	15,045,959

	At December 31, 2019					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank	20,968,062	–	–	–	423,919	21,391,981
Deposits with banks and other financial institutions	2,536,183	199,890	–	–	883	2,736,956
Placement with banks and other financial institutions	699,637	499,954	–	–	13,667	1,213,258
Financial assets held under resale agreements	18,209,316	–	–	–	12,534	18,221,850
Loans and advances to customers <i>(Note (1))</i>	22,689,654	55,390,551	18,162,213	5,175,658	314,413	101,732,489
Financial investments <i>(Note (2))</i>	13,292,177	33,438,216	44,530,612	2,526,628	3,720,191	97,507,824
Finance lease receivables <i>(Note (3))</i>	15,268,509	4,962,348	222,708	–	310,266	20,763,831
Others	–	–	–	–	5,130,334	5,130,334
Total assets	93,663,538	94,490,959	62,915,533	7,702,286	9,926,207	268,698,523

	At December 31, 2019					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
<b>Liabilities</b>						
Borrowing from the central bank	9,790,000	2,078,000	–	–	39,993	11,907,993
Deposits from banks and other financial institutions	3,359,731	5,540,000	–	–	71,920	8,971,651
Placement from banks and other financial institutions	6,649,747	10,409,910	–	–	222,788	17,282,445
Financial assets sold under repurchase agreements	19,369,002	–	–	–	5,300	19,374,302
Deposits from customers	63,158,555	25,474,436	62,975,113	–	3,851,137	155,459,241
Debt securities issued	14,235,748	15,598,839	1,700,000	4,499,445	109,026	36,143,058
Others	–	–	–	–	3,276,602	3,276,602
	<u>116,562,783</u>	<u>59,101,185</u>	<u>64,675,113</u>	<u>4,499,445</u>	<u>7,576,766</u>	<u>252,415,292</u>
Total liabilities	116,562,783	59,101,185	64,675,113	4,499,445	7,576,766	252,415,292
Asset-liability gap	(22,899,245)	35,389,774	(1,759,580)	3,202,841	2,349,441	16,283,231

	At December 31, 2020					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank	18,611,695	–	–	–	383,396	18,995,091
Deposits with banks and other financial institutions	2,252,689	399,874	–	–	289	2,652,852
Placement with banks and other financial institutions	1,449,557	1,449,744	–	–	26,056	2,925,357
Financial assets held under resale agreements	4,656,741	–	–	–	3,271	4,660,012
Loans and advances to customers <i>(Note (1))</i>	23,714,048	67,320,258	20,431,541	8,033,639	360,768	119,860,254
Financial investments <i>(Note (2))</i>	12,150,576	24,042,808	39,279,135	12,659,028	4,566,918	92,698,465
Finance lease receivables <i>(Note (3))</i>	11,162,758	5,967,508	4,811,419	–	350,271	22,291,956
Others	–	–	–	–	6,262,130	6,262,130
Total assets	73,998,064	99,180,192	64,522,095	20,692,667	11,953,099	270,346,117
<b>Liabilities</b>						
Borrowing from the central bank	7,563,000	1,047,900	–	–	260,984	8,871,884
Deposits from banks and other financial institutions	2,980,653	1,270,000	–	–	18,687	4,269,340
Placement from banks and other financial institutions	6,479,498	11,380,000	–	–	222,412	18,081,910
Financial assets sold under repurchase agreements	12,705,496	512,555	–	–	1,439	13,219,490
Deposits from customers	62,220,302	28,114,944	71,948,361	–	3,503,152	165,786,759
Debt securities issued	12,701,144	19,007,228	4,669,617	2,000,000	59,456	38,437,445
Others	–	–	–	–	3,896,602	3,896,602
Total liabilities	104,650,093	61,332,627	76,617,978	2,000,000	7,962,732	252,563,430
Asset-liability gap	(30,652,029)	37,847,565	(12,095,883)	18,692,667	3,990,367	17,782,687

	At September 30, 2021					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank	18,808,495	–	–	–	457,724	19,266,219
Deposits with banks and other financial institutions	4,732,990	699,709	–	–	472	5,433,171
Placement with banks and other financial institutions	1,699,629	3,399,206	–	–	19,747	5,118,582
Financial assets held under resale agreements	13,972,304	–	–	–	9,925	13,982,229
Loans and advances to customers ( <i>Note (1)</i> )	49,159,964	47,595,803	36,052,306	2,879,254	372,767	136,060,094
Financial investments ( <i>Note (2)</i> )	11,364,313	9,917,703	46,732,115	4,037,691	6,203,677	78,255,499
Finance lease receivables ( <i>Note (3)</i> )	19,651,215	4,924,879	95,129	–	355,760	25,026,983
Others	–	–	–	–	6,677,444	6,677,444
Total assets	119,388,910	66,537,300	82,879,550	6,916,945	14,097,516	289,820,221
<b>Liabilities</b>						
Borrowing from the central bank	6,393,566	1,974,643	–	–	4,710	8,372,919
Deposits from banks and other financial institutions	2,852,265	1,800,000	–	–	24,255	4,676,520
Placement from banks and other financial institutions	6,356,520	9,445,475	240,000	–	199,822	16,241,817
Financial assets sold under repurchase agreements	8,196,762	–	–	–	80	8,196,842
Deposits from customers	63,201,645	38,947,697	86,302,386	–	4,165,810	192,617,538
Debt securities issued	17,226,834	9,980,000	4,800,000	2,000,000	216,797	34,223,631
Others	–	–	–	–	4,264,429	4,264,429
Total liabilities	104,227,592	62,147,815	91,342,386	2,000,000	8,875,903	268,593,696
Asset-liability gap	15,161,318	4,389,485	(8,462,836)	4,916,945	5,221,613	21,226,525

*Notes:*

- (1) As at December 31, 2018, 2019, 2020 and September 30, 2021, for loans and advances to customers, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB4,087 million, RMB1,283 million, RMB1,495 million and RMB4,800 million respectively.
- (2) As at December 31, 2018, 2019, 2020 and September 30, 2021, for financial investments, the category “Less than three months” and “Three months to one year” include overdue amounts (net of provision for impairment losses) of nil, RMB3,280 million, RMB2,410 million and RMB1,815 million respectively.
- (3) As at December 31, 2018, 2019, 2020 and September 30, 2021, for finance lease receivables, the category “Less than three months” and “Three months to one year” include overdue amounts (net of provision for impairment losses) of RMB432 million, RMB114 million, RMB122 million and RMB185 million respectively.

(ii) Interest rate sensitivity analysis

Bank of Luoyang Group uses sensitivity analysis to measure the impact of changes in interest rate on Bank of Luoyang Group's net profit or loss and equity. The following table sets forth the results of Bank of Luoyang Group's interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant.

	At December 31,			At
	2018	2019	2020	September 30,
	(Decrease)	(Decrease)	(Decrease)	(Decrease)
Change in net profit	/Increase	/Increase	/Increase	/Increase
Up 100 bps parallel shift in yield curves	(10,236)	(62,509)	(14,645)	(14,217)
Down 100 bps parallel shift in yield curves	10,236	62,509	14,645	14,217

The sensitivity analysis above is based on a static interest rate risk profile of Bank of Luoyang Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of Bank of Luoyang Group's assets and liabilities within the one-year period. The effect of equity is the effect of the assumed changes in interest rates on other comprehensive income, calculated by revaluing financial investments at fair value through other comprehensive income and loans and advances to customers measured at fair value through other comprehensive income held at the end of each of the Relevant Periods. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of each of the Relevant Periods apply to non-derivative financial instruments of Bank of Luoyang Group;
- At the end of each of the Relevant Periods, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in Bank of Luoyang Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

***Foreign currency risk***

Bank of Luoyang Group operates mainly in the PRC with most of the transactions settled in RMB. Management considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of Bank of Luoyang Group denominated in the currencies other than the respective functional currencies of Bank of Luoyang Group's entities.

## (c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, Bank of Luoyang Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing Bank of Luoyang Group's overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles.

The Planning and Finance Department takes the lead to execute liquidity management policies and is responsible for formulating and revising the liquidity management strategies, and for identifying, measuring, monitoring and releasing the liquidity risk of Bank of Luoyang Group. It is also responsible for managing and forecasting the working capital on a regular basis and ensuring the liquidity of working capital meets management requirements based on the liquidity strategies. The Finance Market Department is responsible for performing the operation following the instructions of the Finance Management Department. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

A substantial portion of Bank of Luoyang Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and loan commitments as at the end of each of the Relevant Periods:

	Years ended December 31, 2018						
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>							
Borrowing from the central bank	13,717,329	13,863,133	119,329	7,098,052	6,645,752	–	–
Deposits from banks and other financial institutions	11,271,470	11,389,946	1,384,270	3,238,360	6,767,316	–	–
Placements from banks and other financial institutions	20,811,426	21,104,899	269,726	10,941,163	9,894,010	–	–
Financial assets sold under repurchase agreements	17,084,749	17,093,674	6,473	17,077,333	9,868	–	–
Deposits from customers	134,934,795	140,155,446	41,211,630	23,748,422	22,855,697	52,339,697	–
Debt securities issued	32,247,841	34,717,081	124,433	12,670,000	12,863,071	3,873,750	5,185,827
Lease Liabilities	338,298	365,847	–	152	2,540	236,203	126,952
Total non-derivative financial liabilities	230,405,908	238,690,026	43,115,861	74,773,482	59,038,254	56,449,650	5,312,779

	Years ended December 31, 2019						
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>							
Borrowing from the central bank	11,907,993	11,920,284	39,993	9,790,017	2,090,274	–	–
Deposits from banks and other financial institutions	8,971,651	9,336,584	771,651	2,675,597	5,889,336	–	–
Placements from banks and other financial institutions	17,282,445	17,535,683	222,788	6,676,832	10,636,063	–	–
Financial assets sold under repurchase agreements	19,374,302	19,397,910	5,300	19,081,481	311,129	–	–
Deposits from customers	155,459,241	163,513,912	38,415,364	39,156,268	24,800,365	61,141,915	–
Debt securities issued	36,143,058	38,211,542	109,026	14,300,000	15,867,255	1,846,973	6,088,288
Lease Liabilities	275,031	285,497	–	634	7,477	172,723	104,663
Total non-derivative financial liabilities	249,413,721	260,201,412	39,564,122	91,680,829	59,601,899	63,161,611	6,192,951
<b>Years ended December 31, 2020</b>							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>							
Borrowing from the central bank	8,871,884	8,872,066	4,762	7,563,032	1,304,272	–	–
Deposits from banks and other financial institutions	4,269,340	4,295,927	249,340	2,756,096	1,290,491	–	–
Placements from banks and other financial institutions	18,081,910	18,333,570	222,412	6,508,005	11,603,153	–	–
Financial assets sold under repurchase agreements	13,219,490	13,224,276	1,439	12,710,282	512,555	–	–
Deposits from customers	165,786,759	174,895,694	37,675,542	37,312,442	27,339,733	72,567,977	–
Debt securities issued	38,437,445	40,426,226	59,456	12,821,577	19,672,064	5,175,869	2,697,260
Lease Liabilities	278,965	302,421	–	6,094	10,268	138,027	148,032
Total non-derivative financial liabilities	248,945,793	260,350,180	38,212,951	79,677,528	61,732,536	77,881,873	2,845,292

	Nine months ended September 30, 2021						
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>							
Borrowing from the central bank	8,372,919	8,403,687	4,710	6,397,895	2,001,082	–	–
Deposits from banks and other financial institutions	4,676,520	4,730,859	232,313	2,656,702	1,841,844	–	–
Placements from banks and other financial institutions	16,241,817	16,541,234	199,822	6,262,176	9,825,274	253,962	–
Financial assets sold under repurchase agreements	8,196,842	8,211,096	80	8,211,016	–	–	–
Deposits from customers	192,617,538	203,849,768	40,920,391	21,783,841	40,935,840	100,209,696	–
Debt securities issued	34,223,631	35,908,548	216,797	17,512,975	10,158,785	5,397,525	2,622,466
Lease Liabilities	256,509	264,963	–	3,613	13,496	132,180	115,674
Total non-derivative financial liabilities	264,585,776	277,910,155	41,574,113	62,828,218	64,776,321	105,993,363	2,738,140

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

#### (d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

Bank of Luoyang Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

## 41 FAIR VALUE

### (a) Methods and assumptions for measurement of fair value

Bank of Luoyang Group adopts the following methods and assumptions when evaluating fair values:

#### (i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of each Relevant Periods.

**(ii) Investments and other non-derivative financial assets**

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the Relevant Periods.

**(iii) Debt securities issued and other non-derivative financial liabilities**

Fair values of debt securities issued are based on their quoted market prices at the end of the Relevant Periods, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the Relevant Periods. Bank of Luoyang Group has established policies and internal controls with respect to the measurement of fair values, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

**(b) Fair value measurement****(i) Financial assets**

Bank of Luoyang Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, finance lease receivables and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers and finance lease receivables are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values. The fair values of Loans and advances to customers measured at fair value through other comprehensive income, are based on valuation techniques.

Financial investments at fair value through other comprehensive income and financial investments at fair value through profit or loss are stated at fair value. The carrying amount of financial investments at amortised cost is the reasonable approximations of its fair values because, for example, it is short-term in nature or repriced at current market rates frequently.

**(ii) Financial liabilities**

Bank of Luoyang Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers and subordinated debt securities issued.

Financial liabilities designated at fair value through profit or loss is presented with fair value. The carrying amounts of other financial liabilities approximate their fair value.

**(c) Fair value hierarchy**

The following table presents the fair value of Bank of Luoyang Group's financial instruments measured at the end of the Relevant Periods on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- |          |  |
|----------|--|
| Level 1: | Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;   |
| Level 2: | Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and |
| Level 3: | Fair value measured using significant unobservable inputs.   |

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, and credit spreads. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

	At December 31, 2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	651,636	15,724,036	16,375,672
Financial investments at fair value through other comprehensive income	6,671,051	29,490,130	250	36,161,431
Loans and advances to customers measured at fair value through other comprehensive income	–	13,408,392	–	13,408,392
Total	<u>6,671,051</u>	<u>43,550,158</u>	<u>15,724,286</u>	<u>65,945,495</u>

	At December 31, 2019			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	648,810	7,246,443	11,973,527	19,868,780
Financial investments at fair value through other comprehensive income	5,610,323	30,844,325	250	36,454,898
Loans and advances to customers measured at fair value through other comprehensive income	–	17,593,655	–	17,593,655
Total	<u>6,259,133</u>	<u>55,684,423</u>	<u>11,973,777</u>	<u>73,917,333</u>

	At December 31, 2020			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	1,779,148	14,024,629	13,354,478	29,158,255
Financial investments at fair value through other comprehensive income	7,842,437	21,433,983	250	29,276,670
Loans and advances to customers measured at fair value through other comprehensive income	–	26,468,954	–	26,468,954
Total	<u>9,621,585</u>	<u>61,927,566</u>	<u>13,354,728</u>	<u>84,903,879</u>

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

	Level 1	At September 30, 2021 Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	399,711	8,073,374	6,364,424	14,837,509
Financial investments at fair value through other comprehensive income	9,490,520	21,986,603	7,971	31,485,094
Loans and advances to customers measured at fair value through other comprehensive income	–	29,354,977	–	29,354,977
Total	<u>9,890,231</u>	<u>59,414,954</u>	<u>6,372,395</u>	<u>75,677,580</u>

During the Relevant Periods, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

### 42 ENTRUSTED LENDING BUSINESS

Bank of Luoyang Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. Bank of Luoyang Group does not take any credit risk in relation to these transactions. Bank of Luoyang Group acts as an agent to hold and manage these assets and liabilities at the direction of the trustor and receives fee income for the services provided. The entrusted assets are not the assets of Bank of Luoyang Group and are not recognized in the statement of financial position. Surplus funding is accounted for as deposits from customers.

	2018	At December 31, 2019	2020	At September 30, 2021
Entrusted loans	<u>2,757,937</u>	<u>2,443,875</u>	<u>2,307,309</u>	<u>1,434,928</u>
Entrusted funds	<u>2,757,937</u>	<u>2,443,875</u>	<u>2,307,359</u>	<u>1,434,928</u>

### 43 COMMITMENTS AND CONTINGENT LIABILITIES

#### (a) Credit commitments

Bank of Luoyang Group's credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans commitments represent the amounts should the contracts be fully drawn upon. Bank of Luoyang Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by Bank of Luoyang Group to pay bills of exchange drawn on customers. Bank of Luoyang Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	2018	At December 31, 2019	2020	At September 30, 2021
Acceptances	42,347,032	48,977,024	37,890,329	40,964,040
Letters of credit	1,866,667	3,187,966	6,063,263	9,586,171
Letters of guarantees	<u>1,456,430</u>	<u>701,301</u>	<u>192,712</u>	<u>746,950</u>
Total	<u>45,670,129</u>	<u>52,866,291</u>	<u>44,146,304</u>	<u>51,297,161</u>

Bank of Luoyang Group may be exposed to credit risk in all the above credit businesses. Group Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

### (b) Capital commitments

As at the end of each of the Relevant Periods, Bank of Luoyang Group's authorized capital commitments are as follows:

	2018	At December 31, 2019	2020	At September 30, 2021
Contracted but not paid for	2,164	1,547	6,550	16,155
Approved but not contracted for	—	—	522	15,510
	<u>2,164</u>	<u>1,547</u>	<u>7,072</u>	<u>31,665</u>
Total	<u>2,164</u>	<u>1,547</u>	<u>7,072</u>	<u>31,665</u>

### 44 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2018 <i>RMB'000</i>	At December 31, 2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	At September 30, 2021 <i>RMB'000</i>
<b>Assets</b>				
Cash and deposits with the central bank	22,536,311	20,556,294	18,358,737	18,617,259
Deposits with banks and other financial institutions	2,303,099	2,544,308	2,319,970	4,771,834
Placements with banks and other financial institutions	2,379,960	2,647,048	4,478,335	7,175,386
Financial assets held under resale agreements	14,077,816	18,221,850	4,660,013	13,982,229
Loans and advances to customers	76,260,571	94,353,190	110,744,515	126,422,501
Financial investments:				
Financial investments at fair value through profit or loss	16,375,672	19,868,780	29,390,173	14,962,800
Financial investments at fair value through other comprehensive income	36,057,493	36,382,334	29,172,387	31,380,984
Financial investments at amortised cost	46,425,804	41,184,146	34,263,541	31,932,896
Investments in subsidiaries and joint venture	1,354,484	1,354,484	1,354,484	1,354,484
Property and equipment	610,981	613,969	621,984	498,973
Deferred tax assets	2,659,805	3,042,464	3,331,456	4,042,014
Other assets	725,109	1,042,658	1,763,654	1,469,756
	<u>221,767,105</u>	<u>241,811,525</u>	<u>240,459,249</u>	<u>256,611,116</u>
Total	<u>221,767,105</u>	<u>241,811,525</u>	<u>240,459,249</u>	<u>256,611,116</u>

## APPENDIX II-C ACCOUNTANTS' REPORT OF BANK OF LUOYANG

	At December 31,			At
	2018	2019	2020	September 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Borrowing from central bank	13,509,329	11,529,912	8,229,687	7,722,226
Deposits from banks and other financial institutions	13,765,399	12,877,785	8,614,300	8,064,304
Placements from banks and other financial institutions	6,817,948	2,239,084	3,240,546	1,082,384
Financial assets sold under repurchase agreements	17,084,749	19,374,302	13,076,224	8,196,842
Deposits from customers	126,969,919	146,915,274	156,197,063	181,774,438
Income tax payable	433,558	106,725	128,515	217,658
Debt securities issued	29,838,990	34,431,762	35,048,834	30,594,264
Other liabilities	1,018,843	1,183,783	1,635,288	1,711,103
<b>Total liabilities</b>	<u>209,438,735</u>	<u>228,658,627</u>	<u>226,170,457</u>	<u>239,363,219</u>
<b>Equity</b>				
Share capital	5,300,000	6,890,000	6,890,000	6,890,000
Other equity instruments				
– Perpetual bond	–	–	–	1,999,711
Capital reserve	88,603	166,601	219,644	683,790
Surplus reserve	1,532,049	1,646,452	1,754,737	1,804,262
General reserve	3,051,898	3,333,510	3,441,723	3,441,723
Retained earnings	2,355,820	1,116,335	1,982,688	2,428,411
<b>Total equity</b>	<u>12,328,370</u>	<u>13,152,898</u>	<u>14,288,792</u>	<u>17,247,897</u>
<b>Total liabilities and equity</b>	<u>221,767,105</u>	<u>241,811,525</u>	<u>240,459,249</u>	<u>256,611,116</u>

### 45 SUBSEQUENT EVENTS

On December 6, 2021, Board of Directors has approved the Merger by Absorption Plan, pursuant to which Bank of Luoyang will be merged by absorption by Zhongyuan Bank Co., Ltd.. The consideration will be satisfied by issuance of shares of Zhongyuan Bank to shareholders of Bank of Luoyang. The Merger by Absorption are subject to a number of conditions precedent, including the approvals from the shareholders of Bank of Luoyang, the approvals from Zhongyuan Bank's shareholders, and approvals from relevant regulatory bodies.

