

# Management Discussion and Analysis

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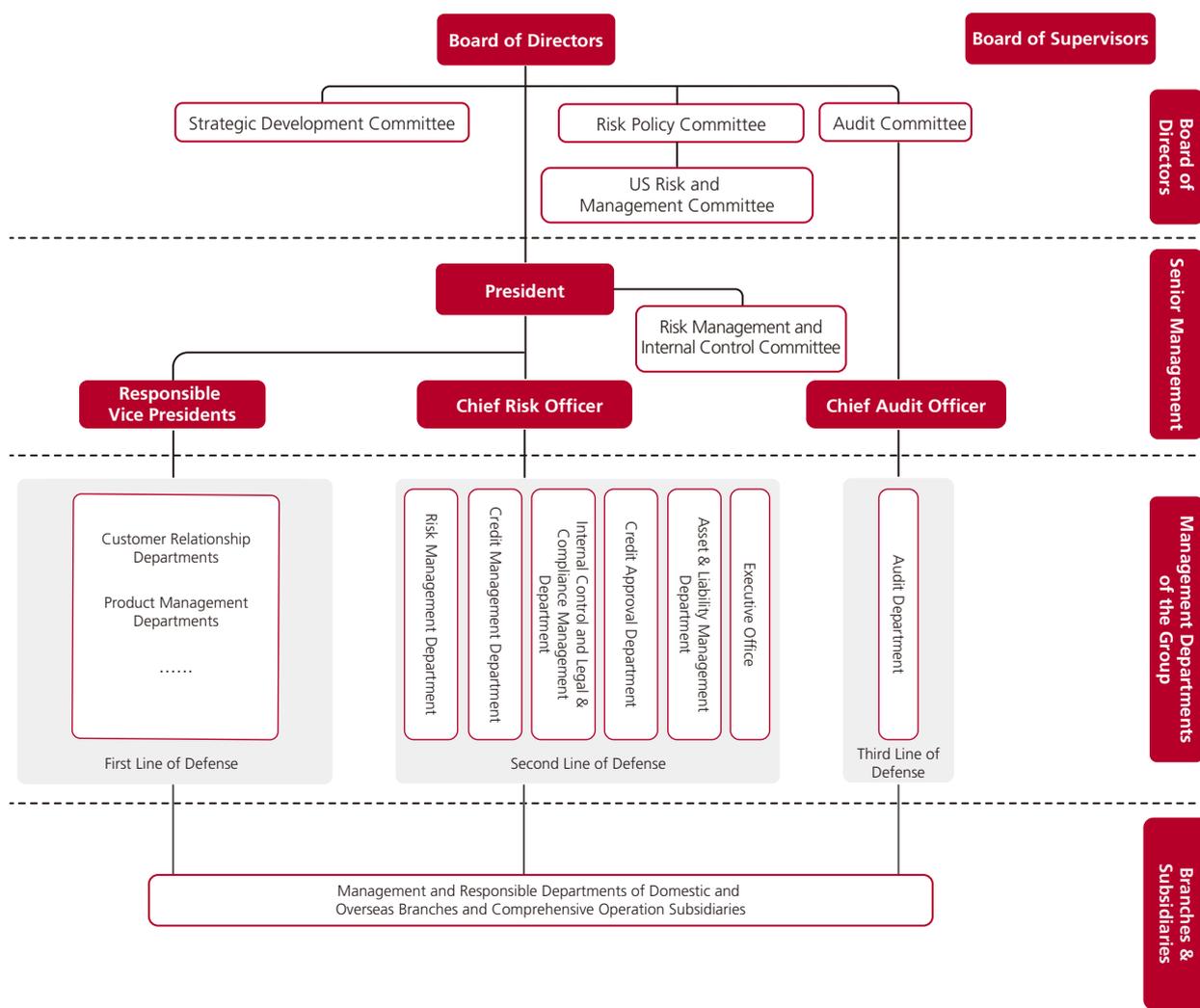