**46      POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD ENDED SEPTEMBER 30, 2021**

Up to the date of issue of these Historical Financial Information, a number of amendments, new standards and interpretations are issued which are not yet effective for the nine months period ended September 30, 2021 and which have not been adopted in these Historical Financial Information. These include the following which may be relevant to Bank of Luoyang Group.

	<b>Effective for accounting period beginning on or after</b>
Amendments to IFRS 3, <i>Reference to the Conceptual Framework</i>	January 1, 2022
Amendments to IAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	January 1, 2022
Amendments to IAS 37, <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	January 1, 2022
Annual Improvements to IFRSs 2018-2020 Cycle	January 1, 2022

Bank of Luoyang Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated Historical Financial Information.

**SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by Bank of Luoyang Group in respect of any period subsequent to September 30, 2021.

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## **APPENDIX III                      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

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The information set forth in this appendix does not form part of the Accountants' Reports received from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Bank, as set forth in Appendix II-A, II-B and II-C to this Circular, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the Financial Information of the Group set forth in Appendix I and the Accountants' Reports of the Target Banks set forth in Appendix II-A, II-B and II-C to this Circular.

### **A. THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

The following unaudited pro forma financial information of Zhongyuan Bank Co., Ltd (the "Bank") and its subsidiaries (collectively the "Group") has been prepared by the directors of the Bank in accordance with Rules 4.29 and 14.69(4)(a)(ii) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for the purposes of illustrating the effect of the financial information of the Group as if its proposed merger by absorption of Bank of Luoyang Co., Ltd. (the "Bank of Luoyang"), Bank of Pingdingshan Co., Ltd. (the "Bank of Pingdingshan"), Bank of Jiaozuo China Travel Service Co., Ltd. (the "Bank of JZCTS") (together with the Group referred to as the "Enlarged Group") (the "Proposed Transaction") had been completed on 30 June 2021 for the unaudited pro forma consolidated statement of financial position and 1 January 2020 for the unaudited pro forma consolidated statement of profit or loss and unaudited pro forma consolidated cash flow statement.

The unaudited pro forma financial information was comprised of the unaudited pro forma consolidated statement of financial position as at 30 June 2021 and the unaudited pro forma consolidated statement of profit or loss and the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2020 of the Enlarged Group. The pro forma financial information of the Enlarged Group is based upon the interim financial report of the Group for the period ended 30 June 2021 as set out in the Group's 2021 interim report and the consolidated financial statement of the Group for the year ended 31 December 2020 as set out in the Group's 2020 annual report, and adjusted to reflect the effect of the Acquisition.

The unaudited pro forma financial information of the Enlarged Group has been prepared for illustrative purposes and because of its hypothetical nature, it may not give a true picture of the financial position or results of the Group had the Transaction been completed as at the specified dates or any future date.

# APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

## Unaudited pro forma consolidated statement of financial position

(Expressed in millions of Renminbi (“RMB”), unless otherwise stated)

	The Group as at 30 June 2021 <i>Note1</i>	Bank of Luoyang Group as at 30 September 2021 <i>Note2</i>	Bank of Pingdingshan Group as at 30 September 2021 <i>Note2</i>	Bank of JZCTS as at 30 September 2021 <i>Note2</i>	Fair value adjustments <i>Note3(i)</i>	Consolidation adjustment <i>Note3(ii)</i>	Elimination <i>Note4</i>	The Enlarged Group as at 30 June 2021
<b>Assets</b>								
Cash and deposits with the central bank	56,852	19,266	10,514	6,737	–	–	–	93,369
Deposits with banks and other financial institutions	10,053	5,433	1,059	133	–	–	(552)	16,126
Placements with banks and other financial institutions	26,312	5,119	903	–	–	–	(962)	31,372
Derivative financial assets	104	–	–	–	–	–	–	104
Financial assets held under resale agreements	3,682	13,982	–	–	–	–	–	17,664
Loans and advances to customers	375,314	136,060	64,688	52,985	–	–	–	629,047
Financial investments:								
Financial investments at fair value through profit or loss	17,551	14,838	9,608	1,956	–	–	(1,100)	42,853
Financial investments at fair value through other comprehensive income	49,954	31,485	3,979	8,888	–	–	–	94,306
Financial investments at amortised cost	157,539	31,933	19,247	18,138	–	–	–	226,857
Lease receivables	35,298	25,027	–	–	–	–	–	60,325
Interest in joint venture	1,185	–	–	–	–	–	–	1,185
Property and equipment	4,104	564	1,510	375	1,641	–	–	8,194
Deferred tax assets	5,495	4,373	2,130	1,952	(429)	–	–	13,521
Goodwill	971	–	–	–	–	–	–	971
Other assets	8,588	1,741	1,886	1,230	73	–	–	13,518
<b>Total assets</b>	<b>753,002</b>	<b>289,821</b>	<b>115,524</b>	<b>92,394</b>	<b>1,285</b>	<b>–</b>	<b>(2,614)</b>	<b>1,249,412</b>

**APPENDIX III                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

	The Group as at 30 June 2021 <i>Note1</i>	Bank of Luoyang Group as at 30 September 2021 <i>Note2</i>	Bank of Pingdingshan Group as at 30 September 2021 <i>Note2</i>	Bank of JZCTS as at 30 September 2021 <i>Note2</i>	Fair value adjustments <i>Note3(i)</i>	Consolidation adjustment <i>Note3(ii)</i>	Elimination <i>Note4</i>	The Enlarged Group as at 30 June 2021
<b>Liabilities and equity</b>								
<b>Liabilities</b>								
Borrowing from the central bank	40,655	8,373	1,383	3,025	-	-	-	53,436
Deposits from banks and other financial institutions	60,636	4,677	1,329	1,428	-	-	(552)	67,518
Placements from banks and other financial institutions	32,123	16,242	2,732	2,766	-	-	(962)	52,901
Derivative financial liabilities	73	-	-	-	-	-	-	73
Financial assets sold under repurchase agreements	13,430	8,197	3,441	500	-	-	-	25,568
Deposits from customers	454,997	192,617	91,821	64,618	-	-	-	804,053
Income tax payable	127	267	34	335	-	-	-	763
Debt securities issued	79,893	34,224	7,457	13,148	-	-	(1,100)	133,622
Other liabilities	9,692	3,997	665	649	-	-	-	15,003
<b>Total liabilities</b>	<b>691,626</b>	<b>268,594</b>	<b>108,862</b>	<b>86,469</b>	<b>-</b>	<b>-</b>	<b>(2,614)</b>	<b>1,152,937</b>
<b>Liabilities and equity</b>								
<b>Equity</b>								
Share capital	20,075	6,890	4,106	5,000	-	(2,671)	-	33,400
Other equity instruments								
- Preference shares/perpetual bonds	9,633	2,000	2,000	-	-	-	-	13,633
Reserves	26,401	6,587	3,160	2,207	1,285	1,906	-	41,546
Retained earnings/(accumulated losses)	4,142	3,071	(2,554)	(1,282)	-	765	-	4,142
<b>Total equity attributable to equity shareholders of the Bank</b>	<b>60,251</b>	<b>18,548</b>	<b>6,712</b>	<b>5,925</b>	<b>1,285</b>	<b>-</b>	<b>-</b>	<b>92,721</b>
Non-controlling interests	1,125	2,679	(50)	-	-	-	-	3,754
<b>Total equity</b>	<b>61,376</b>	<b>21,227</b>	<b>6,662</b>	<b>5,925</b>	<b>1,285</b>	<b>-</b>	<b>-</b>	<b>96,475</b>
<b>Total liabilities and equity</b>	<b>753,002</b>	<b>289,821</b>	<b>115,524</b>	<b>92,394</b>	<b>1,285</b>	<b>-</b>	<b>(2,614)</b>	<b>1,249,412</b>

# APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

## Unaudited pro forma consolidated statement of profit or loss

(Expressed in millions of Renminbi (“RMB”), unless otherwise stated)

	Year ended 31 December 2020							
	Pro forma adjustments							
	The Group	Bank of Luoyang Group	Bank of Pingdingshan Group	Bank of JZCTS	Fair value adjustments	Additional depreciation	Elimination	Pro forma Enlarged Group
	Note1	Note2	Note2	Note2	Note3(i)	Note3(iii)	Note4	
Interest income	30,946	13,405	5,337	4,306	-	-	21	54,015
Interest expense	(14,381)	(6,398)	(2,537)	(2,347)	-	-	(21)	(25,684)
<b>Net interest income</b>	<b>16,565</b>	<b>7,007</b>	<b>2,800</b>	<b>1,959</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,331</b>
Fee and commission income	2,247	472	60	111	-	-	-	2,890
Fee and commission expense	(461)	(321)	(112)	(4)	-	-	-	(898)
<b>Net fee and commission income</b>	<b>1,786</b>	<b>151</b>	<b>(52)</b>	<b>107</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,992</b>
Net trading (losses)/gains	(184)	253	(384)	71	-	-	-	(244)
Net gains/(losses) arising from investment securities	1,135	184	(37)	(15)	-	-	-	1,267
Other operating income	126	13	13	3	-	-	-	155
<b>Operating income</b>	<b>19,428</b>	<b>7,608</b>	<b>2,340</b>	<b>2,125</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,501</b>
Operating expenses	(7,119)	(1,649)	(1,173)	(808)	-	(113)	-	(10,862)
Impairment losses on assets	(7,849)	(3,884)	(1,114)	(1,103)	-	-	-	(13,950)
Share of losses of joint venture	(11)	-	-	-	-	-	-	(11)
<b>Profit before tax</b>	<b>4,449</b>	<b>2,075</b>	<b>53</b>	<b>214</b>	<b>-</b>	<b>(113)</b>	<b>-</b>	<b>6,678</b>
Income tax	(1,094)	(482)	50	(24)	-	28	-	(1,522)
<b>Net profit for the year</b>	<b>3,355</b>	<b>1,593</b>	<b>103</b>	<b>190</b>	<b>-</b>	<b>(85)</b>	<b>-</b>	<b>5,156</b>
<b>Net profit attributable to:</b>								
Equity shareholders of the Bank	3,301	1,269	100	190	-	(85)	-	4,775
Non-controlling interests	54	324	3	-	-	-	-	381

# APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

## Unaudited pro forma consolidated cash flow statement

(Expressed in millions of Renminbi (“RMB”), unless otherwise stated)

	Year ended 31 December 2020							
	Pro forma adjustments							
	Bank of	Bank of				Additional		Pro forma
	The	Luoyang	Pingdingshan	Bank of	Consolidation	depreciation		Enlarged
	Group	Group	Group	JZCTS	adjustment	adjustment	Elimination	Group
	Note1	Note2	Note2	Note2	Note3(ii)	Note3(iii)	Note4	
<b>Cash flows from operating activities</b>								
Profit before tax	4,449	2,075	53	214	–	(113)	–	6,678
Adjustments for:								
- Impairment losses on assets	7,849	3,884	1,114	1,103	–	–	–	13,950
- Depreciation and amortization	1,053	248	197	101	–	113	–	1,712
- Depreciation of investment properties	1	–	–	–	–	–	–	1
- Unrealized foreign exchange losses	1,288	8	–	–	–	–	–	1,296
- Net (gains)/losses on disposal of property and equipment	(50)	–	–	1	–	–	–	(49)
- Net trading losses/(gains)	63	(47)	384	(71)	–	–	–	329
- Net gains arising from fair value of derivatives	(295)	–	–	–	–	–	–	(295)
- Net (gains)/losses on disposal of investment securities	(1,135)	(184)	37	15	–	–	–	(1,267)
- Share of losses of joint venture	12	–	–	–	–	–	–	12
- Interest expense on debts securities issued	2,495	1,068	201	626	–	–	–	4,390
- Interest expense on lease liabilities	61	12	5	2	–	–	–	80
<i>Changes in operating assets</i>								
Net decrease/(increase) in deposits with the central bank	4,214	971	(731)	427	–	–	–	4,881
Net (increase)/decrease in deposits and placements with banks and other financial institutions	(7,376)	(200)	(100)	101	–	–	40	(7,535)
Net decrease/(increase) in financial assets held for trading	1,856	(7,143)	739	71	–	–	–	(4,477)
Net increase in loans and advances to customers	(61,356)	(19,889)	(11,801)	(9,355)	–	–	–	(102,401)
Net increase in finance lease receivables	(980)	(1,978)	–	–	–	–	–	(2,958)
Net increase in other operating assets	(4,022)	(938)	(409)	(150)	–	–	–	(5,519)

# APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	Year ended 31 December 2020							
	Pro forma adjustments							
	The Group <i>Note1</i>	Bank of Luoyang Group <i>Note2</i>	Bank of Pingdingshan Group <i>Note2</i>	Bank of JZCTS <i>Note2</i>	Consolidation adjustment <i>Note3(ii)</i>	Additional depreciation adjustment <i>Note3(iii)</i>	Elimination <i>Note4</i>	Pro forma Enlarged Group
<i>Changes in operating liabilities</i>								
Net increase/(decrease) in borrowing from central bank	27,253	(3,036)	369	1,537	–	–	–	26,123
Net decrease in deposits from banks and other financial institutions	(2,288)	(4,649)	(837)	(623)	–	–	(21)	(8,418)
Net increase/(decrease) in placements from banks and other financial institutions	3,202	800	(2,750)	607	–	–	(40)	1,819
Net decrease in financial liabilities at fair value through profit or loss	(20)	–	–	–	–	–	–	(20)
Net (decrease)/increase in financial assets sold under repurchase agreements	(20,390)	(6,151)	2,970	(687)	–	–	(788)	(25,046)
Net increase in deposits from customers	39,936	10,599	13,814	7,684	–	–	–	72,033
Net increase/(decrease) in other operating liabilities	2,747	(1,019)	(51)	1,113	–	–	–	2,790
<b>Net cash flows (used in)/generated from operating activities before income tax paid</b>	<b>(1,433)</b>	<b>(25,569)</b>	<b>3,204</b>	<b>2,716</b>	<b>–</b>	<b>–</b>	<b>(809)</b>	<b>(21,891)</b>
Income tax paid	(2,290)	(1,170)	(193)	(385)	–	–	–	(4,038)
<b>Net cash flows (used in)/generated from operating activities</b>	<b>(3,723)</b>	<b>(26,739)</b>	<b>3,011</b>	<b>2,331</b>	<b>–</b>	<b>–</b>	<b>(809)</b>	<b>(25,929)</b>
<b>Cash flows from investing activities</b>								
Proceeds from disposal and redemption of investments	2,050,354	56,657	197,744	102,399	–	–	–	2,407,154
Net cash acquired from business combination	–	–	–	–	45,647	–	(1,041)	44,606
Proceeds from disposal of property and equipment, intangible assets and other assets	135	3	45	–	–	–	–	183
Payments on acquisition of investments	(2,040,311)	(44,651)	(202,660)	(103,725)	–	–	–	(2,391,347)
Payments on acquisition of subsidiary	(264)	–	–	–	–	–	–	(264)
Payments on acquisition of property and equipment, intangible assets and other assets	(851)	(208)	(239)	(122)	–	–	–	(1,420)
<b>Net cash flows generated from/(used in) investing activities</b>	<b>9,063</b>	<b>11,801</b>	<b>(5,110)</b>	<b>(1,448)</b>	<b>45,647</b>	<b>–</b>	<b>(1,041)</b>	<b>58,912</b>

# APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	Year ended 31 December 2020							
	Pro forma adjustments							
	The Group <i>Note1</i>	Bank of Luoyang Group <i>Note2</i>	Bank of Pingdingshan Group <i>Note2</i>	Bank of JZCTS <i>Note2</i>	Consolidation adjustment <i>Note3(ii)</i>	Additional depreciation adjustment <i>Note3(iii)</i>	Elimination <i>Note4</i>	Pro forma Enlarged Group
Cash flows from financing activities								
Proceeds from issued debt securities	132,013	78,414	14,227	21,793	–	–	–	246,447
Acquisition of non-controlling interests	(10)	–	–	–	–	–	–	(10)
Repayment of debts securities issued	(137,004)	(76,830)	(16,025)	(23,876)	–	–	–	(253,735)
Interest paid on debts securities issued	(1,170)	(492)	(201)	(102)	–	–	–	(1,965)
Dividends paid	(1,510)	–	–	–	–	–	–	(1,510)
Capital element of lease liabilities paid	(260)	–	(14)	(2)	–	–	–	(276)
Interest element of lease liabilities paid	(45)	–	(5)	(2)	–	–	–	(52)
Net cash flows (used in)/generated from financing activities	(7,986)	1,092	(2,018)	(2,189)	–	–	–	(11,101)
Effect of foreign exchange rate changes on cash and cash equivalents	(528)	(8)	–	–	–	–	–	(536)
Net (decrease)/increase in cash and cash equivalents	(3,174)	(13,854)	(4,117)	(1,306)	45,647	–	(1,850)	21,346
Cash and cash equivalents as at January 1	75,325	28,249	11,744	5,654	(45,647)	–	–	75,325
Cash and cash equivalents as at December 31	72,151	14,395	7,627	4,348	–	–	(1,850)	96,671
Interest received	29,941	13,094	5,379	4,157	–	–	(21)	52,550
Interest paid (excluding interest expense on debts securities issued)	(10,112)	(5,735)	(2,324)	(1,507)	–	–	21	(19,657)

## Notes:

- The unadjusted financial information of the Group as at 30 June 2021 and for the year ended 31 December 2020 is extracted from the interim financial report of the Group for the six months ended 30 June 2021 as set out in the Group's 2021 interim report and the consolidated financial statements of the Group for the year ended 31 December 2020 as set out in the Group's 2020 annual report respectively.

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## APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

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2. The financial information of the Bank of Luoyang Group, Bank of Pingdingshan Group and Bank of JZCTS as at 30 September 2021 and for the year ended 31 December 2020 is extracted from the Historical Financial Information as set out in Appendix II to this circular.
3. The identifiable assets and liabilities of the Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS acquired by the Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the purchase method of accounting in accordance with International Financial Reporting Standard 3, Business Combinations (“**IFRS 3**”).

Purchase adjustments made represent:

- (i) The identifiable assets acquired and the liabilities assumed shall be measured at their acquisition-date fair value, which results in fair value adjustments on property and equipment and other assets held by the Target Banks amounting to RMB1,641 million and RMB73 million respectively, as well as recognition of the related deferred tax liabilities of RMB429 million in total. For the purpose of the unaudited pro forma financial information, the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed is determined with reference to the valuation results of Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS as at 30 September 2021 issued by the independent valuer.
- (ii) The consolidation entry is to eliminate the paid-in capital, reserves and retained earnings/accumulated losses of Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS before the acquisition and the new shares to be issued (“**Consideration Shares**”) in the acquisition.

When preparing the unaudited pro forma financial information of the enlarged Group, the fair value of the consideration is determined by 13,324,823,322 Consideration Shares and the issue price of RMB2.1366 per consideration share. As the fair value of the consideration equals to the fair value of identified assets acquired and liabilities assumed, no goodwill arises from the Acquisition.

- (iii) The additional depreciation of approximately RMB113 million and the related deferred tax impact of RMB28 million in respect of the fair value adjustments to property and equipment and other non-current assets with the estimated useful lives ranged from 3 to 32 years. The adjustments are expected to have a continuing effect on the Enlarged Group.
  - (iv) Since the fair values of the identifiable assets and liabilities of Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS and the Consideration Shares on the date of completion of the Proposed Acquisition may be substantially different from their fair values used in the preparation of this unaudited pro forma financial information, the actual amounts of assets and liabilities of the Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS, increases in share capital and reserves at the date of completion, and depreciation for subsequent periods, could be different from the estimated amounts stated herein.
4. The elimination mainly includes inter-bank deposit, inter-bank placement involving the Group and the Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS, and the consequent interest payable and receivable as at 30 June 2021.
  5. No adjustment has been made to the pro forma financial information for acquisition-related costs (including fees to legal advisers, financial adviser, reporting accountants, valuer, printer and other expenses) as the directors determined that such costs are insignificant.
  6. No adjustment has been made to reflect trading results or other transactions of the Group and Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS entered into subsequent to 30 September 2021 for the unaudited pro forma consolidated statement of financial position and 31 December 2020 for the unaudited pro forma consolidated statement of profit or loss and unaudited pro forma consolidated statement of cash flows.

- B.** *The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.*



**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

**To the Directors of Zhongyuan Bank Co., Ltd.**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Zhongyuan Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively the "Group") by the directors of the Bank (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2021 and the unaudited pro forma consolidated statement of profit or loss and pro forma consolidated cash flow statement for the year ended 31 December 2020 and related notes as set out in Part A of Appendix III to the circular dated 18 February 2022 (the "Circular") issued by the Bank. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix III to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed merger by absorption of Bank of Luoyang Co., Ltd., Bank of Pingdingshan Co., Ltd., and Bank of Jiaozuo China Travel Service Co., Ltd. (the "Proposed Transaction") on the Bank's financial position as at 30 June 2021 and the Group's financial performance and cash flows for the year ended 31 December 2020 as if the Proposed Transaction had taken place at 30 June 2021 and 1 January 2020, respectively. As part of this process, information about the Bank's financial position as at 30 June 2021 has been extracted by the Directors from the interim financial report of the Bank for the six months period then ended, on which a review report has been published. Information about the Bank's financial performance and cash flows for the year ended 31 December 2020 has been extracted by the Directors from the consolidated financial statements of the Bank for the year ended 31 December 2020, on which an audit report has been published.

**Directors' Responsibilities for the Pro Forma Financial Information**

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### **Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2021 or 1 January 2020 would have been as presented.

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**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

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A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Bank; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**KPMG**

*Certified Public Accountants*

Hong Kong

18 February 2022

**Zhongyuan Bank Co., Ltd.\*:**

As commissioned by Zhongyuan Bank Co., Ltd.\*, in accordance with the provisions of relevant laws, administrative regulations and asset valuation standards, and adhering to the principles of independence, objectivity and impartiality, Pan-CHINA Appraisal Co., Ltd. (北京天健興業資產評估有限公司) conducted valuation on the market values of net assets of Zhongyuan Bank Co., Ltd. as at 30 September 2021 respectively involved in the proposed absorption and merger of three city commercial banks in Henan Province, namely, Bank of Luoyang Co., Ltd.\*, Bank of Pingdingshan Co., Ltd.\* and Bank of Jiaozuo China Travel Services Co., Ltd.\*.

**I. THE CLIENTS, EVALUATED ENTITIES AND USERS OF THE VALUATION REPORT**

Both the clients and evaluated entities were the merging party, namely Zhongyuan Bank Co., Ltd.\*.

The users of the valuation report included the three merged city commercial banks in addition to Zhongyuan Bank Co., Ltd.\*.

**II. PURPOSE OF EVALUATION**

According to the instructions of Henan Provincial Party Committee and Provincial Government, in order to effectively prevent financial risks and deepen the reform in the financial field, Zhongyuan Bank merged three provincial city commercial banks to achieve the goal of improving and strengthening local finance.

On 27 October 2021, Zhongyuan Bank published an announcement to announce that, in order to expand its own main business, the Board of the Company approved the resolution of the proposed absorption and merger of Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS. According to the resolution, an asset appraisal of Zhongyuan Bank is required to provide a value reference basis for the absorption and merger of three provincial city commercial banks in Henan Province by Zhongyuan Bank.

Zhongyuan Bank is proposed to make the absorption and merger of Bank of Luoyang Co., Ltd. (“Bank of Luoyang”), Bank of Pingdingshan Co., Ltd. (“Bank of Pingdingshan”) and Bank of Jiaozuo China Travel Services Co., Ltd. (“Bank of JZCTS”) by way of exchange of its additional domestic shares. That is, Zhongyuan Bank will issue its additional domestic shares to all the exchanging shareholders of the merged parties in exchange for the shares of the merged parties held by such shareholders.

### III. VALUATION TARGET AND SCOPE

#### (I) Valuation targets

The purpose of the valuation is proposed absorption and merger of the three city commercial banks by Zhongyuan Bank as the merging party, so the valuation targets are the net assets of Zhongyuan Bank.

#### (II) Scope of valuation (the following amounts are denominated in RMB)

The scope of the valuation covers all assets and liabilities of Zhongyuan Bank as at 30 September 2021, the valuation benchmark date. The off-balance sheet items are excluded in this valuation.

The book value of total assets was RMB680,523.119 million, the book value of total liabilities was RMB629,983.848 million and the book value of net assets was RMB50,539.271 million.

The main assets included loans and advances, trading financial assets, debt investments, other debt investments, long-term equity investments, fixed assets and debt-paying assets, and the main liabilities were deposits from customers.

### IV. TYPES OF VALUE AND THEIR DEFINITIONS

The type of value of the valuation is market value, and the market value referred to in this report refers to the estimated amount of the value of the valuation targets in an ordinary and arm's length transaction on the Valuation Benchmark Date when a voluntary purchaser and a voluntary seller each acted rationally and without any coercion.

### V. VALUATION BENCHMARK DATE

According to the commission contract, the Valuation Benchmark Date of this asset valuation determined by the client is 30 September 2021.

### VI. BASIS OF VALUATION

The basis of economic activities, basis of laws and regulations, evaluation criteria, basis of asset ownership, and the basis of pricing in value estimation adopted in this valuation are set out as follows:

#### (I) Basis of economic activities

1. The announcement of inside information of Zhongyuan Bank dated 27 October 2021 in relation to the proposed absorption and merger of Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS.

**(II) Basis of laws and regulations**

1. The Assets Appraisal Law of the People's Republic of China (《中華人民共和國資產評估法》) (Order of the President of the PRC No. 46) (中華人民共和國主席令第四十六號);
2. Law of the People's Republic of China on State-owned Assets of Enterprises (《中華人民共和國企業國有資產法》) (Order of the President of the PRC No. 5 passed by the 11th Session of the Standing Committee of the National People's Congress) (中華人民共和國主席令十一屆第五號);
3. Measures for the Administration of State-owned Assets Appraisal (《國有資產評估管理辦法》) (Decree No. 91 of the State Council, 1991) (國務院1991年91號令);
4. Rules for the Implementation of the Measures for the Administration of State-owned Assets Appraisal (《國有資產評估管理辦法實施細則》) (Guo Zi Ban Fa [1992] No. 36 issued by the former State Administration of State-owned Assets) (原國家國有資產管理局發佈的國資辦發[1992]36號);
5. Interim Measures for Supervision and Administration of State-owned Assets Appraisal of Financial Enterprises (《金融企業國有資產評估監督管理暫行辦法》) (Order No. 47 of the Ministry of Finance) (財政部令第47號);
6. Measures for the Administration of Transfer of State-owned Assets of Financial Enterprises (《金融企業國有資產轉讓管理辦法》) (Order of the Ministry of Finance No. 54) (財政部令第54號);
7. Notice on Issues Relating to the Supervision and Administration of State-owned Assets Appraisal of Financial Enterprises (《關於金融企業國有資產評估監督管理有關問題的通知》) (Cai Jin [2011] No. 59) (財金[2011]59號);
8. Notice on the Issuance of Measures for the Supervision and Administration of Local Financial Enterprises' Finances (關於印發《地方金融企業財務監督管理辦法》的通知) (Cai Jin [2010] No. 56) (財金[2010]56號);
9. Law of the People's Republic of China on Commercial Banks (Revised in 2015) (《中華人民共和國商業銀行法》(2015年修正)) (Order of the President of the PRC No. 34) (中華人民共和國主席令第34號);
10. Measures on Capital Management of Commercial Banks (Trial) (《商業銀行資本管理辦法(試行)》) (Order of the China Banking Regulatory Commission No. 1 of 2012) (中國銀行業監督管理委員會令2012年第1號);

11. Measures for the Administration of the Issuance of Subordinated Bonds by Commercial Banks (《商業銀行次級債券發行管理辦法》) (People's Bank of China and China Banking Regulatory Commission Announcement [2004] No. 4) (中國人民銀行、中國銀行業監督管理委員會公告[2004]第4號);
12. The Law of the People's Republic of China on Banking Supervision and Administration (Revised in 2006) (《中華人民共和國銀行業監督管理法》(2006年修正)) (Order of the President No. 58) (主席令第58號);
13. The Circular on Adjustment of Supervisory Requirements for Loan Loss Provisions of Commercial Banks (《關於調整商業銀行貸款損失準備監管要求的通知》) (Yin Jian Fa [2018] No. 7) (銀監發[2018]7號);
14. Circular on Measures for the Administration of Provisioning for Financial Enterprises (《金融企業準備金計提管理辦法》的通知) (Cai Jin (2012) No. 20) (財金(2012)20號);
15. The Core Indicators for Risk Supervision of Commercial Banks (Trial) (《商業銀行風險監管核心指標(試行)》) (Yin Jian Fa [2005] No. 89) (銀監發[2005]89號);
16. Guidelines on Risk Classification of Loans (《貸款風險分類指引》) (Yin Jian Fa [2007] No. 54) (銀監發[2007]54號);
17. Measures for the Management of Bank Offset Assets (《銀行抵債資產管理辦法》) (Cai Jin [2005] No. 53) (財金[2005]53號);
18. Law of the People's Republic of China on Enterprise Income Tax (amended in 2018) (《中華人民共和國企業所得稅法》(2018年修正)) (Order of the President of the PRC No. 23) (中華人民共和國主席令第二十三號);
19. The Notice on Fully Implementing the Pilot Conversion of Business Tax into Value-Added Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No. 36) (財稅[2016]36號);
20. The Notice of the Ministry of Finance, the General Administration of Taxation and the General Administration of Customs on Policies Relating to the Deepening of VAT Reform (財政部、稅務總局、海關總署《關於深化增值稅改革有關政策的公告》) (No. 39 of 2019) (2019年第39號);
21. Other relevant legal and regulatory documents.

**(III) Standards**

1. Basic Standards on Assets Valuation (《資產評估基本準則》) (Cai Zi [2017] No. 43) (財資[2017]43號);
2. Code of Ethics for Assets Valuation (《資產評估職業道德準則》) (Zhong Ping Xie [2017] No. 30) (中評協[2017]30號);
3. Practice Guidelines for Asset Valuation – Asset Valuation Procedures (《資產評估執業準則–資產評估程序》) (Zhong Ping Xie [2018] No. 36) (中評協[2018]36號);
4. Practice Guidelines for Asset Valuation – Asset Valuation Report (《資產評估執業準則–資產評估報告》) (Zhong Ping Xie [2018] No. 35) (中評協[2018]35號);
5. Practice Guidelines for Asset Valuation – Asset Valuation Entrustment Contract (《資產評估執業準則–資產評估委託合同》) (Zhong Ping Xie [2017] No. 33) (中評協[2017]33號);
6. Practice Guidelines for Asset Valuation – Asset Valuation File (《資產評估執業準則–資產評估檔案》) (Zhong Ping Xie [2018] No. 37) (中評協[2018]37號);
7. Practice Guidelines for Asset Valuation – Enterprise Value (《資產評估執業準則–企業價值》) (Zhong Ping Xie [2018] No. 38) (中評協[2018]38號);
8. Practice Guidelines for Asset Valuation – Asset Appraisal Methods (《資產評估執業準則–資產評估方法》) (Zhong Ping Xie (2019) No. 35) (中評協(2019)35號);
9. Practice Guidelines for Asset Valuation – Real Estate (《資產評估執業準則–不動產》) (Zhong Ping Xie [2017] No. 38) (中評協[2017]38號);
10. Practice Guidelines for Asset Valuation – Use of Expert Work and Related Reports (《資產評估執業準則–利用專家工作及相關報告》) (Zhong Ping Xie [2017] No. 35) (中評協[2017]35號);
11. The Guideline on Appraisal Reports on State-owned Assets of Financial Enterprises (《金融企業國有資產評估報告指南》) (Zhong Ping Xie [2017] No. 43) (中評協[2017]43號);
12. Quality Control Guidance on the Business of Asset Valuation Agency (《資產評估機構業務質量控制指南》) (Zhong Ping Xie [2017] No. 46) (中評協[2017]46號);
13. Guiding Opinions on Types of Value under Asset Valuation (《資產評估價值類型指導意見》) (Zhong Ping Xie [2017] No. 47) (中評協[2017]47號);

14. Guiding Opinions on Legal Ownership of the Target of Asset Valuation (《資產評估對象法律權屬指導意見》) (Zhong Ping Xie [2017] No. 48) (中評協[2017]48號);
15. Guidance for Asset Appraisal Experts No. 1 – Financial Regulatory Indicators to be Attended to in the Appraisal of Financial Enterprises (《資產評估專家指引第1號—金融企業評估中應關注的金融監管指標》) (Zhong Ping Xie [2015] No. 62) (中評協[2015]62號).

**(IV) Basis of asset ownership**

1. Business license and articles of association;
2. Financial license;
3. Building ownership certificate, land use right certificate, property purchase contracts;
4. Contracts for credit and investment assets;
5. Debt repayment agreement or court ruling;
6. Vehicle registration certificate;
7. Major equipment purchase contracts.

**(V) Basis of pricing in value estimation**

1. Financial and accounting information provided by the Evaluated Entity;
2. Public information on the official websites of the China Central Depository & Clearing Co., Ltd. and Interbank Market Clearing House Co., Ltd (the “Shanghai Clearing House”);
3. WIND Financial Terminal (WIND資訊金融終端);
4. Provisions on the Standards for Compulsory Retirement of Motor Vehicles (《機動車強制報廢標準規定》) (Decree [2012] No. 12 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection) (商務部、發改委、公安部、環境保護部令 [2012]年第12號);
5. Property quotation information obtained from external sources such as Fang.com, anjuke.com, 58.com and ke.com;

6. Statistics, technical standards information and price information released by the state's relevant departments;
7. Related valuation information recorded and collected by appraisers from on-site survey;
8. Other Information related to this asset valuation.

## VII. VALUATION METHODOLOGIES

According to the analysis of the purpose of this appraisal and the characteristics of the assets entrusted for appraisal, the appraisal method adopted in this appraisal is the asset-based method.

The asset-based approach is a valuation method by which the value of the valuation target is determined by reasonably assessing the values of every assets and liabilities items, on the basis of the balance sheet. Taking into account the circumstances of this valuation, Zhongyuan Bank may provide the historical information and the valuer also may collect externally the information required by the asset-based approach, so that thorough investigation and valuation can be conducted on the assets and liabilities of Zhongyuan Bank.

The valuation of credit assets, investment-type assets, other non-physical assets and liabilities is based on the book value, and the specific evaluation methods for physical assets, debt-paying assets, and long-term equity investments with changes in value are described as follows:

### 1. Fixed assets – buildings and structures

Buildings and structures are mainly office buildings and business outlets of banks and other properties, and different appraisal methods are used to distinguish different situations in the appraisal:

For commercial properties with clear title, the market comparison method is used to obtain the appraised value of the properties because they can be traded freely. For properties with defective title, the income method is mainly used to estimate the value of the property. For properties in dispute litigation or beyond control, the book value is used as the evaluation value based on the principle of prudence.

- ***Market comparison method***

The market comparison method requires the selection of eligible references, and corrections to transaction status, transaction time, regional factors, and individual factor to determine the appraisal value. The calculation formula is:

Price of property to be appraised = reference transaction price × normal transaction/reference transaction × price index of property to be appraised on the valuation benchmark date/price index of reference property on transaction date × regional factor value of property to be appraised/regional factor value of reference property × individual factor value of property to be appraised/individual factor value of reference property.

- ***Income method***

The income method is to estimate the future normal income of the valuation target, choose an appropriate discount rate to convert it into the present value, and then sum up to arrive at the appraised value of the property. The basic formula is:

$$V = \frac{A}{Y - g} \times \left[ 1 - \left( \frac{(1+g)}{(1+Y)} \right)^n \right] + \text{Residual value compensation for properties as at the end of the period}$$

Where: V is the appraised price of property

A is the annual income

r is the capitalization rate

n is the yield period.

## **2. Fixed assets-equipment**

Fixed assets-equipment are mainly network equipment used for business and office and electronic equipment, vehicles, etc., which are mainly evaluated by the replacement cost approach and the market method.

### **(1) Valuation of vehicles**

#### **① Replacement cost approach**

The full replacement price of vehicles consists of purchase price, taxes in connection with purchase of vehicles and other reasonable expenses (such as fees of inspecting the vehicles, license fee and handling fee). Generic vehicle purchase price is mainly determined by reference to the market price of similar vehicles in latest transactions or by means of enterprise inquiry and telephone consultation.