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The Bank continued to improve its risk management system in line with the Group's strategies and refine its risk management structure, mechanism, process, tools and foundations, thus ensuring the sustainable and robust operation of the Group. Anticipating how risk management will develop over the next three to five years, the Bank formulated the Group's 14th Five-year Plan and action scheme for the Group's risk management. In addition, it followed regulatory requirements and responded positively to the implementation of Basel III and international benchmark interest rate reform. It also enhanced rectification accountability to ensure compliance in

operations. The Bank intensified the risk control of overseas institutions and comprehensive operation companies and facilitated the development of the "Two Engines". It continuously investigated major potential risks, established a multi-tier smart risk control and early warning system, and enhanced its capabilities in identifying, warning, discovering and disposing of risks at an earlier stage. Furthermore, the Bank launched risk data governance and accelerated the digital transformation of risk management. It actively carried out special campaigns on risk culture, in order to cultivate a risk culture that supports its sustainable development.

The risk management framework of the Bank is set forth below:



### Credit Risk Management

Closely monitoring changes in macroeconomic and financial conditions, the Bank pushed forward the optimisation of its credit structure, improved its credit risk management policies, strengthened credit asset quality management and took a more proactive and forward-looking stance on risk management.

The Bank continuously optimised its credit structure. Aiming to advance strategic implementation and balance risk, capital and return, it pushed forward the establishment of an industrial policy system, formulated industry guidelines for credit granting, and improved the management scheme for its asset portfolios. In line with the 14th Five-year Plan of the country and that of the Bank, as well as requirements for the development of the “Eight Priority Areas for Enhancing Financial Services Capabilities”, the Bank highlighted the four segments of scientific and technological innovation, domestic demand expansion, regional coordination and infrastructure construction. It also focused on the ten pillars of strategic emerging industries, new infrastructure, advanced manufacturing, digital economy, people’s livelihood consumption, modern services, rural revitalisation, new urbanisation, traditional infrastructure and traditional manufacturing.

The Bank strengthened its unified credit granting management and enhanced full-scope centralised credit risk management. It continuously improved its long-acting credit management mechanism and asset quality monitoring system, strengthened the control of customer concentration risk, and further upgraded the effectiveness of potential risk identification, control and mitigation. The Bank enhanced the supervision of risk analysis and asset quality control in key focus regions, and strengthened the window guidance, inspection and post-assessment on its business lines. In addition, it constantly identified, measured and monitored large exposures in line with related large exposure management requirements.

In terms of corporate banking, the Bank further strengthened risk identification, control and mitigation in key fields, strictly controlled the aggregate amount and orientation of loans through limit management, and prevented and mitigated risk associated with projects in high energy consumption and high carbon emission industries. In addition, it implemented the government’s macro-control policies and regulatory measures in the real estate sector to strengthen the risk management of real estate loans. In terms of personal banking, the Bank improved its personal credit approval mechanism, strengthened authorisation management, and refined approver management. It set strict access standards, enhanced process monitoring and prevented excessive credit risk and the cross-spreading of risks while supporting the development of its personal credit business.

The Bank stepped up efforts in the mitigation of NPAs, consolidated asset quality, and prevented and resolved financial risks. It continued to adopt the tiered and classified management of NPA projects to drive for major breakthroughs and improve the quality and efficiency of disposal. The Bank expanded disposal channels, and applied the pilot regulatory policy on NPA transfer, achieved breakthroughs in single corporate transfers and batch individual transfers. It also intensified the securitisation of non-performing personal and bank card assets, with disposals reaching a record high.

The Bank scientifically measured and managed the quality of credit assets based on the *Guidelines for Loan Credit Risk Classification*, which requires Chinese commercial banks to classify loans into the following five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified as substandard, doubtful and loss are recognised as NPLs. In order to further refine its credit asset risk management, the Bank used a 13-tier risk classification criteria scheme for corporate loans to companies in the Chinese mainland, covering on-balance sheet and off-balance sheet credit assets. In addition, the Bank strengthened risk classification

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management of key industries, regions and material risk events, and dynamically adjusted classification results. It strengthened the management of loan terms, managed overdue loans by the name list system and made timely adjustments to risk classification results, so as to truly reflect asset quality.