For office vehicles, the mileage renewal rate is determined by the mileage of a vehicle, and then adjusted according to the on-site investigation. If there is little difference between the on-site investigation and the mileage renewal rate, it will not be adjusted. Where,

Mileage renewal rate = (legal mileage of a vehicle – accumulated mileage)/legal mileage of a vehicle × 100%

Finally, the evaluation value = the full replacement price of a vehicle × the comprehensive renewal rate

② *Market comparison method*

The market comparison method is a method that the valuation target will be compared with the same model of used cars in recent transaction at the time point of valuation to make appropriate correction on the known price of such used cars and estimate the objective and reasonable price or value of the valuation target accordingly. The specific steps are as follows:

Investigate and collect the price data of relevant used car market in the region where the valuation target is located;

Analyze and screen according to the collected market data, and select similar references to determine as comparative transaction cases;

Compare the comparative transaction case with the valuation target to determine the correction coefficient;

Perform market transaction case corrections, period-day corrections, and individual factor corrections;

Calculate the comparison price;

Determine the value of the valuation target.

(2) *Valuation of electronic and office equipment*

① *Replacement cost approach*

Electronic and office equipment includes corporate office furniture, computers, air conditioners, network equipment, special banking equipment and other equipment, which are delivered, installed and commissioned by distributors. For general-purpose equipment, the current purchase price is determined through online quotations and information inquiries; for special-purpose equipment, the enterprise purchases it through bidding, and the appraisers determine the replacement cost by having the enterprise's purchasing department request quotations from suppliers.

For electronic and office equipment, the comprehensive renewal rate is determined mainly based on its economic life span; for large electronic equipment, in addition to that, the renewal rate is also determined with reference to its working environment and the operating condition of the equipment.

Finally, the evaluation value = full replacement price x renewal rate

② *Market comparison method*

For equipment acquired earlier, discontinued and without analogous prices, the evaluation value is mainly determined by inquiry through telephone consultation with used equipment recycling companies and online inquiries for second-hand transaction prices (including websites such as 2.taobao.com, taobao.com, pinduoduo.com, JD.com).

For the auxiliary equipment or facilities related to the building, such as elevators, central air conditioners, fire-fighting equipment, etc., which are included in the self-owned office buildings in electronic equipment, their value has been reflected in the buildings, and the equipment value is evaluated as zero.

### **3. Construction in progress**

Based on type and specific circumstances of construction in progress, the following appraisal methods were adopted: for renovation works of owned buildings, they were combined and appraised under buildings and structures; for projects in progress that have been terminated and will not be used in the future, the appraised value was confirmed at zero this time; for properties under normal construction of which the commencement dates were within six months prior to the benchmark date, the appraised value was determined based on the budgeted amounts provided for construction in progress, taking into account the project progress; for projects that had not yet been completed, the appraised value was determined at the verified book value after the appraisers understood the progress of the projects and checked the corresponding contracts on a sample basis.

### **4. Debt-paying assets**

Debt-paying assets refer to the assets formed by the debtors' non-monetary property or property rights against the bank's claims, mainly including debt-paying houses and other debt-paying assets, etc. The debt-paying assets of Zhongyuan Bank are disposed of for the purpose of realization and are not held for a long period of time. The appraisers understood the source of the debt-paying assets by reviewing relevant documents such as debt-paying agreements and court rulings, and determined the current status of the debt-paying assets by means of interviews and on-site inspections.

Considering the characteristics of the debt-paying assets, the evaluation method for the debt-paying assets involves two aspects: first, the normal market value is assessed, i.e., the debt-paying assets are evaluated item by item according to the normal market value to arrive at the preliminary evaluation value; second, the realization discount is considered according to the difficulty of asset disposal and the disposal costs and transaction taxes arising from the transaction process are subtracted to arrive at the realization value on the basis of evaluating the normal market value.

The book value is used as the evaluation value based on the principle of prudence for debt-paying assets that are subject to disputes litigation or beyond control.

## 5. Long-term equity investments

For the nine village banks over which Zhongyuan Bank is able to exercise control and which are accounted for under the cost method, considering that the village banks, as financial institutions, have the same form of business as city commercial banks and their most important assets are still credit assets, after consulting with the client for the loan quality of the village banks, the appraised value of the long-term equity investment was finally determined by multiplying the net assets in the management accounts of the village banks by the percentage of shareholding.

For the subsidiary Bangyin Financial Leasing Co., Ltd. (邦銀金融租賃股份有限公司) and the associate Henan Zhongyuan Consumer Finance Co., Ltd. (河南中原消費金融股份有限公司), both of which are financial licence holders that can operate across regions, as similar cases of corporate transfers are available in the market, the market comparison method was adopted for this valuation.

## 6. Land use rights in intangible assets

For lands with buildings and structures thereon, they have been combined in the property item for valuation by matching the buildings and land and assessed at zero in the intangible asset item; for separate land use rights, the benchmark land value method is used for valuation based on the characteristics of a subject to be valued, the specific conditions and the actual situation of the project, taking into account the land market situation in the area where the subject to be valued is located and the relevant information collected by the appraisers.

## 7. Other intangible assets within intangible assets

They mainly refer to various software purchased or specially customised and developed by the bank for office operation use, such as the bank's core business software, including the eAbax (金算盤) financial accounting software and the integrated financial management business system, etc. As such software is professional software independently developed by the supplier in accordance with the specific requirements of the bank, there will be no quotation for similar products in the market, the appraisers verified the composition of its carrying value and the amortisation method and took the amortisation balance over the remaining benefit period as the appraised value; for those software with no value in use, we valued them at zero.

**VIII. IMPLEMENTATION AND PARTICULARS OF VALUATION PROCEDURES**

According to the regulations on asset valuation and general principles on financial accounting of relevant state department and relevant legal provisions and standard requirements of relevant state department, and as agreed with the client in the asset valuation commission contract, Pan-CHINA Appraisal Co., Ltd. (北京天健興業資產評估有限公司) has performed verification and auditing on the legal documents, accounting records and relevant data provided by the evaluated entity, and has developed an understanding of the assets and regulatory indicators of Zhongyuan Bank and has taken necessary interviews with the personnel responsible for the business department of Zhongyuan Bank. Detailed asset valuation procedures are as follows:

**(I) Stage of Acceptance of Engagement and Preparation**

1. Pan-CHINA Appraisal Co., Ltd. (北京天健興業資產評估有限公司) is commissioned by Zhongyuan Bank Co., Ltd.\* to carry out this asset valuation project. Upon the acceptance of engagement, Pan-CHINA Appraisal Co., Ltd. (北京天健興業資產評估有限公司) held a proper discussion with the client on issues affecting the asset valuation plan, including the purpose of valuation, valuation target and scope of valuation, the Benchmark Date of this valuation, characteristics of assets entrusted for valuation.
2. Statements for asset valuation and declaration were arranged based on the characteristics of assets entrusted for valuation. In addition, survey form of major assets has been prepared. The evaluated entity's personnel engaging in this asset valuation have been trained on the business to complete asset valuation inventory form and various survey forms.
3. Formulating an evaluation work plan

According to the characteristics of the assets of the evaluated entity, the implementation plan for this valuation was formulated, the appraisers were determined and the on-site working group for asset valuation was formed. The appraisers of this project were divided into real estate group, equipment group and other assets and liabilities group to work at the valuation sites.

4. Preparation of Valuation Materials

The business files involved in the valuation target, the documents about key regulatory indicators of the bank, and property ownership certificates of the valuation target, etc. were collected and organized.

**(II) Stage of Examination*****1. Verification of Authenticity and Legality of the Valuation Target***

According to the breakdown of the assets and liabilities provided by the evaluated entity, the appraisers used different verification methods for verifying physical assets, monetary creditor's rights and debts, in order to confirm that assets and liabilities were true and accurate. The appraisers reviewed the asset list, relevant accounting books and original vouchers provided by Zhongyuan Bank to understand the availability of assets and the formation process of book value.

For cash and deposits with the central bank, we conducted investigations by checking journals, auditing bank statements, bank reconciliation and other means.

For interbank assets, we checked and placed the inter-bank transaction notes, and developed an understanding of the provision method of the provision for impairment.

For credit assets, we checked the credit asset files to verify the compliance of the examination and approval procedures, got informed about the five-level classification and analysis and judgment standards and the provision method of the provision for impairment.

For non-standard assets, we reviewed the investment agreement, pre-loan and post-loan management report and approval process, all of which penetrated to the underlying assets, and we judged the recoverability, and developed an understanding of the provision method of provision for impairment.

In investigating fixed assets, the principle of combination of focused and general investigations was used. Focused investigations were carried out into buildings, land and other assets. The appraisers confirmed the truthfulness of assets by checking the real estate ownership certificate, house purchase contract, equipment purchase contract and invoice, etc.

For collaterals, the principle of interview and on-site random inspection was adopted, the current situation of assets was confirmed, and the book value was verified by checking against the original loan contract, collateral agreement and court ruling.

In respect of other creditor's rights and debts, the appraisers confirmed the truthfulness of assets and liabilities by checking the general ledger, subsidiary ledger, and selectively examining contract documents and other means.

***2. Investigation into the Actual Conditions of Assets***

For fixed assets and collaterals, the appraisers developed an understanding of the actual use of assets and whether there were defects of the title through on-site random inspection and consultation with the enterprise personnel.

### ***3. Investigation into the Value Composition of Assets***

The appraisers investigated into the rationality and compliance of the asset value composition of the evaluated entity according to the characteristics of assets. By taking interviews with the account managers and reviewing credit files, we focused on checking the composition of assets and liabilities and the provisions.

### **(III) Selection of Valuation Methods, Collection of Market Information and Process of Estimate**

Upon defining valuation parameters and price standards on site according to the work plan developed based on the characteristics of the project and the pricing principles and valuation models determined based on actual conditions of different types of assets, the appraisers commenced valuation and estimate of all assets and liabilities.

### **(IV) Stage of Result Analysis and Summary**

#### ***1. Determination of Valuation Results***

According to the survey on the valuation sites and necessary market research and estimate conducted by the appraisers of Pan-CHINA Appraisal Co., Ltd., results of asset-based approach of the assets entrusted for valuation were determined.

#### ***2. Analysis of Valuation Results and Preparation of Valuation Report***

Relevant asset valuation report was prepared according to the standard requirements of Pan-CHINA Appraisal Co., Ltd.. Valuation results and relevant asset valuation report have been subject to three-tier review in accordance with the specified procedures of Pan-CHINA Appraisal Co., Ltd.. The final report was completed and submitted by the project team after the report was reviewed by undersigned asset appraisers without any error.

#### ***3. Organization and Filing of Working Papers***

According to the requirements of “Practice Guidelines for Asset Valuation – Asset Valuation File”, we organized the working papers and completed the project filings.

**IX. VALUATION ASSUMPTIONS****(I) General Assumptions**

1. Transaction assumption: It is assumed that all assets to be valued are in the process of transaction, and valuers will make estimations in a simulated market according to the transaction conditions of assets to be valued.
2. Open market assumption: Open market assumption is a supposition about conditions of the market where the asset is proposed to be traded and the impact on the asset under such market conditions. An open market refers to a competitive market with fully developed and improved market conditions and with willing transaction parties. In the market, the transaction parties are equal and have enough opportunity and time to access the market information. Transactions between parties are made under willing, rational, non-mandatory and unrestricted conditions.
3. Continuous use assumption: Continuous use assumption is a supposition about the conditions of the market where the asset is proposed to be traded and the asset state of the asset under such market conditions. First, the asset valued is in use; second, the asset assumed in use will continue to be used. For all types of operating assets of the entities, such assets can be used continuously based on the current purpose, method of operation, scale, frequency and environmental conditions, etc., or can be used on a changed basis. Under the continuous use assumption, the conversion of the use or the best utilization condition of assets are not considered.

Based on the continuous use assumption, this assessment does not take into the possible impacts of idle, abandoned or transformed conditions arising from Zhongyuan Bank's optimization and integration of existing software systems and business outlets of Zhongyuan Bank after the completion of the absorption and merger.

4. Going-concern assumption: It is an assumption based on the valuation that takes the overall assets of the enterprise as the valuation target. That is to say, the enterprise, as a business entity, will continuously operate in the established external environment for its business objectives. Business operators should and are able to assume responsibilities; the enterprise operates legally and is able to obtain appropriate profits to maintain its going-concern capability.

**(II) Other Valuation Assumptions**

1. It is assumed that there are no material changes in the relevant existing laws, regulations and policies, macroeconomic conditions of the state, and local political, economic and social environment of such places where the parties to the transaction are operating; there are no other unforeseeable or force majeure that will cause material adverse impact;
2. It is assumed that there are no material changes to relevant interest rates, exchange rates, tax bases, tax rates and policy-based levies;
3. It is assumed that the information provided by the evaluated entity (such as comprehensive information, financial information) is true, accurate and complete, and relevant major matters have been fully disclosed;
4. It is assumed that there is no force majeure or unforeseeable factors that may materially and adversely affect the enterprise.

The appraisers believe that these assumption conditions are established as at the Valuation Benchmark Date based on the requirements of asset valuation standard and deduce the corresponding appraisal results based on these assumptions. If there are material changes in the future economic environment or other assumption conditions are unjustifiable, the undersigned asset appraisers and the asset valuation agency will not assume responsibility for the possible derivation of different assessment results due to changes in assumption conditions.

**X. VALUATION CONCLUSIONS**

The book value and the appraised value of total assets of Zhongyuan Bank were RMB680,523.119 million and RMB683,171.365 million, respectively, representing an appreciation of RMB2,648.247 million or 0.39%; The book value and the appraised value of total liabilities were RMB629,983.848 million and RMB629,983.848 million, respectively, representing no appreciation or depreciation; and the book value and the appraised value of its net assets were RMB50,539.271 million and RMB53,187.517 million, respectively, representing an appreciation of RMB2,648.247 million or 5.24%.

Note: The preference shares of RMB9,632.791 million were included in above valuation results of net assets of Zhongyuan Bank. The impact of deferred income tax liabilities arising from the appreciation of appraised assets had not been taken into account when valuation results were arrived at.

**XI. SPECIAL NOTES**

The following issues are beyond the practicing standards and capabilities that can be estimated by the appraised company's appraisers, but these issues may actually have impacts on the valuation conclusions. Users of this valuation report should pay particular attention to:

- (I) The "appraised value" referred to herein represents our opinion on the fair value of the appraised assets in their existing use on a going concern basis under the conditions and external economic environment prevailing on the Valuation Benchmark Date for the purposes set out in this appraisal report and we are not responsible for other purposes.
- (II) The appraisers have paid attention to the legal ownership of the valuation target and its assets provided by the appraised unit, conducted necessary inspection on the legal ownership and data sources of valuation target and its assets involved, and were obliged to disclose the situation of inspection. However, the appraised unit shall be responsible for the authenticity, accuracy and completeness of the ownership information on which this report is based and bear corresponding responsibilities. The valuation agency evaluates and estimates without considering the defects of the property rights of the subject of appraisal, and we do not provide guarantee or assume the responsibility of expressing opinions on the legal ownership of the property rights of the valuation target.
- (III) The "appraised value" referred to herein is an objective and fair reflection of the value of the appraised assets on the Valuation Benchmark Date, being 30 September 2021, for the purposes set out in this report based on the premise of unchanged purposes of the appraised assets, going concern and the specific economic environment shown on the Benchmark Date and according to the principles, basis, assumptions, methods and procedures described herein. The valuation conclusions shall be valid only under the conditions that the above principles, basis and premise exist, and Pan-CHINA Appraisal Co., Ltd. (北京天健興業資產評估有限公司) is not responsible for expressing opinions on the significant changes in assets after the Benchmark Date. The assessment results are based on the relevant assumptions stated in this report, which will be subject to various market factors. When the above assumptions change, they will have an impact on the evaluation results. We are not responsible for changes in the market and we are not obliged to make any changes to reflect future events in the report.
- (IV) The valuation conclusions in the report reflect the fair value of the valuation target for the purpose of this valuation on the basis of an open market, and any fees or taxes that shall be borne in the ownership registration or change of relevant assets were not included or no provision or tax adjustment to the appreciation of the appraised value was made. The valuation conclusions shall not be deemed as a guaranteed realizable price of the valuation target.
- (V) Within the validity period after the Valuation Benchmark Date up to 29 September 2022, if the asset quantity and pricing standard change, appropriate adjustments should be made, and the valuation conclusions cannot be directly adopted.

**XII. STATEMENT OF RESTRICTIONS ON THE USE OF THE VALUATION REPORT**

- (I) This valuation report is to be used solely for the appraisal purpose and use set out herein.
- (II) The asset evaluation agency and its asset valuers shall not be held liable for any use of the asset valuation report by the client or other report users in breach of the laws, administrative regulations and out of the user range set out in the asset valuation report.
- (III) Except for the client, other users of the asset valuation report as agreed in the entrustment contract on asset valuation and users of the asset valuation report as set out under the laws and administrative rules and regulations, no other institutions and individuals can be the users of the asset valuation report.
- (IV) This asset valuation report shall be signed by the asset appraiser undertaking the appraisal engagement and stamped with the official seal of the valuation agency and be officially used only after the completion of approval or filing procedures of the state-owned asset appraisal.
- (V) Users of the asset valuation report shall correctly acknowledge the conclusion of the valuation, which should not be viewed as the realizable value of the valuation target nor should it be deemed to be a guarantee for the realizable value of the valuation target.
- (VI) Without the written permission of the principal, the asset appraisers and the valuation agency shall not provide or disclose the content of the assets valuation report to any third party, unless otherwise required by laws and regulations. Unless otherwise required by laws and regulations or agreed among relevant parties concerned, the whole or any part of content of the assets valuation report shall not be extracted, quoted or disclosed in any public media without written consent of Pan-CHINA Appraisal Co., Ltd. (北京天健興業資產評估有限公司); Pan-CHINA Appraisal Co., Ltd. (北京天健興業資產評估有限公司) shall not bear any legal liability for the results of improper use of the contents of the valuation report in other economic activities.
- (VII) The valuation conclusions shown herein shall only be valid for the economic activities in connection with this project. The validity period for use of the conclusion of asset valuation is one year commencing from the Valuation Benchmark Date, that is, from 30 September 2021 to 29 September 2022. The valuation conclusions may serve as a basis for reference in the process of achieving the purpose of valuation during validity period, subject to adjustments to matters subsequent to the Valuation Benchmark Date. The assets shall be subject to re-valuation after one year.

**Legal Representative of the Valuer: Sun Jianmin**

**Asset Appraisers: Yang Lihong, Zhou Limei**

**The Valuer: Pan-CHINA Appraisal Co., Ltd. (北京天健興業資產評估有限公司)**

\* *For identification purposes only*

Bank of Luoyang Co., Ltd.<sup>#</sup>, Bank of Pingdingshan Co., Ltd.<sup>#</sup> and Bank of Jiaozuo China Travel Services Co., Ltd.<sup>#</sup>:

As commissioned by three city commercial banks, in accordance with the provisions of relevant laws, administrative regulations and asset valuation standards, and adhering to the principles of independence, objectivity and impartiality, Pan-CHINA Appraisal Co., Ltd. (北京天健興業資產評估有限公司) conducted valuation on the market values of the net assets of the three merged city commercial banks as at 30 September 2021 (the Benchmark Date) respectively involved in the proposed absorption and merger of Bank of Luoyang Co., Ltd.<sup>#</sup>, Bank of Pingdingshan Co., Ltd.<sup>#</sup> and Bank of Jiaozuo China Travel Services Co., Ltd.<sup>#</sup> by Zhongyuan Bank Co., Ltd.<sup>#</sup>.

## **I. THE CLIENTS, EVALUATED ENTITIES AND USERS OF THE VALUATION REPORT INVOLVED IN THE VALUATION**

The clients, also the evaluated entities were the merged parties, namely Bank of Luoyang Co., Ltd.<sup>#</sup>, Bank of Pingdingshan Co., Ltd.<sup>#</sup> and Bank of Jiaozuo China Travel Services Co., Ltd.<sup>#</sup>.

The users of the valuation report included the three merged banks and the merging party Zhongyuan Bank Co., Ltd.<sup>#</sup>.

## **II. PURPOSE OF EVALUATION**

According to the instructions of Henan Provincial Party Committee and Provincial Government, in order to effectively prevent financial risks and deepen the reform in the financial field, Zhongyuan Bank merged and absorbed three provincial city commercial banks to achieve the goal of improving and strengthening local finance.

On 27 October 2021, Zhongyuan Bank published an announcement to announce that, in order to expand its own main business, the Board of the Company approved the resolution of proposed absorption and merger of Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS by Zhongyuan Bank.

On 27 October 2021, Bank of Luoyang held the tenth meeting of the seventh session of board of directors of 2021, and reviewed and approved the “Resolution on Agreeing to Participate in the Absorption and Merger of Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS by Zhongyuan Bank”. According to the resolution, it is necessary to evaluate the market value of the net assets of Bank of Luoyang Co., Ltd.<sup>#</sup> in order to provide a reference basis on value for participation of Bank of Luoyang Co., Ltd.<sup>#</sup> in the absorption and merger by Zhongyuan Bank.

On 27 October 2021, Bank of Pingdingshan held the second meeting of the fifth session of board of directors (special), and reviewed and approved the “Resolution on Agreeing to Participate in the Absorption and Merger of Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS by Zhongyuan Bank”. According to the resolution, it is necessary to evaluate the market value of the net assets of Bank of Pingdingshan in order to provide a reference basis on value for Bank of Pingdingshan’s participation in the absorption and merger by Zhongyuan Bank.

On 5 November 2021, Bank of JZCTS held the fifth extraordinary meeting of board of directors of 2021, and agreed to cooperate in promoting the absorption and merger by Zhongyuan Bank, for this purpose, it is necessary to evaluate the market value of the net assets of Bank of JZCTS in order to provide a reference basis on value for Bank of JZCTS's participation in the absorption and merger by Zhongyuan Bank.

### **III. VALUATION TARGET AND SCOPE**

#### **(I) Valuation targets**

The purpose of the valuation is proposed absorption and merger of the three city commercial banks by Zhongyuan Bank, so the valuation targets are the net assets of the merged parties, namely Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS.

#### **(II) Scope of valuation (the following amounts are denominated in RMB)**

The scope of the valuation covers all assets and liabilities of Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS as at 30 September 2021, the Valuation Benchmark date, excluding off-balance sheet items.

The book value of total assets of Bank of Luoyang was RMB256,611.115 million, the book value of total liabilities was RMB239,363.218 million and the book value of net assets was RMB17,247.897 million.

The book value of total assets of Bank of Pingdingshan was RMB113,959.761 million, the book value of total liabilities was RMB107,219.111 million and the book value of net assets was RMB6,740.650 million.

The book value of total assets of Bank of JZCTS was RMB92,393.971 million, the book value of total liabilities was RMB86,468.681 million and the book value of net assets was RMB5,925.290 million.

The main types of assets of each bank include loans and advances, trading financial assets, debt investments, other debt investments, long-term equity investments and fixed assets, etc. The liabilities were mainly deposits from customers.

### **IV. TYPES OF VALUE AND THEIR DEFINITIONS**

The types of value of the valuation is market value, and the market value referred to in this report refers to the estimated amount of the value of the valuation targets in an ordinary and arm's length transaction on the Valuation Benchmark Date when a voluntary purchaser and a voluntary seller each acted rationally and without any coercion.

### **V. VALUATION BENCHMARK DATE**

According to the commission contract, the Valuation Benchmark date of this asset valuation determined by the client is 30 September 2021.

**VI. BASIS OF VALUATION**

The basis of economic activities, basis of laws and regulations, basis of valuation criteria, basis of asset ownership, and basis of pricing in valuation adopted in this valuation are set out as follows:

**(I) Basis of economic activities**

1. The announcement of inside information of Zhongyuan Bank dated 27 October 2021 in relation to absorption and merger of Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS.
2. On 27 October 2021, Bank of Luoyang held the tenth meeting of the seventh session of board of directors of 2021, and reviewed and approved the “Resolution on Agreeing to Participate in the Absorption and Merger of Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS by Zhongyuan Bank”.
3. On 27 October 2021, Bank of Pingdingshan held the second Meeting of the fifth session of board of directors (special), and reviewed and approved the “Resolution on Agreeing to Participate in the Absorption and Merger of Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS by Zhongyuan Bank”.
4. On 5 November 2021, Bank of JZCTS held the fifth extraordinary meeting of board of directors of 2021, and agreed to cooperate in promoting the absorption and merger by Zhongyuan Bank.

**(II) Basis of laws and regulations**

1. The Assets Appraisal Law of the People’s Republic of China (《中華人民共和國資產評估法》) (Order of the President of the PRC No. 46) (中華人民共和國主席令第四十六號);
2. Law of the People’s Republic of China on State-owned Assets of Enterprises (《中華人民共和國企業國有資產法》) (Order of the President of the PRC No. 5 passed by the 11th Session of the Standing Committee of the National People’s Congress) (中華人民共和國主席令十一屆第五號);
3. Measures for the Administration of State-owned Assets Appraisal (《國有資產評估管理辦法》) (Decree No. 91 of the State Council, 1991) (國務院1991年91號令);
4. Rules for the Implementation of the Measures for the Administration of State-owned Assets Appraisal (《國有資產評估管理辦法實施細則》) (Guo Zi Ban Fa [1992] No. 36 issued by the former State Administration of State-owned Assets) (原國家國有資產管理局發佈的國資辦發[1992]36號);
5. Interim Measures for Supervision and Administration of State-owned Assets Appraisal of Financial Enterprises (《金融企業國有資產評估監督管理暫行辦法》) (Order No. 47 of the Ministry of Finance) (財政部令第47號);
6. Measures for the Administration of Transfer of State-owned Assets of Financial Enterprises (《金融企業國有資產轉讓管理辦法》) (Order of the Ministry of Finance No. 54) (財政部令第54號);

7. Notice on Issues Relating to the Supervision and Administration of State-owned Assets Appraisal of Financial Enterprises (《關於金融企業國有資產評估監督管理有關問題的通知》) (Cai Jin [2011] No. 59) (財金[2011]59號);
8. Notice on the Issuance of Measures for the Supervision and Administration of Local Financial Enterprises' Finances (關於印發《地方金融企業財務監督管理辦法》的通知) (Cai Jin [2010] No. 56) (財金[2010]56號);
9. Law of the People's Republic of China on Commercial Banks (Revised in 2015) (《中華人民共和國商業銀行法》(2015年修正)) (Order of the President of the PRC No. 34) (中華人民共和國主席令第34號);
10. Measures on Capital Management of Commercial Banks (Trial) (《商業銀行資本管理辦法(試行)》) (Order of the China Banking Regulatory Commission No. 1 of 2012) (中國銀行業監督管理委員會令2012年第1號);
11. Measures for the Administration of the Issuance of Subordinated Bonds by Commercial Banks (《商業銀行次級債券發行管理辦法》) (People's Bank of China and China Banking Regulatory Commission Announcement [2004] No. 4) (中國人民銀行、中國銀行業監督管理委員會公告[2004]第4號);
12. The Law of the People's Republic of China on Banking Supervision and Administration (Revised in 2006) (《中華人民共和國銀行業監督管理法》(2006年修正)) (Order of the President No. 58) (主席令第58號);
13. The Circular on Adjustment of Supervisory Requirements for Loan Loss Provisions of Commercial Banks (《關於調整商業銀行貸款損失準備監管要求的通知》) (Yin Jian Fa [2018] No. 7) (銀監發[2018]7號);
14. Circular on Measures for the Administration of Provisioning for Financial Enterprises (《金融企業準備金計提管理辦法》的通知) (Cai Jin (2012) No. 20) (財金(2012)20號);
15. The Core Indicators for Risk Supervision of Commercial Banks (Trial) (《商業銀行風險監管核心指標(試行)》) (Yin Jian Fa [2005] No. 89) (銀監發[2005]89號);
16. Guidelines on Risk Classification of Loans (《貸款風險分類指引》) (Yin Jian Fa [2007] No. 54) (銀監發[2007]54號);
17. Measures for the Management of Bank Offset Assets (《銀行抵債資產管理辦法》) (Cai Jin [2005] No. 53) (財金[2005]53號);
18. Law of the People's Republic of China on Enterprise Income Tax (amended in 2018) (《中華人民共和國企業所得稅法》(2018年修正)) (Order of the President of the PRC No. 23) (中華人民共和國主席令第二十三號);
19. The Notice on Fully Implementing the Pilot Conversion of Business Tax into Value-Added Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No. 36) (財稅[2016]36號);

20. The Notice of the Ministry of Finance, the General Administration of Taxation and the General Administration of Customs on Policies Relating to the Deepening of VAT Reform(財政部、稅務總局、海關總署《關於深化增值稅改革有關政策的公告》) (No. 39 of 2019) (2019年第39號);
21. Other relevant legal and regulatory documents.

**(III) Standards**

1. Basic Standards on Assets Valuation (《資產評估基本準則》) (Cai Zi [2017] No. 43) (財資[2017]43號);
2. Code of Ethics for Assets Valuation (《資產評估職業道德準則》) (Zhong Ping Xie [2017] No. 30) (中評協[2017]30號);
3. Practice Guidelines for Asset Valuation – Asset Valuation Procedures (《資產評估執業準則–資產評估程序》) (Zhong Ping Xie [2018] No. 36) (中評協[2018]36號);
4. Practice Guidelines for Asset Valuation – Asset Valuation Report (《資產評估執業準則–資產評估報告》) (Zhong Ping Xie [2018] No. 35) (中評協[2018]35號);
5. Practice Guidelines for Asset Valuation – Asset Valuation Entrustment Contract (《資產評估執業準則–資產評估委託合同》) (Zhong Ping Xie [2017] No. 33) (中評協[2017]33號);
6. Practice Guidelines for Asset Valuation – Asset Valuation File (《資產評估執業準則–資產評估檔案》) (Zhong Ping Xie [2018] No. 37) (中評協[2018]37號);
7. Practice Guidelines for Asset Valuation – Enterprise Value (《資產評估執業準則–企業價值》) (Zhong Ping Xie [2018] No. 38) (中評協[2018]38號);
8. Practice Guidelines for Asset Valuation – Asset Appraisal Methods (《資產評估執業準則–資產評估方法》) (Zhong Ping Xie(2019)No. 35) (中評協(2019)35號);
9. Practice Guidelines for Asset Valuation – Real Estate (《資產評估執業準則–不動產》) (Zhong Ping Xie [2017] No. 38) (中評協[2017]38號);
10. Practice Guidelines for Asset Valuation – Use of Expert Work and Related Reports (《資產評估執業準則–利用專家工作及相關報告》) (Zhong Ping Xie [2017] No. 35) (中評協[2017]35號);
11. The Guideline on Appraisal Reports on State-owned Assets of Financial Enterprises (《金融企業國有資產評估報告指南》) (Zhong Ping Xie [2017] No. 43) (中評協[2017]43號);
12. Quality Control Guidance on the Business of Asset Valuation Agency (《資產評估機構業務質量控制指南》) (Zhong Ping Xie [2017] No. 46) (中評協[2017]46號);
13. Guiding Opinions on Types of Value under Asset Valuation (《資產評估價值類型指導意見》) (Zhong Ping Xie [2017] No. 47) (中評協[2017]47號);

14. Guiding Opinions on Legal Ownership of the Target of Asset Valuation (《資產評估對象法律權屬指導意見》) (Zhong Ping Xie [2017] No. 48) (中評協[2017]48號);
15. Guidance for Asset Appraisal Experts No. 1 – Financial Regulatory Indicators to be Attended to in the Appraisal of Financial Enterprises (《資產評估專家指引第1號—金融企業評估中應關注的金融監管指標》) (Zhong Ping Xie [2015] No. 62) (中評協[2015]62號).

**(IV) Basis of asset ownership**

1. Business license and articles of association;
2. Financial license;
3. Building ownership certificate, land use right certificate, property purchase contracts;
4. Contracts for credit and investment assets;
5. Debt repayment agreement or court ruling;
6. Vehicle registration certificate;
7. Major equipment purchase contracts.

**(V) Basis of pricing in value estimation**

1. Financial and accounting information provided by the Evaluated Entity;
2. Public information on the official websites of the China Central Depository & Clearing Co., Ltd. and Shanghai Clearing House;
3. Wind Financial Terminal (Wind資訊金融終端);
4. Provisions on the Standards for Compulsory Retirement of Motor Vehicles (《機動車強制報廢標準規定》) (Decree [2012] No. 12 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection) (商務部、發改委、公安部、環境保護部令 [2012]年第12號);
5. Property quotation information obtained from external sources such as Fang.com, anjuke.com, 58.com and ke.com;
6. Statistics, technical standards information and price information released by the state's relevant departments;
7. Related valuation information recorded and collected by appraiser from on-site survey;
8. Other Information related to this asset valuation.

## **VII. VALUATION METHODOLOGIES**

According to the analysis of the purpose of this appraisal and the characteristics of the assets entrusted for appraisal, the appraisal method adopted in this appraisal is the asset-based method.

The asset-based approach is a valuation method by which the value of the valuation target is determined by reasonably assessing the values of every assets and liabilities items, on the basis of the balance sheet. Taking into account the circumstances of this valuation, the three banks can provide with historical information, and the valuers also may collect externally the information required by the asset-based approach, so that thorough investigation and valuation can be conducted on the assets and liabilities of the evaluated entity. Therefore, the asset-based approach is applicable to this valuation.

The specific evaluation methods for physical assets, debt-paying assets, and long-term equity investments with changes in value are described as follows:

### **1. Fixed assets – buildings and structures**

Buildings and structures are mainly office buildings and business outlets of banks and other properties, and different appraisal methods are used to distinguish different situations in the appraisal:

For commercial properties with clear title, the market comparison method is used to obtain the appraised value of the properties because they can be traded freely. For assets with defective title, the income method is mainly used to estimate the value of the property. For properties in dispute litigation or beyond control, the book value is used as the evaluation value based on the principle of prudence.

- ***Market comparison method***

The market comparison method requires the selection of eligible references, and corrections to transaction status, transaction time, regional factors, and individual factor to determine the appraisal value. The calculation formula is:

Price of property to be appraised = reference transaction price × normal transaction/reference transaction × price index of property to be appraised on the valuation benchmark date/price index of reference property on transaction date × regional factor value of property to be appraised/regional factor value of reference property × individual factor value of property to be appraised/individual factor value of reference property.

- ***Income method***

The income method is to estimate the future normal income of the valuation target, choose an appropriate discount rate to convert it into the present value, and then sum up to arrive at the appraised value of the property. The basic formula is:

$$V = \frac{A}{Y - g} \times \left[ 1 - \left( \frac{(1+g)}{(1+Y)} \right)^n \right]$$

+ Residual value compensation for properties as at the end of the period

Where: V is the appraised price of property

A is the annual income

r is the capitalization rate

n is the yield period.

## **2. Valuation of fixed assets-equipment**

Equipment fixed assets are mainly network equipment used for business and office and electronic equipment, vehicles, etc., which are mainly evaluated by the replacement cost approach and the market method.

### ***(1) Valuation of vehicles***

#### ***① Replacement cost approach***

The full replacement price of vehicles consists of purchase price, taxes in connection with purchase of vehicles and other reasonable expenses (such as fees of inspecting the vehicles, license fee and handling fee). Generic vehicle purchase price is mainly determined by reference to the market price of similar vehicles in latest transactions or by means of enterprise inquiry and telephone consultation.

For office vehicles, the mileage renewal rate is determined by the mileage of vehicles, and then adjusted according to the on-site investigation. If there is little difference between the on-site investigation and the mileage renewal rate, it will not be adjusted. Where,

Mileage renewal rate = (legal mileage of vehicles–accumulated mileage)/legal mileage of vehicles × 100%

Finally, the evaluation value = the full replacement price of the vehicle × the comprehensive renewal rate

② *Market comparison method*

The market comparison method is a method that the valuation target will be compared with the same model of used cars in recent transaction at the time point of valuation to make appropriate correction on the known price of such used cars and estimate the objective and reasonable price or value of the valuation target accordingly. The specific steps are as follows:

Investigate and collect the price data of relevant used car market in the region where the valuation target is located;

Analyze and screen according to the collected market data, and select similar references to determine as comparative transaction cases;

Compare the comparative transaction case with the valuation target to determine the correction coefficient;

Perform market transaction case corrections, period-day corrections, and individual factor corrections;

Calculate the comparison price;

Determine the value of the valuation target.

**(2) *Valuation of electronic and office equipment***

① *Replacement cost approach*

Electronic and office equipment includes corporate office furniture, computers, air conditioners, network equipment, special banking equipment and other equipment, which are delivered, installed and commissioned by distributors. For general-purpose equipment, the current purchase price is determined through online quotations and information inquiries; for special-purpose equipment, the enterprise purchases it through bidding, and the appraisers determine the replacement cost by having the enterprise's purchasing department request quotations from suppliers.

For electronic and office equipment, the comprehensive renewal rate is determined mainly based on its economic life span; for large electronic equipment, in addition to that, the renewal rate is also determined with reference to its working environment and the operating condition of the equipment.

Finally, the evaluation value = full replacement price x renewal rate

② *Market comparison method*

For equipment acquired earlier, discontinued and without analogous prices, the evaluation value is mainly determined by inquiry through telephone consultation with used equipment recycling companies and online inquiries for second-hand transaction prices (including websites such as 2.taobao.com, taobao.com, pinduoduo.com, JD.com).

For the auxiliary equipment or facilities related to the building, such as elevators, central air conditioners, fire-fighting equipment, which are included in the self-owned office buildings in electronic equipment, their value has been reflected in the buildings, and the equipment value is evaluated as zero.

**3. Construction in progress**

Construction in progress mainly consists of software acquisition and renovation projects. Since none of the purchased assets have been delivered for use, the book value is used as the appraised value.

**4. Debt-paying assets**

Debt-paying assets refer to the assets formed by the debtors' non-monetary property or property rights against the bank's claims, mainly including debt-paying houses and other debt-paying assets, etc. According to the management regulations of the three city commercial banks on the disposal of debt-paying assets, the debt-paying assets, except for individual assets, are disposed of for the purpose of realization and are not held for a long period of time. The appraisers reviewed the debt repayment agreements, court rulings and other relevant documents, and conducted on-site inspections on the debt-paying assets.