As at the end of 2021, the Group's NPLs<sup>6</sup> totalled RMB208.792 billion, an increase of RMB1.519 billion compared with the prior year-end. The NPL ratio was 1.33%, a decrease of 0.13 percentage point compared with the prior year-end. The Group's allowance for impairment losses on loans and advances was RMB390.541 billion, an increase of

RMB21.922 billion compared with the prior year-end. The coverage ratio of allowance for loan impairment losses to NPLs was 187.05%, an increase of 9.21 percentage points compared with the prior year-end. The NPLs of the Bank's institutions in the Chinese mainland totalled RMB193.030 billion, an increase of RMB3.045 billion compared with the prior year-end. The NPL ratio of the Bank's institutions in the Chinese mainland was 1.49%, a decrease of 0.16 percentage point compared with the prior year-end. The Group's outstanding special-mention loans stood at RMB210.813 billion, a decrease of RMB53.781 billion compared with the prior year-end, and accounted for 1.35% of total loans and advances, down by 0.52 percentage point from the prior year-end.

### Five-category Loan Classification

Unit: RMB million, except percentages

Items	As at 31 December 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
<b>Group</b>				
Pass	15,255,389	97.32%	13,711,518	96.67%
Special-mention	210,813	1.35%	264,594	1.87%
Substandard	61,790	0.39%	125,118	0.88%
Doubtful	60,718	0.39%	33,823	0.24%
Loss	86,284	0.55%	48,332	0.34%
<b>Total</b>	<b>15,674,994</b>	<b>100.00%</b>	<b>14,183,385</b>	<b>100.00%</b>
NPLs	208,792	1.33%	207,273	1.46%
<b>Chinese mainland</b>				
Pass	12,586,668	97.17%	11,089,055	96.41%
Special-mention	173,561	1.34%	222,751	1.94%
Substandard	53,591	0.41%	115,873	1.01%
Doubtful	55,923	0.43%	31,078	0.27%
Loss	83,516	0.65%	43,034	0.37%
<b>Total</b>	<b>12,953,259</b>	<b>100.00%</b>	<b>11,501,791</b>	<b>100.00%</b>
NPLs	193,030	1.49%	189,985	1.65%

<sup>6</sup> Total loans and advances to customers in the "Risk Management — Credit risk management" section are exclusive of accrued interest.

## Migration Ratio

Items	Unit: %		
	2021	2020	2019
Pass	1.18	1.21	1.40
Special-mention	32.91	32.66	21.45
Substandard	83.68	24.68	40.86
Doubtful	23.06	28.62	18.76