For the debt-paying assets, considering the characteristics of the debt-paying assets, the evaluation method involves two aspects: first, the normal market value is assessed, i.e., the debt-paying assets are evaluated item by item according to the normal market value to arrive at the preliminary evaluation value; second, the realization discount is considered according to the difficulty of asset disposal and the disposal costs and transaction taxes arising from the transaction process are subtracted to arrive at the realization on the basis of evaluating the normal market value.

The book value is used as the evaluation value based on the principle of prudence for debt-paying assets that are subject to disputes litigation or beyond control.

**5. Land use rights**

The land use right was acquired by the enterprise through the grant, and the appraisers obtained the land use right grant contract and the state-owned land use certificate. Since the market method or the income method was used to evaluate the above-ground buildings to obtain the value of building and land in one, i.e. the value of the land use right had been considered in the property assessment value, and to avoid double calculation, the land use right was considered at zero value.

**6. Long-term equity investments**

It was verified that Bank of Luoyang and Bank of Pingdingshan exercised control over their village banks of subsidiaries, both of which were accounted for using the cost method. As a financial institution, village banks have the same form of business as city commercial banks and their most important assets are still credit assets. The valuer obtained the loan details of village banks to determine the appraised value of long-term equity investments by multiplying the net assets of village banks by the bank's shareholding percentage on the valuation date.

Luoyin Financial Leasing Co., Ltd. (洛銀金融租賃股份有限公司), a subsidiary of Bank of Luoyang, is an institution with financial license that can operate across regions. Transaction cases of similar companies are available in the market, so the market comparison method is adopted for evaluation.

The valuation of all other assets and liabilities is based on the book value.

**VIII. IMPLEMENTATION AND PARTICULARS OF VALUATION PROCEDURES**

According to the regulations on asset valuation and general principles on financial accounting of relevant state department and relevant legal provisions and standard requirements of relevant state department, and as agreed with the client in the asset valuation commission contract, Pan-CHINA Appraisal Co., Ltd. (北京天健興業資產評估有限公司) has performed verification and auditing on the legal documents, accounting records and relevant data provided by the evaluated entity, and has developed an understanding of the assets and regulatory indicators of three city commercial banks and has taken necessary interviews with the personnel responsible for the business department of such banks. Asset valuation procedures are as follows:

**(I) Stage of Acceptance of Engagement and Preparation**

1. Pan-CHINA Appraisal Co., Ltd. (北京天健興業資產評估有限公司) is commissioned by three city commercial banks to carry out this asset valuation project. Upon the acceptance of engagement, Pan-CHINA Appraisal Co., Ltd. (北京天健興業資產評估

有限公司) held a proper discussion with the client on key issues affecting the asset valuation plan, including the purpose of evaluation, valuation target and scope of valuation, the Valuation Benchmark Date of this valuation, characteristics of assets entrusted for valuation.

2. Statements for asset valuation and declaration were arranged based on the characteristics of assets entrusted for valuation. In addition, survey form of major assets has been prepared. The evaluated entity's personnel engaging in this asset valuation have been trained on the business to complete asset valuation inventory form and various survey forms.

3. Formulating an evaluation work plan

According to the characteristics of the assets of the evaluated entity, the implementation plan for this valuation was formulated, the appraisers were determined and the on-site working group for asset valuation was formed. The appraisers were divided into real estate group, equipment group and other assets and liabilities group to work at the valuation sites.

4. Preparation of Valuation Materials

The business files involved in the valuation target, the documents about key regulatory indicators of the bank, and property ownership certificates of the valuation target, etc. were collected and organized.

## **(II) Stage of Examination**

### ***1. Verification of Authenticity and Legality of the Valuation Target***

According to the statements for asset and liability provided by the evaluated entity, the appraisers used different verification methods for verifying physical assets, monetary creditor's rights and debts, in order to confirm that assets and liabilities were true and accurate. The appraisers reviewed the asset list, relevant accounting books and original vouchers provided by such banks to understand the availability of assets and the formation process of book value.

For cash and deposits with the central bank, we conducted investigations by checking journals, auditing bank statements, bank reconciliation and other means.

For interbank assets, we checked and placed the inter-bank transaction notes, and developed an understanding of the provision method of the provision for impairment.

For credit assets, we checked the credit asset files to verify the compliance of the examination and approval procedures, got informed about the five-level classification and analysis and judgment standards and the provision method of the provision for impairment.

For non-standard assets, we reviewed the investment agreement, pre-loan and post-loan management report and approval process, all of which penetrated to the underlying assets, and we judged the recoverability, and developed an understanding of the provision method of provision for impairment.

In investigating fixed assets, the principle of combination of focused and general investigations was used. Focused investigations were carried out into buildings, land and other assets. The appraisers confirmed the truthfulness of assets by checking the real estate certificate, house purchase contract, equipment purchase contract and invoice, etc.

For collaterals, the principle of interview and on-site random inspection was adopted, the current situation of assets was confirmed, and the book value was verified by checking against the original loan contract, collateral agreement and court ruling.

In respect of other creditor's rights and debts, the appraisers confirmed the truthfulness of assets and liabilities by checking the general ledger, subsidiary ledger, and selectively examining contract documents and other means.

## **2.    *Investigation into the Actual Conditions of Assets***

For fixed assets and collaterals, the appraisers developed an understanding of the actual use of assets and whether there were defects of the title through on-site investigation and consultation with the enterprise personnel.

## **3.    *Investigation into the Value Composition of Assets***

The appraisers investigated into the rationality and compliance of the asset value composition of the evaluated entity according to the characteristics of assets. By taking interviews with the account managers and reviewing credit files, we focused on checking the composition of assets and liabilities and the provisions.

### **(III) Selection of Valuation Methods, Collection of Market Information and Process of Estimate**

Upon defining valuation parameters and price standards on site according to the work plan developed based on the characteristics of the project and the pricing principles and valuation models determined based on actual conditions of different types of assets, the appraisers commenced valuation and estimate of all assets and liabilities.

**(IV) Stage of Result Analysis and Summary****1.    *Determination of Valuation Results***

According to the survey on the valuation sites and necessary market research and estimate conducted by the appraisers of Pan-CHINA Appraisal Co., Ltd., results of asset-based approach of the assets entrusted for valuation were determined.

**2.    *Analysis of Valuation Results and Preparation of Valuation Report***

Relevant asset valuation report was prepared according to the standard requirements of Pan-CHINA Appraisal Co., Ltd.. Valuation results and relevant asset valuation report have been subject to three-tier review in accordance with the specified procedures of Pan-CHINA Appraisal Co., Ltd.. The final report was completed and submitted by the project team after the report was reviewed by undersigned asset appraisers without any error.

**3.    *Organization and Filing of Working Papers***

According to the requirements of “Practice Guidelines for Asset Valuation – Asset Valuation File”, we organized the working papers and completed the project filings.

**IX. VALUATION ASSUMPTIONS****(I)    *General Assumptions***

1.    Transaction assumption: It is assumed that all assets to be valued are in the process of transaction, and valuers will make estimations in a simulated market according to the transaction conditions of assets to be valued.
2.    Open market assumption: Open market assumption is a supposition about conditions of the market where the asset is proposed to be traded and the impact on the asset under such market conditions. An open market refers to a competitive market with fully developed and improved market conditions and with willing transaction parties. In the market, the transaction parties are equal and have enough opportunity and time to access the market information. Transactions between parties are made under willing, rational, non-mandatory and unrestricted conditions.
3.    Continuous use assumption: Continuous use assumption is a supposition about the conditions of the market where the asset is proposed to be traded and the asset state of the asset under such market conditions. First, the asset valued is in use; second, the asset assumed in use will continue to be used. For all types of operating assets of the entities, such assets can be used continuously based on the current purpose,

method of operation, scale, frequency and environmental conditions, etc., or can be used on a changed basis. Under the continuous use assumption, the conversion of the use or the best utilization condition of assets are not considered.

Based on the continuous use assumption, this assessment does not take into the possible impacts of idle, abandoned or transformed conditions arising from Zhongyuan Bank's optimization and integration of existing software systems and business outlets of the three city commercial banks after the completion of the absorption and merger.

4. **Going-concern assumption:** It is an assumption based on the valuation that takes the overall assets of the enterprise as the valuation target. That is to say, the enterprise, as a business entity, will continuously operate in the established external environment for its business objectives. Business operators should and are able to assume responsibilities; the enterprise operates legally and is able to obtain appropriate profits to maintain its going-concern capability.

## **(II) Other Valuation Assumptions**

1. It is assumed that there are no material changes in the relevant existing laws, regulations and policies, macroeconomic conditions of the state, and local political, economic and social environment of such places where the parties to the transaction are operating; there are no other unforeseeable or force majeure that will cause material adverse impact;
2. It is assumed that there are no material changes to relevant interest rates, exchange rates, tax bases, tax rates and policy-based levies;
3. It is assumed that the information provided by the evaluated entity (such as comprehensive information, financial information) is true, accurate and complete, and relevant major matters have been fully disclosed;
4. It is assumed that there is no force majeure or unforeseeable factors that may materially and adversely affect the enterprise.

The appraisers believe that these assumption conditions are established as at the Valuation Benchmark Date based on the requirements of asset valuation standard and deduce the corresponding appraisal results based on these assumptions. If there are material changes in the future economic environment or other assumption conditions are unjustifiable, the undersigned asset appraisers and the asset valuation agency will not assume responsibility for the possible derivation of different assessment results due to changes in assumption conditions.

**X. VALUATION CONCLUSIONS****(I) Valuation conclusion of Bank of Luoyang**

The book value and the appraised value of total assets of Bank of Luoyang were RMB256,611.115 million and RMB258,941.744 million, respectively, representing an appreciation of RMB2,330.629 million or 0.91%; The book value and the appraised value of total liabilities were RMB239,363.218 million and RMB239,363.218 million, respectively, representing no appreciation or depreciation; and the book value and the appraised value of its net assets were RMB17,247.897 million and RMB19,578.526 million, respectively, representing an appreciation of RMB2,330.629 million or 13.51%. The appraised appreciation of the total assets of Bank of Luoyang is mainly attributable to the changes in the appraised values of long-term equity investments and fixed assets as compared to their carrying amounts, which is analyzed as follows:

1. The appraised appreciation of the long-term equity investments is RMB1,800.236 million. The long-term equity investments of Bank of Luoyang include 1 village and township bank and 1 financial leasing company and have been valued using cost approach. The net assets of these 2 long-term equity investments as at the valuation date have increased significantly as compared to those upon initial investment. The equity interest of the financial leasing company held was valued using market approach and in the capital market, the transaction value of the financial leasing company represents a premium over the net assets.
2. The appraised appreciation of the fixed assets is RMB545.988 million, mainly due to the appraised appreciation of buildings. The enterprise acquired the buildings relatively early and mostly for operations, which have been depreciated for many years up to the valuation date, and as the market price of properties has been increasing in recent years, the current market price is higher than the net carrying amount.

**(II) Valuation conclusion of Bank of Pingdingshan**

The book value and the appraised value of total assets of Bank of Pingdingshan were RMB113,959.761 million and RMB114,693.507 million, respectively, representing an appreciation of RMB733.746 million or 0.64%; The book value and the appraised value of total liabilities were RMB107,219.111 million and RMB107,219.111 million, respectively, representing no appreciation or depreciation; and the book value and the appraised value of its net assets were RMB6,740.650 million and RMB7,474.396 million, respectively, representing an appreciation of RMB733.746 million or 10.89%. The appraised appreciation of the total assets of Bank of Pingdingshan is mainly attributable to the changes in the appraised values of investment properties and fixed assets as compared to their carrying amounts, which is analyzed as follows:

1. The appraised appreciation of investment properties is RMB4.829 million and the appraised appreciation of buildings is RMB757.160 million, due to the fact that most of the buildings are used for operations, which have been depreciated for many years up to the valuation date, and as the market price of properties has been increasing in recent years, the current market price is higher than the net carrying amount.

**(III) Valuation conclusion of Bank of JZCTS**

The book value and the appraised value of total assets of Bank of JZCTS were RMB92,393.971 million and RMB92,738.409 million, respectively, representing an appreciation of RMB344.438 million or 0.37%; The book value and the appraised value of total liabilities were RMB86,468.681 million and RMB86,468.681 million, respectively, representing no appreciation or depreciation; and the book value and the appraised value of its net assets were RMB5,925.290 million and RMB6,269.728 million, respectively, representing an appreciation of RMB344.438 million or 5.81%. The appraised appreciation of the total assets of Bank of JZCTS is mainly attributable to the changes in the appraised values of investment properties and fixed assets as compared to their carrying amounts, which is analyzed as follows:

1. The appraised appreciation of investment properties is RMB20.913 million and the appraised appreciation of fixed assets is RMB312.252 million, due to the fact that most of the buildings are used for operations, which have been acquired relatively early and depreciated for many years up to the valuation date, and the current market price is higher than the net carrying amount.

**(IV) Valuation conclusion summary of the Target Banks**

The total amounts for the appraised value of their net assets of three merged parties were RMB33,322.650 million.

Note: The perpetual bonds of RMB2,000.000 million was included in above valuation results of net assets of Bank of Luoyang, and the perpetual bonds of RMB2,000.000 million was included in valuation results of net assets of Bank of Pingdingshan. Meanwhile, the impact of deferred income tax liabilities arising from the appreciation of appraised assets had not been taken into account when all valuation results were arrived at.

**XI. SPECIAL NOTES**

The following issues are beyond the practicing standards and capabilities that can be estimated by the appraised company's appraisers, but these issues may actually have impacts on the valuation conclusions. Users of this valuation report should pay particular attention to:

- (I) The "appraised value" referred to herein represents our opinion on the fair value of the appraised assets in their existing use on a going concern basis under the conditions and external economic environment prevailing on the Valuation Benchmark Date for the purposes set out in this appraisal report and we are not responsible for other purposes.
- (II) The appraisers have paid attention to the legal ownership of the valuation target and its assets provided by the appraised unit, conducted necessary inspection on the legal ownership and data sources of valuation target and its assets involved, and were obliged to disclose the situation of inspection. However, the appraised unit

shall be responsible for the authenticity, accuracy and completeness of the ownership information on which this report is based and bear corresponding responsibilities. The valuation agency evaluates and estimates without considering the defects of the property rights of the subject of appraisal, and we do not provide guarantee or assume the responsibility of expressing opinions on the legal ownership of the property rights of the valuation target.

- (III) The “appraised value” referred to herein is an objective and fair reflection of the value of the appraised assets on the Valuation Benchmark Date, being 30 September 2021, for the purposes set out in this report based on the premise of unchanged purposes of the appraised assets, going concern and the specific economic environment shown on the Benchmark Date and according to the principles, basis, assumptions, methods and procedures described herein. The valuation conclusions shall be valid only under the conditions that the above principles, basis and premise exist, and Pan-CHINA Appraisal Co., Ltd. is not responsible for expressing opinions on the significant changes in assets after the Benchmark Date. The assessment results are based on the relevant assumptions stated in this report, which will be subject to various market factors. When the above assumptions change, they will have an impact on the evaluation results. We are not responsible for changes in the market and we are not obliged to make any changes to reflect future events in the report.
- (IV) The valuation conclusions in the report reflect the fair value of the valuation target for the purpose of this valuation on the basis of an open market, and any fees or taxes that shall be borne in the ownership registration or change of relevant assets were not included or no provision or tax adjustment to the appreciation of the appraised value was made. The valuation conclusions shall not be deemed as a guaranteed realizable price of the valuation target.
- (V) Within the validity period after the Valuation Benchmark Date up to 29 September 2022, if the asset quantity and pricing standard change, appropriate adjustments should be made, and the valuation conclusions cannot be directly adopted.

## **XII. STATEMENT OF RESTRICTIONS ON THE USE OF THE VALUATION REPORT**

- (I) This valuation report is to be used solely for the appraisal purpose and use set out herein.
- (II) The asset evaluation agency and its asset valuers shall not be held liable for any use of the asset valuation report by the client or other report users in breach of the laws, administrative regulations and out of the user range set out in the asset valuation report.

- (III) Except for the client, other users of the asset valuation report as agreed in the entrustment contract on asset valuation and users of the asset valuation report as set out under the laws and administrative rules and regulations, no other institutions and individuals can be the users of the asset valuation report.
- (IV) This asset valuation report shall be signed by the asset appraiser undertaking the appraisal engagement and stamped with the official seal of the valuation agency and be officially used only after the completion of approval or filing of the state-owned asset appraisal.
- (V) Users of the asset valuation report shall correctly acknowledge the conclusion of the valuation, which should not be viewed as the realizable value of the valuation target nor should it be deemed to be a guarantee for the realizable value of the valuation target.
- (VI) Without the written permission of the principal, the asset appraisers and the valuation agency shall not provide or disclose the content of the asset valuation report to any third party, unless otherwise required by laws and regulations. Unless otherwise required by laws and regulations or agreed among relevant parties concerned, the whole or any part of content of the asset valuation report shall not be extracted, quoted or disclosed in any public media without written consent of Pan-CHINA Appraisal Co., Ltd.; Pan-CHINA Appraisal Co., Ltd. shall not bear any legal liability for the results of improper use of the contents of the valuation report in other economic activities.
- (VII) The valuation conclusions shown herein shall only be valid for the economic activities in connection with this project. The validity period for use of the conclusion of asset valuation is one year commencing from the Valuation Benchmark Date, that is, from 30 September 2021 to 29 September 2022. The valuation conclusions may serve as a basis for reference in the process of achieving the purpose of valuation during validity period, subject to adjustments to matters subsequent to the Valuation Benchmark Date. The assets shall be subject to re-valuation after one year.

**Legal Representative of the Valuer: Sun Jianmin**

**Asset Appraiser: Yang Lihong, Luan Haitao, Wei Shengli and Huang Zhi**

**The Valuer: Pan-CHINA Appraisal Co., Ltd. (北京天健興業資產評估有限公司)**

<sup>#</sup> *For identification purposes only*

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Bank. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. SHARE CAPITAL

The registered and issued share capital of the Bank (i) as at the Latest Practicable Date; (ii) immediately after the completion of the issuance of the Placing Shares (assuming the Placing Shares are subscribed for in minimum); (iii) immediately after the completion of the issuance of the Placing Shares (assuming the Placing Shares are subscribed for in maximum); (iv) immediately after the completion of the issuance of the Placing Shares and the Consideration Shares (assuming the Placing Shares are subscribed for in minimum and all the Consideration Shares are fully issued); and (v) immediately after the completion of the issuance of the Placing Shares and the Consideration Shares (assuming the Placing Shares are subscribed for in maximum and all the Consideration Shares are fully issued), and assuming there is no change of the shareholding structure of the Bank after the Latest Practicable Date and up to the completion of the issuance of the Consideration Shares are set out below:

	As at the Latest Practicable Date		Immediately after the completion of the issuance of the Placing Share in minimum		Immediately after the completion of the issuance of the Placing Shares in maximum		Immediately after the completion of the issuance of the Placing Shares in minimum and the Consideration Shares in full		Immediately after the completion of the issuance of the Placing Shares in maximum and the Consideration Shares in full	
	Registered capital	Issued and fully paid or credited as fully paid	Registered capital	Issued and fully paid or credited as fully paid	Registered capital	Issued and fully paid or credited as fully paid	Registered capital	Issued and fully paid or credited as fully paid	Registered capital	Issued and fully paid or credited as fully paid
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Domestic Shares	16,280,000,000	16,280,000,000	16,280,000,000	16,280,000,000	16,280,000,000	16,280,000,000	29,604,823,322	29,604,823,322	29,604,823,322	29,604,823,322
H Shares	3,795,000,000	3,795,000,000	6,900,000,000	6,900,000,000	7,000,000,000	7,000,000,000	6,900,000,000	6,900,000,000	7,000,000,000	7,000,000,000
Total	20,075,000,000	20,075,000,000	23,180,000,000	23,180,000,000	23,280,000,000	23,280,000,000	36,504,823,322	36,504,823,322	36,604,823,322	36,604,823,322

All the issued Shares rank pari passu in all respects as regards rights to capital, dividends and voting. The Placing Shares and Consideration Shares will rank, upon issue, pari passu in all respects with the H Shares and Domestic Shares in issue, respectively, at the time of allotment and issue of the new H Shares and Domestic Shares, respectively.

Since 31 December 2020 (being the end of the last financial year of the Bank) and up to the Latest Practicable Date, no new Shares have been issued by the Enlarged Group.

On 21 November 2018, the Bank issued the US\$1,395,000,000 5.60% non-cumulative perpetual Preference Shares, which are listed on the Stock Exchange (stock code: 4617). Save as the Preference Shares, the Enlarged Group has no other outstanding warrants, options or securities convertible into shares of the Enlarged Group as at the Latest Practicable Date.

### 3. DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

As at the Latest Practicable Date, the interests of the Directors, Supervisors and the chief executive of the Bank in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Bank and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Bank referred to therein, or which were required to be notified to the Bank and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules were as follows:

#### Long position in the shares, underlying shares and debentures of the Bank

Name of Director	Nature of interest	Class of Shares <sup>(1)</sup>	Number of Shares held as at the Latest Practicable Date <sup>(1)</sup>	Approximate percentage of total number of the relevant class of Shares	Percentage of total number of issued Shares
Mr. WEI Jie	Beneficial owner	Domestic Shares	500,000 (L)	0.00%	0.00%
Ms. JIA Jihong	Beneficial owner	Domestic Shares	2,472 (L)	0.00%	0.00%
Mr. LI Wanbin <sup>(2)</sup>	Interest in controlled corporation	Domestic Shares	490,996,271 (L)	3.02%	2.45%

Notes:

(1) L – Long position

(2) Mr. LI Wanbin is the actual controller of Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) and Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司). Therefore, by virtue of the SFO, Mr. LI Wanbin is deemed to be interested in the 490,996,271 Domestic Shares of the Bank (long positions) directly held by Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) and Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executives of the Bank had any interests or short positions in any Shares or underlying Shares or interests in debentures of the Bank or any associated corporations (within the meaning of Part XV of the SFO) of the Bank which were required to be notified to the Bank and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Bank and the Stock Exchange.

#### **4. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates had any interest in any business, which competes or may compete, either directly or indirectly, with the business of the Enlarged Group as if each of them were treated as a controlling shareholder of the Bank under Rule 8.10 of the Listing Rules.

#### **5. DIRECTORS' AND SUPERVISORS' INTERESTS IN ASSETS OF THE GROUP**

As at the Latest Practicable Date, none of the Directors or Supervisors had any direct or indirect interest in any asset which had been, since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Enlarged Group were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

#### **6. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS**

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement subsisting and which is significant in relation to the business of the Enlarged Group.

#### **7. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors or Supervisors had entered, or proposed to enter into a service contract or service agreement with any member of the Enlarged Group which is not determinable by the Enlarged Group within one year without payment of compensation, other than statutory compensation.

**8. QUALIFICATIONS OF EXPERT AND CONSENTS**

The following is the qualification of the professional adviser who has been named in this circular and whose opinion or advice is contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Maxa Capital	a licensed corporation permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Pan-CHINA Appraisal Co., Ltd. (北京天健興業資產評估有限公司)	Independent Professional Appraiser
KPMG	Certified Public Accountants  Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

As at the Latest Practicable Date, each of the professional advisers above was not beneficially interested in the share capital of any member of the Group, and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the professional advisers above did not have any direct or indirect interest in any assets which had been, since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by or leased to, or were proposed to be acquired, disposed of by or leased to, any member of the Group.

Each of the professional advisers above had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter, and reference to its name and opinion in the form and context in which it appears.

**9. MATERIAL LITIGATION**

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or claim of material importance and, so far as the Directors were aware, there was no litigation or claim of material importance pending or threatened against any member of the Enlarged Group.

**10. MATERIAL CONTRACTS**

As at the Latest Practicable Date, no member of the Enlarged Group has entered into any material contract (not being contracts entered into in the ordinary course of business of the Enlarged Group) within the two years immediately preceding the date of this circular.

**11. MATERIAL ADVERSE CHANGE**

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Enlarged Group since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

**12. MISCELLANEOUS**

- (a) The registered office of the Bank is located at Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, CBD Zhengdong New District Zhengzhou, Henan Province, the PRC.
- (b) The head office and principal place of business of the Bank in the PRC is Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, CBD Zhengdong New District Zhengzhou, Henan Province, the PRC.
- (c) The place of business of the Bank in Hong Kong is 40/F, Dah Sing Financial Centre 248 Queen's Road East, Wanchai, Hong Kong.
- (d) The Hong Kong branch share registrar of the Bank is Hong Kong Registrars Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) The joint company secretaries of the Bank are Mr. Zhang Ke and Ms. Leung Wing Han Sharon. Ms. Leung Wing Han Sharon is an affiliated person of The Hong Kong Institute of Chartered Secretaries.
- (f) This circular is in both English and Chinese. In the event of inconsistency, the English version of this circular shall prevail over the Chinese version.

**13. DOCUMENTS ON DISPLAY**

Electronic copies of the following documents are published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Bank ([www.zybank.com.cn](http://www.zybank.com.cn)) for a period of 14 days from the date of this circular (both days inclusive):

- (a) the Merger and Absorption Agreement;
- (b) the letter from the Board, the text of which is set out in pages 8 to 49 of this circular;

- (c) the letter from the Independent Board Committee, the text of which is set out in pages 51 to 52 of this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out in pages 52 to 76 of this circular;
- (e) the accountants' report on the financial information of the Target Banks as set out in Appendix II-A to II-C to this circular;
- (f) the assurance report on the unaudited pro forma financial information of the Enlarged Group upon completion of the Merger by Absorption as set out in Appendix III to this circular;
- (g) the valuation report of the Bank as set out in Appendix IV to this circular;
- (h) the valuation report of the Target Banks as set out in Appendix V to this circular;
- (i) the written consents from each of the experts referred to in the paragraph headed "8. Qualifications of Expert and Consents" in this Appendix;
- (j) the annual reports of the Bank for each of the three financial years ended 31 December 2018, 2019 and 2020 and the interim report of the Bank for the six months ended 30 June 2021; and
- (k) this circular.

**中原銀行股份有限公司\***  
**ZHONGYUAN BANK CO., LTD.\***

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

**(Stock Code of H Shares: 1216)**

**(Stock Code of Preference Shares: 4617)**

**NOTICE OF THE EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting (the “EGM”) of Zhongyuan Bank Co., Ltd.\* (the “Bank”) will be held at 2:30 p.m. on 10 March 2022 (Thursday) at Sheraton Grand Zhengzhou Hotel, No. 33, Jinshui East Road, Zhengdong New District, Zhengzhou, Henan Province, the PRC to consider and approve, if thought fit, the following resolutions. Unless otherwise specified, capitalized terms used herein shall have the same meaning as those defined in the circular of the Bank dated 18 February 2022.

**SPECIAL RESOLUTIONS**

1. To approve, ratify and confirm the proposed H Share Placement, including:
  - a) type and nominal value of Shares to be issued;
  - b) number of Shares to be issued;
  - c) target places;
  - d) method of pricing;
  - e) method of issuance;
  - f) timing of issuance;
  - g) lock-up period;
  - h) use of proceeds;
  - i) distribution of retained profit;
  - j) validity period;
  - k) listing arrangement;
  - l) authority to deal with the relevant matters relating to the H Share Placement;

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

2. To approve, ratify and confirm the Merger by Absorption;
3. To approve, ratify and confirm the implementation of the Merger by Absorption which constitutes a connected transaction of the Bank; and
4. To authorize the chairman of the Board to exercise all powers which he considers necessary and do such other acts and things and execute such other documents which in his opinion may be necessary or desirable to implement the transactions (including the proposed issuance of consideration shares by the Bank and the relevant amendments to the articles of association of the Bank) contemplated under the Merger and Absorption Agreement.

**ORDINARY RESOLUTION**

5. To approve, ratify and confirm the Disposal Mandate; and to authorize the chairman of the Board to exercise all powers which he considers necessary and do such other acts and things and execute such other documents which in his opinion may be necessary or desirable to implement the transactions contemplated under the Disposal Mandate.

By Order of the Board  
**Zhongyuan Bank Co., Ltd.\***  
**XU Nuojin**  
*Chairman*

Zhengzhou, the PRC  
18 February 2022

*As at the date of this notice, the Board comprises Mr. XU Nuojin, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie as executive Directors, Ms. ZHANG Qiuyun and Mr. MI Hongjun as non-executive Directors, and Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny as independent non-executive Directors.*

*Notes:*

1. Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”), all resolutions proposed at the EGM will be voted by poll (except for the resolutions concerning relevant procedures or administrative matters which the chairman of the EGM decides to permit the vote by a show of hands). The voting results will be published on both the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Bank ([www.zybank.com.cn](http://www.zybank.com.cn)) in accordance with the Listing Rules.

## **2. CLOSURE OF THE REGISTER OF MEMBERS**

The Bank’s register of members will be closed from 7 March 2022 (Monday) to 10 March 2022 (Thursday), both days inclusive, during which period no transfer of the shares (“**Shares**”) will be effected. The shareholders (the “**Shareholders**”) of the Bank whose names appear in the Bank’s register of members on 9 March 2022 (Wednesday) shall be entitled to attend and vote at the EGM.

For a Shareholder to be eligible for attending and voting at the EGM, all transfer documents together with the relevant share certificates and other appropriate documents must be delivered to the H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for the H Shareholders) or the office of the board (the “**Board**”) of directors of the Bank at Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, the PRC (for the Domestic Shareholders) not later than 4:30 p.m., on 4 March 2022 (Friday).

## **3. PROXY**

Any Shareholder entitled to attend and vote at the EGM is entitled to appoint one or more person(s) (if the Shareholder holds two or more issued Shares), whether (each of) such person is a Shareholder or not, as his/her/its proxy or proxies to attend and vote on his/her/its behalf at the EGM.

The proxy concerned must be appointed with a power of attorney. The power of attorney concerned must be signed by the principal or the representative duly authorized in writing by the principal. If the principal is a legal person, the power of attorney shall be affixed with the common seal of the legal person or signed by its director or a representative duly authorized in writing. If the power of attorney of the proxy is signed by the authorized person of the principal under a power of attorney or other authorization documents given by the appointer, such power of attorney or other authorization documents shall be notarized and served at the same time as the power of attorney. To be valid, the form of proxy, together with a notarially certified copy of the power of attorney or other authority must be delivered to the H Share Registrar of the Bank, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for the H Shareholders) or to the office of the Board at Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, the PRC (for the Domestic Shareholders) not later than 24 hours before the scheduled time for the holding of the EGM or any adjournment thereof (as the case may be).

After the completion and return of the form of proxy and the power of attorney, you can attend and vote in person at the EGM or any adjournment thereof should you so wish. In this case, the power of attorney will be deemed to have been revoked.

In case of registered joint holders of any Shares, one of the registered joint holders can vote on such Shares at the EGM in person or by proxy as the only holder entitled to vote. If one or more registered joint holders attend the EGM in person or by proxy, the vote of the person (in person or by proxy) whose name appears first in the Bank’s register of members will be accepted as the sole and exclusive vote of the joint holders.

**4. MISCELLANEOUS**

The Shareholders or their proxies shall present their identity documents when attending the EGM (or any adjournment thereof). The legal representative of or any other persons officially authorized by a corporate Shareholder shall present his/her identity documents and the notarially certified documents for appointment as a legal representative or valid authorization document(s) (as the case may be) when attending the EGM (or any adjournment thereof).

The EGM is expected to last for no more than half a day. Shareholders and their representatives attending the meeting shall be responsible for their own traveling and accommodation expenses.

Address of Computershare Hong Kong Investor Services Limited:

17M Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong  
Tel: (852) 2862 8555  
Fax: (852) 2865 0990

Address of the office of the Board:

Zhongke Golden Tower  
No. 23 Shangwu Waihuan Road,  
CBD Zhengdong New District  
Zhengzhou, Henan Province  
the PRC  
Tel: (86) 0371-8551 7898  
Fax: (86) 0371-8551 9888

**The details about the aforesaid resolutions proposed for the consideration and approval at the EGM will be set out in the circular to be despatched by the Bank in due course.**

**中原銀行股份有限公司\***  
**ZHONGYUAN BANK CO., LTD.\***

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

**(Stock Code of H Shares: 1216)**

**(Stock Code of Preference Shares: 4617)**

**NOTICE OF THE H SHARE CLASS MEETING**

**NOTICE IS HEREBY GIVEN** that the H share class meeting (the “**H Share Class Meeting**”) of Zhongyuan Bank Co., Ltd.\* (the “**Bank**”) will be held at 3:00 p.m. (or immediately after the conclusion or adjournment of the extraordinary general meeting) on 10 March 2022 (Thursday) at Sheraton Grand Zhengzhou Hotel, No. 33, Jinshui East Road, Zhengdong New District, Zhengzhou, Henan Province, the PRC to consider and approve, if thought fit, the following resolution. Unless otherwise specified, capitalized terms used herein shall have the same meaning as those defined in the circular of the Bank dated 18 February 2022.

**SPECIAL RESOLUTIONS**

1. To approve, ratify and confirm the proposed H Share Placement, including:
  - a) type and nominal value of Shares to be issued;
  - b) number of Shares to be issued;
  - c) target placees;
  - d) method of pricing;
  - e) method of issuance;
  - f) timing of issuance;
  - g) lock-up period;
  - h) use of proceeds;
  - i) distribution of retained profit;
  - j) validity period;
  - k) listing arrangement;
  - l) authority to deal with the relevant matters relating to the H Share Placement;

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

2. To approve, ratify and confirm the Merger by Absorption;
3. To approve, ratify and confirm the implementation of the Merger by Absorption which constitutes a connected transaction of the Bank; and
4. To authorize the chairman of the Board to exercise all powers which he considers necessary and do such other acts and things and execute such other documents which in his opinion may be necessary or desirable to implement the transactions (including the proposed issuance of consideration shares by the Bank and the relevant amendments to the articles of association of the Bank) contemplated under the Merger and Absorption Agreement.

By Order of the Board  
**Zhongyuan Bank Co., Ltd.\***  
**XU Nuojin**  
*Chairman*

Zhengzhou, the PRC  
18 February 2022

*As at the date of this notice, the Board comprises Mr. XU Nuojin, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie as executive Directors, Ms. ZHANG Qiuyun and Mr. MI Hongjun as non-executive Directors, and Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny as independent non-executive Directors.*

*Notes:*

1. Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”), all resolutions proposed at the H Share Class Meeting will be voted by poll (except for the resolutions concerning relevant procedures or administrative matters which the chairman of the H Share Class Meeting decides to permit the vote by a show of hands). The voting results will be published on both the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Bank ([www.zybank.com.cn](http://www.zybank.com.cn)) in accordance with the Listing Rules.

2. **CLOSURE OF THE REGISTER OF MEMBERS**

The Bank’s register of members will be closed from 7 March 2022 (Monday) to 10 March 2022 (Thursday), both days inclusive, during which period no transfer of the shares (“**Shares**”) will be effected. The shareholders (the “**Shareholders**”) of the Bank whose names appear in the Bank’s register of members on 9 March 2022 (Wednesday) shall be entitled to attend and vote at the H Share Class Meeting.

For a Shareholder to be eligible for attending and voting at the H Share Class Meeting, all transfer documents together with the relevant share certificates and other appropriate documents must be delivered to the H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m., on 4 March 2022 (Friday).

3. **PROXY**

Any Shareholder entitled to attend and vote at the H Share Class Meeting is entitled to appoint one or more person(s) (if the Shareholder holds two or more issued Shares), whether (each of) such person is a Shareholder or not, as his/her/its proxy or proxies to attend and vote on his/her/its behalf at the H Share Class Meeting.

The proxy concerned must be appointed with a power of attorney. The power of attorney concerned must be signed by the principal or the representative duly authorized in writing by the principal. If the principal is a legal person, the power of attorney shall be affixed with the common seal of the legal person or signed by its director or a representative duly authorized in writing. If the power of attorney of the proxy is signed by the authorized person of the principal under a power of attorney or other authorization documents given by the appointer, such power of attorney or other authorization documents shall be notarized and served at the same time as the power of attorney. To be valid, the form of proxy, together with a notarially certified copy of the power of attorney or other authority must be delivered to the H Share Registrar of the Bank, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 24 hours before the scheduled time for the holding of the H Share Class Meeting or any adjournment thereof (as the case may be).

After the completion and return of the form of proxy and the power of attorney, you can attend and vote in person at the H Share Class Meeting or any adjournment thereof should you so wish. In this case, the power of attorney will be deemed to have been revoked.

In case of registered joint holders of any Shares, one of the registered joint holders can vote on such Shares at the H Share Class Meeting in person or by proxy as the only holder entitled to vote. If one or more registered joint holders attend the H Share Class Meeting in person or by proxy, the vote of the person (in person or by proxy) whose name appears first in the Bank’s register of members will be accepted as the sole and exclusive vote of the joint holders.

**4. MISCELLANEOUS**

The Shareholders or their proxies shall present their identity documents when attending the H Share Class Meeting (or any adjournment thereof). The legal representative of or any other persons officially authorized by a corporate Shareholder shall present his/her identity documents and the notarially certified documents for appointment as a legal representative or valid authorization document(s) (as the case may be) when attending the H Share Class Meeting (or any adjournment thereof).

The H Share Class Meeting is expected to last for no more than half a day. Shareholders and their representatives attending the meeting shall be responsible for their own traveling and accommodation expenses.

Address of Computershare Hong Kong Investor Services Limited:

17M Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong  
Tel: (852) 2862 8555  
Fax: (852) 2865 0990

Address of the office of the Board:

Zhongke Golden Tower  
No. 23 Shangwu Waihuan Road,  
CBD Zhengdong New District  
Zhengzhou, Henan Province  
the PRC  
Tel: (86) 0371-8551 7898  
Fax: (86) 0371-8551 9888

**The details about the aforesaid resolution proposed for the consideration and approval at the H Share Class Meeting will be set out in the circular to be despatched by the Bank in due course.**

中原銀行股份有限公司\*  
**ZHONGYUAN BANK CO., LTD.\***

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

**(Stock Code of H Shares: 1216)**

**(Stock Code of Preference Shares: 4617)**

**NOTICE OF THE DOMESTIC SHARE CLASS MEETING**

**NOTICE IS HEREBY GIVEN** that the domestic share class meeting (the “**Domestic Share Class Meeting**”) of Zhongyuan Bank Co., Ltd.\* (the “**Bank**”) will be held at 3:30 p.m. (or immediately after the conclusion or adjournment of the H share class meeting) on 10 March 2022 (Thursday) at Sheraton Grand Zhengzhou Hotel, No. 33, Jinshui East Road, Zhengdong New District, Zhengzhou, Henan Province, the PRC to consider and approve, if thought fit, the following resolution. Unless otherwise specified, capitalized terms used herein shall have the same meaning as those defined in the circular of the Bank dated 18 February 2022.