## Distribution of Loans and NPLs by Industry

Items	Unit: RMB million, except percentages							
	As at 31 December 2021				As at 31 December 2020			
	Loans	% of total	NPLs	NPL ratio	Loans	% of total	NPLs	NPL ratio
<b>Chinese mainland</b>								
<b>Corporate Loans</b>								
Commerce and services	1,589,119	10.14%	30,111	1.89%	1,395,690	9.83%	42,010	3.01%
Manufacturing	1,549,639	9.89%	55,341	3.57%	1,329,778	9.38%	56,696	4.26%
Transportation, storage and postal services	1,578,645	10.07%	18,073	1.14%	1,313,457	9.26%	14,276	1.09%
Real estate	687,186	4.38%	34,694	5.05%	639,777	4.51%	29,952	4.68%
Production and supply of electricity, heating, gas and water	657,020	4.19%	13,173	2.00%	554,626	3.91%	2,374	0.43%
Financial services	500,380	3.19%	201	0.04%	487,488	3.44%	42	0.01%
Mining	161,473	1.03%	4,717	2.92%	163,193	1.15%	4,537	2.78%
Construction	266,775	1.70%	3,406	1.28%	218,541	1.54%	3,806	1.74%
Water conservancy, environment and public utility administration	295,183	1.88%	2,257	0.76%	243,268	1.72%	2,319	0.95%
Public utilities	159,284	1.02%	2,215	1.39%	136,444	0.96%	894	0.66%
Others	46,175	0.30%	608	1.32%	39,670	0.28%	861	2.17%
<b>Total</b>	<b>7,490,879</b>	<b>47.79%</b>	<b>164,796</b>	<b>2.20%</b>	<b>6,521,932</b>	<b>45.98%</b>	<b>157,767</b>	<b>2.42%</b>
<b>Personal loans</b>	<b>5,462,380</b>	<b>34.85%</b>	<b>28,234</b>	<b>0.52%</b>	<b>4,979,859</b>	<b>35.11%</b>	<b>32,218</b>	<b>0.65%</b>
<b>Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions</b>								
	2,721,735	17.36%	15,762	0.58%	2,681,594	18.91%	17,288	0.64%
<b>Total of the Group</b>	<b>15,674,994</b>	<b>100.00%</b>	<b>208,792</b>	<b>1.33%</b>	<b>14,183,385</b>	<b>100.00%</b>	<b>207,273</b>	<b>1.46%</b>

The Bank continued to optimise the credit structure and stepped up efforts to support the real economy. As at the end of 2021, loans for transportation, storage and postal services industry totalled RMB1,578.645 billion, an increase of RMB265.188 billion or 20.19% compared with the prior year-end. Loans for manufacturing industry totalled RMB1,549.639 billion, an increase of RMB219.861 billion or 16.53% compared with the prior year-end. The NPL ratios of commerce and services industry and manufacturing industry decreased by 1.12 percentage points and 0.69 percentage point respectively.

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In accordance with IFRS 9, the Bank assesses expected credit losses with forward-looking information and makes relevant allowances. In particular, it makes allowances for assets classified as Stage 1 and assets classified as Stage 2 and Stage 3 according to the expected credit losses over 12 months and the expected credit losses over the entire lifetime of the asset, respectively. As at the end of 2021, the Group's Stage 1 loans totalled RMB15,207.789 billion, accounting for 97.04% of total loans; Stage 2 loans totalled RMB255.214 billion, accounting for 1.63% of total loans; and Stage 3 loans totalled RMB208.186 billion, accounting for 1.33% of total loans.

As at the end of 2021, the Group's credit-impaired loans totalled RMB208.792 billion, an increase of RMB1.519 billion compared with the prior year-end. The credit-impaired loans to total loans ratio was 1.33%, a decrease of 0.13 percentage point compared with the prior year-end. Credit-impaired loans of the Bank's institutions in the Chinese mainland totalled RMB193.030 billion, an increase of RMB3.045 billion compared with the prior year-end. The credit-impaired loans to total loans ratio of the Bank's institutions in the Chinese mainland was 1.49%, a decrease of 0.16 percentage point compared with the prior year-end. The Bank's operations in Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions reported credit-impaired loans of RMB15.762 billion and a credit-impaired loans to total loans ratio of 0.58%, a decrease of RMB1.526 billion and 0.06 percentage point, respectively, compared with the prior year-end.