**SPECIAL RESOLUTIONS**

1. To approve, ratify and confirm the proposed H Share Placement, including:
  - a) type and nominal value of Shares to be issued;
  - b) number of Shares to be issued;
  - c) target placees;
  - d) method of pricing;
  - e) method of issuance;
  - f) timing of issuance;
  - g) lock-up period;
  - h) use of proceeds;
  - i) distribution of retained profit;
  - j) validity period;
  - k) listing arrangement;
  - l) authority to deal with the relevant matters relating to the H Share Placement;

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

2. To approve, ratify and confirm the Merger by Absorption;
3. To approve, ratify and confirm the implementation of the Merger by Absorption which constitutes a connected transaction of the Bank; and
4. To authorize the chairman of the Board to exercise all powers which he considers necessary and do such other acts and things and execute such other documents which in his opinion may be necessary or desirable to implement the transactions (including the proposed issuance of consideration shares by the Bank and the relevant amendments to the articles of association of the Bank) contemplated under the Merger and Absorption Agreement.

By Order of the Board  
**Zhongyuan Bank Co., Ltd.\***  
**XU Nuojin**  
*Chairman*

Zhengzhou, the PRC  
18 February 2022

*As at the date of this notice, the Board comprises Mr. XU Nuojin, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie as executive Directors, Ms. ZHANG Qiuyun and Mr. MI Hongjun as non-executive Directors, and Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny as independent non-executive Directors.*

*Notes:*

1. Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”), all resolutions proposed at the Domestic Share Class Meeting will be voted by poll (except for the resolutions concerning relevant procedures or administrative matters which the chairman of the Domestic Share Class Meeting decides to permit the vote by a show of hands). The voting results will be published on both the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Bank ([www.zybank.com.cn](http://www.zybank.com.cn)) in accordance with the Listing Rules.

## **2. CLOSURE OF THE REGISTER OF MEMBERS**

The Bank’s register of members will be closed from 7 March 2022 (Monday) to 10 March 2022 (Thursday), both days inclusive, during which period no transfer of the shares (“**Shares**”) will be effected. The shareholders (the “**Shareholders**”) of the Bank whose names appear in the Bank’s register of members on 9 March 2022 (Wednesday) shall be entitled to attend and vote at the Domestic Share Class Meeting.

For a Shareholder to be eligible for attending and voting at the Domestic Share Class Meeting, all transfer documents together with the relevant share certificates and other appropriate documents must be delivered to the office of the Board at Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, the PRC not later than 4:30 p.m., on 4 March 2022 (Friday).

## **3. PROXY**

Any Shareholder entitled to attend and vote at the Domestic Share Class Meeting is entitled to appoint one or more person(s) (if the Shareholder holds two or more issued Shares), whether (each of) such person is a Shareholder or not, as his/her/its proxy or proxies to attend and vote on his/her/its behalf at the Domestic Share Class Meeting.

The proxy concerned must be appointed with a power of attorney. The power of attorney concerned must be signed by the principal or the representative duly authorized in writing by the principal. If the principal is a legal person, the power of attorney shall be affixed with the common seal of the legal person or signed by its director or a representative duly authorized in writing. If the power of attorney of the proxy is signed by the authorized person of the principal under a power of attorney or other authorization documents given by the appointer, such power of attorney or other authorization documents shall be notarized and served at the same time as the power of attorney. To be valid, the form of proxy, together with a notarially certified copy of the power of attorney or other authority must be delivered to the office of the Board at Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, the PRC not later than 24 hours before the scheduled time for the holding of the Domestic Share Class Meeting or any adjournment thereof (as the case may be).

After the completion and return of the form of proxy and the power of attorney, you can attend and vote in person at the Domestic Share Class Meeting or any adjournment thereof should you so wish. In this case, the power of attorney will be deemed to have been revoked.

In case of registered joint holders of any Shares, one of the registered joint holders can vote on such Shares at the Domestic Share Class Meeting in person or by proxy as the only holder entitled to vote. If one or more registered joint holders attend the Domestic Share Class Meeting in person or by proxy, the vote of the person (in person or by proxy) whose name appears first in the Bank’s register of members will be accepted as the sole and exclusive vote of the joint holders.

**4. MISCELLANEOUS**

The Shareholders or their proxies shall present their identity documents when attending the Domestic Share Class Meeting (or any adjournment thereof). The legal representative of or any other persons officially authorized by a corporate Shareholder shall present his/her identity documents and the notarially certified documents for appointment as a legal representative or valid authorization document(s) (as the case may be) when attending the Domestic Share Class Meeting (or any adjournment thereof).

The Domestic Share Class Meeting is expected to last for no more than half a day. Shareholders and their representatives attending the meeting shall be responsible for their own traveling and accommodation expenses.

Address of Computershare Hong Kong Investor Services Limited:

17M Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong  
Tel: (852) 2862 8555  
Fax: (852) 2865 0990

Address of the office of the Board:

Zhongke Golden Tower  
No. 23 Shangwu Waihuan Road,  
CBD Zhengdong New District  
Zhengzhou, Henan Province  
the PRC  
Tel: (86) 0371-8551 7898  
Fax: (86) 0371-8551 9888

**The details about the aforesaid resolution proposed for the consideration and approval at the Domestic Share Class Meeting will be set out in the circular to be despatched by the Bank in due course.**

**中原銀行股份有限公司\***  
**ZHONGYUAN BANK CO., LTD.\***

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

**(Stock Code of H Shares: 1216)**

**(Stock Code of Preference Shares: 4617)**

**(ISIN: XS1898280711 / Common Code: 1898280711)**

**NOTICE OF THE PREFERENCE SHARE CLASS MEETING**

**NOTICE IS HEREBY GIVEN** that the preference share class meeting (the “**Preference Share Class Meeting**”) of Zhongyuan Bank Co., Ltd.\* (the “**Bank**”) will be held at 4:00 p.m. (or immediately after the conclusion or adjournment of the domestic share class meeting) on 10 March 2022 (Thursday) at Sheraton Grand Zhengzhou Hotel, No. 33, Jinshui East Road, Zhengdong New District, Zhengzhou, Henan Province, the PRC to consider and approve, if thought fit, the following resolution. Unless otherwise specified, capitalized terms used herein shall have the same meanings as those defined in the circular of the Bank dated 18 February 2022.

**SPECIAL RESOLUTIONS**

1. To approve, ratify and confirm the Merger by Absorption;
2. To approve, ratify and confirm the implementation of the Merger by Absorption which constitutes a connected transaction of the Bank; and
3. To authorize the chairman of the Board to exercise all powers which he considers necessary and do such other acts and things and execute such other documents which in his opinion may be necessary or desirable to implement the transactions (including the proposed issuance of consideration shares by the Bank and the relevant amendments to the articles of association of the Bank) contemplated under the Merger and Absorption Agreement.

By Order of the Board  
**Zhongyuan Bank Co., Ltd.\***  
**XU Nuojin**  
*Chairman*

Zhengzhou, the PRC  
18 February 2022

*As at the date of this notice, the Board comprises Mr. XU Nuojin, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie as executive Directors, Ms. ZHANG Qiuyun and Mr. MI Hongjun as non-executive Directors, and Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny as independent non-executive Directors.*

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

*Notes:*

1. Information relating to the record date for the Preference Shareholders, the procedures for appointing proxies or attending and voting at the Preference Share Class Meeting is set out in Exhibit 1 to this notice.
2. Pursuant to the Articles of the Association and the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. As such, the resolution set out in the notice of the Preference Share Class Meeting will be voted by poll.
3. Holders of the Preference Shares or their proxies attending the Preference Share Class Meeting shall produce their identity documents.
4. In the case of joint holders of the Preference Shares, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder(s) of the Preference Shares, and for this purpose seniority will be determined by the order in which the names stand on the register of members in respect of the relevant joint holding.
5. In order to prevent and control the COVID-19 epidemic as well as safeguard public health, the Bank encourages the Preference Shareholders to consider appointing the Tabulation Agent (as defined in the Exhibit attached hereto) or its nominee to vote on the relevant resolutions rather than attend the Preference Share Class Meeting in person.

**EXHIBIT: PROCEDURES FOR ATTENDING AND VOTING AT THE PREFERENCE SHARE CLASS MEETING**

The Preference Share Class Meeting, which will be held as scheduled at 4:00 p.m. (or immediately after the conclusion or adjournment of the Domestic Share Class Meeting) on 10 March 2022 (Thursday) at Sheraton Grand Zhengzhou Hotel, No. 33, Jinshui East Road, Zhengdong New District, Zhengzhou, Henan Province, the PRC to consider and approve, if thought fit, pass the resolution in respect of the Merger by Absorption as set out as resolutions 1 to 3 in the notice of Preference Share Class Meeting (the “**Relevant Resolutions**”). The Relevant Resolutions will be proposed as special resolutions. Passing of the Relevant Resolutions shall require more than two-thirds of the voting rights of the Preference Shareholders (including electronic instructions thereof) participating in the Preference Share Class Meeting.

The below sets out additional information in relation to the procedures for attending and voting on the Relevant Resolutions at the Preference Share Class Meeting by the Preference Shareholders.

The Expiration Deadline for submitting instructions by the Preference Shareholders in the manner described in this notice for the purpose of attending and voting at the Preference Share Class Meeting is Friday, 4 March 2022 at 4:30 p.m. (Hong Kong time), following which such instructions will be passed on to the Bank in accordance with the relevant requirements in the Articles of Association. However, the deadlines set by each Clearing System and any intermediaries for the submission of instructions may be earlier than the relevant deadlines specified in this notice.

The Preference Shareholders will be entitled to one vote in respect of each outstanding Preference Share held by them as of the EC/CS Record Date.

Any Preference Shareholder may submit an Electronic Instruction to (a) appoint the Tabulation Agent (or its nominee) to (i) vote in favor of the Relevant Resolutions, (ii) vote against the Relevant Resolutions or (iii) submit an abstention vote in respect of the Relevant Resolutions, or (b) appoint any other person (including the beneficial owner of the Preference Share(s) itself) to attend the Preference Share Class Meeting and vote on the Relevant Resolutions, on or before the Expiration Deadline and in the manner described in this notice.

However, in order to be valid, an Electronic Instruction must be submitted in respect of a minimum liquidation preference of no less than U.S.\$200,000 (which is equivalent to 10,000 Preference Shares) and integral multiples of U.S.\$1,000 (which is equivalent to 50 Preference Shares) in excess thereof.

In order to prevent and control the COVID-19 epidemic as well as safeguard public health, the Bank encourages the Preference Shareholders to consider appointing the Tabulation Agent or its nominee as his or her/their respective representative(s) to vote on the Relevant Resolutions rather than attend the Preference Share Class Meeting in person.

#### **EXISTING PREFERENCE SHARES HELD THROUGH EUROCLEAR OR CLEARSTREAM**

As the Preference Shares are held through Euroclear and Clearstream, if you wish to attend the Preference Share Class Meeting and vote on the Relevant Resolutions, either in person or by proxy, you may do so by submitting or arranging for the submission of an Electronic Instruction (pursuant to which you may appoint the Tabulation Agent (or its nominee) or any other person (including the beneficial owner of the Preference Share(s) itself) to attend the Preference Share Class Meeting and vote on the Relevant Resolutions) in accordance with the requirements of, and procedures established by, the relevant Clearing System on or before the Expiration Deadline and in the manner described in this notice.

#### **EC/CS Record Date**

As the Preference Shares are held through Euroclear and Clearstream, only the holders of the Preference Shares as of 5:00 p.m., Central European Time, on the EC/CS Record Date (being Monday, 28 February 2022) are eligible to attend and vote at the Preference Share Class Meeting.

The transfer of any Preference Shares after the EC/CS Record Date will not have the effect of revoking any Electronic Instruction previously validly given by a Preference Shareholder, and each properly delivered Electronic Instruction will be counted notwithstanding any transfer of the Preference Shares to which such Electronic Instruction relates, unless the procedures for revoking Electronic Instructions described in this notice have been validly complied with.

Please note that upon a sale of the Preference Share(s), it may take a few days for the sale of the Preference Shares to be settled in the relevant transferee's account with the relevant Clearing System and for the relevant records to be updated. As such, while the Preference Share(s) may have been sold on or prior to the EC/CS Record Date, the original transferor may still be the Preference Shareholder(s) of record of the relevant Preference Share(s) on the EC/CS Record Date for the purposes of the Preference Share Class Meeting, in which case such transferor shall be entitled to submit an Electronic Instruction. If you have sold your Preference Share(s), or had the Preference Share(s) sold to you, on or prior to the EC/CS Record Date, you may contact your broker, dealer, bank, custodian, trust company, nominee or other intermediary to determine whether you are the eligible Preference Shareholder of record of such Preference Share(s) as of the EC/CS Record Date.

**Euroclear/Clearstream Direct Participants**

Only Euroclear/Clearstream Direct Participants may submit Electronic Instructions. Beneficial owners of the relevant Preference Shares who wish to participate at the Preference Share Class Meeting and whose Preference Shares are held, as of the EC/CS Record Date, in the name of a broker, dealer, bank, custodian, trust company, nominee or other intermediary, must contact such broker, dealer, bank, custodian, trust company, nominee or other intermediary and instruct them to arrange for the relevant Euroclear/Clearstream Direct Participant through which the Preference Shares are held to deliver its instruction in accordance with the deadlines specified by the relevant Clearing System.

**Instructions for Submission of Electronic Instructions**

A Preference Shareholder must clearly state in its Electronic Instruction:

- (a) the aggregate liquidation preference of the relevant Preference Shares to which the Electronic Instruction relates; and
- (b) whether it appoints the Tabulation Agent (or its nominee) or any other person (including the beneficial owner of the Preference Share(s) itself) as proxy to attend and vote on the Relevant Resolutions proposed at the Preference Share Class Meeting. If you are appointing the Tabulation Agent (or its nominee) to attend the Preference Share Class Meeting and vote on the Relevant Resolutions on your behalf, you must indicate in your Electronic Instruction whether you wish for the Tabulation Agent (or its nominee) to vote in favor of or against, or abstain from voting on, the Relevant Resolutions. Alternatively, if you are appointing any other person (including the beneficial owner of the Preference Share itself), you must indicate in your Electronic Instruction the name, address and passport number of the person attending, and the identity of the person attending the Preference Share Class Meeting will be verified before the Preference Share Class Meeting commences.

By submitting an Electronic Instruction, a Preference Shareholder is deemed to represent, warrant and undertake to the Bank and the Tabulation Agent that the Preference Shares are, on the EC/CS Record Date, held by it in the relevant Clearing System.

**Revocation of Electronic Instructions**

Subject to the Articles of Association, the requirements of the relevant Clearing System and this paragraph, Electronic Instructions are irrevocable. An Electronic Instruction submitted by or on behalf of a Preference Shareholder may be revoked by that Preference Shareholder by submission to the Tabulation Agent on or before the Expiration Deadline of a revocation instruction, by a properly transmitted message, in accordance with the procedures of the relevant Clearing System only as permitted pursuant to the Articles of Association and the requirements of the relevant Clearing System. Following any such revocation the vote shall lapse.

**IMPORTANT INFORMATION**

All questions as to the validity, form and eligibility of any Electronic Instruction (including the time of receipt or the compliance of such Electronic Instruction with all applicable laws and regulations and the requirements of the relevant Clearing System) or revocation or revision thereof or delivery of Electronic Instructions will be determined by the Bank, in its sole discretion, subject to applicable law, the Articles of Association and the requirements of the relevant Clearing System, which determination will be final and binding.

Subject to applicable law, the Articles of Association and the requirements of the relevant Clearing System:

- (a) the Bank's interpretation of the terms and conditions of and validity, form and eligibility of any Electronic Instruction shall be final and binding; and
- (b) the Bank may in its absolute discretion reject any Electronic Instruction or elect to treat as valid an Electronic Instruction, in either case, not complying in all respects with the requirements as set out in this notice, and in each case, such determination will (subject as aforesaid) be final and binding.

Unless waived by the Bank, any irregularities in connection with any Electronic Instruction must be cured within such time as the Bank shall in its absolute discretion determine. None of the Bank, the Tabulation Agent or any other person will be under any duty to give notification of any defects or irregularities in such Electronic Instruction, nor will any of such entities or persons incur any liability for failure to give such notification. For the avoidance of doubt, the Tabulation Agent has not given, and will not give, any recommendations or representations with respect to the Relevant Resolutions and has not made any recommendation as to whether the Preference Shareholders should participate in the Preference Share Class Meeting or pass the Relevant Resolutions.

Any questions or requests for assistance in connection with the procedures for attending and voting at the Preference Share Class Meeting for the Preference Shareholders (including the delivery of Electronic Instructions) may be directed to The Bank of New York Mellon, London Branch as the Tabulation Agent by phone or by email using the following contact details:

Email: [debtstructuring@bnymellon.com](mailto:debtstructuring@bnymellon.com)

Phone: 00 44 (0) 1202 689644

## **DEFINITION**

In this notice, unless the context otherwise requires, the following expressions shall have the following meaning:

“Articles of Association”	the articles of association of the Bank
“Bank”	Zhongyuan Bank Co., Ltd.* (中原银行股份有限公司*), a joint stock company incorporated on December 23, 2014 in the People’s Republic of China with limited liability, the H shares of which are listed on the Main Board of the Stock Exchange, and, if the context requires, includes its predecessors, branches, sub-branches and subsidiaries
“Clearing Systems”	Euroclear and Clearstream (as applicable)
“Clearstream”	Clearstream Banking S.A
“EC/CS Record Date”	5:00 p.m., Central European Time on Monday, 28 February 2022, being the time and date for the determination of the Preference Shareholders entitled to attend and vote on the Relevant Resolutions at the Preference Share Class Meeting
“Electronic Instruction(s)”	an electronic voting instruction in the form specified by the applicable Clearing System for submission by Euroclear/Clearstream Direct Participants to the Tabulation Agent via the relevant Clearing System prior to the deadlines set out in this notice and in accordance with the requirements of such Clearing System in order for the Preference Shareholders of the relevant Preference Shares to be able to attend the Existing Preference Share Class Meeting

“Euroclear”	Euroclear Bank SA/NV
“Euroclear/Clearstream Direct Participant(s)”	each person who is shown in the records of Euroclear or Clearstream as a holder of an interest in such Preference Shares
“Expiration Deadline”	the deadline for submitting instructions by the Preference Shareholders in the manner described in this notice for the purpose of attending and voting at the Preference Share Class Meeting, being Friday, 4 March 2022 at 4:30 p.m. (Hong Kong time)
“Preference Shares”	the US\$1,395,000,000 5.60% non-cumulative perpetual offshore preference shares of the Bank issued on 21 November 2018 in the total subscription amount of US\$1,395,000,000 with a par value of RMB100 each, which are listed on the Stock Exchange (stock code: 04617)
“Preference Shareholders”	holders of the Preference Shares, including the beneficial owners thereto and their respective nominee holders
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tabulation Agent”	The Bank of New York Mellon, London Branch
“US\$”	United States Dollars, the lawful currency of the United States of America