### Movement of Credit-impaired Loans

Unit: RMB million

Items	2021	2020	2019
<b>Group</b>			
Balance at the beginning of the year	207,273	178,235	166,952
Increase during the year	86,583	100,392	94,870
Decrease during the year	(85,064)	(71,354)	(83,587)
Balance at the end of the year	208,792	207,273	178,235
<b>Chinese mainland</b>			
Balance at the beginning of the year	189,985	169,951	162,778
Increase during the year	77,098	86,209	88,658
Decrease during the year	(74,053)	(66,175)	(81,485)
Balance at the end of the year	193,030	189,985	169,951

### Loans and Credit-impaired Loans by Currency

Unit: RMB million

Items	As at 31 December 2021		As at 31 December 2020		As at 31 December 2019	
	Total loans	Impaired loans	Total loans	Impaired loans	Total loans	Impaired loans
<b>Group</b>						
RMB	12,727,437	170,103	11,313,067	164,072	10,125,083	150,532
Foreign currency	2,947,557	38,689	2,870,318	43,201	2,909,106	27,703
<b>Total</b>	<b>15,674,994</b>	<b>208,792</b>	<b>14,183,385</b>	<b>207,273</b>	<b>13,034,189</b>	<b>178,235</b>
<b>Chinese mainland</b>						
RMB	12,623,061	170,102	11,245,545	161,651	10,041,692	149,808
Foreign currency	330,198	22,928	256,246	28,334	260,716	20,143
<b>Total</b>	<b>12,953,259</b>	<b>193,030</b>	<b>11,501,791</b>	<b>189,985</b>	<b>10,302,408</b>	<b>169,951</b>

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The Bank makes timely and adequate allowances for loan impairment losses based on the expected credit loss (ECL) module in accordance with the principles of authenticity and forward-lookingness. Please refer to Notes II.4 and VI.2 to the Consolidated Financial Statements for the accounting policy in relation to allowances for impairment losses.

In 2021, the Group's impairment losses on loans and advances stood at RMB98.298 billion, a decrease of RMB5.332 billion compared with the prior year. The credit cost was 0.66%, down 0.10 percentage point compared with the prior year. Specifically, the Bank's institutions in the Chinese mainland registered impairment losses on loans and advances of RMB95.308 billion, an increase of RMB1.723 billion compared with the prior year. The credit cost of the Bank's institutions in the Chinese mainland was 0.78%, down 0.08 percentage point compared with the prior year.

The Bank continued to focus on controlling borrower concentration risk and was in full compliance with regulatory requirements on borrower concentration.

Indicators	Regulatory Standard	Unit: %		
		As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
Loan concentration ratio of the largest single borrower	≤10	2.3	2.8	3.2
Loan concentration ratio of the ten largest borrowers	≤50	12.8	13.9	14.5

Notes:

- 1 Loan concentration ratio of the largest single borrower = total outstanding loans to the largest single borrower ÷ net capital.
- 2 Loan concentration ratio of the ten largest borrowers = total outstanding loans to the top ten borrowers ÷ net capital.

Please refer to Notes V.17 and VI.2 to the Consolidated Financial Statements for detailed information regarding loan classification, stage determination, credit-impaired loans and allowance for loan impairment losses.

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The following table shows the top ten individual borrowers as at the end of 2021.

Unit: RMB million, except percentages

	<b>Industry</b>	<b>Related Parties or not</b>	<b>Outstanding loans</b>	<b>% of total loans</b>
Customer A	Transportation, storage and postal services	No	60,766	0.39%
Customer B	Commerce and services	No	42,968	0.27%
Customer C	Manufacturing	No	41,403	0.26%
Customer D	Transportation, storage and postal services	No	40,600	0.26%
Customer E	Transportation, storage and postal services	No	35,320	0.23%
Customer F	Transportation, storage and postal services	No	31,246	0.20%
Customer G	Transportation, storage and postal services	No	24,300	0.16%
Customer H	Transportation, storage and postal services	No	23,566	0.15%
Customer I	Manufacturing	No	22,294	0.14%
Customer J	Real estate	No	22,000	0.14%

### Market Risk Management

In response to changes in the market environment, the Bank continued to refine its market risk management system in order to control its market risk.

The Bank followed regulatory requirements and advanced the implementation of the new regulatory rules for market risk. It strengthened its market judgement and analysis, and made its risk management more flexible, proactive and forward-looking. It strengthened the transmission of the market risk appetite mechanism, actively pushed forward risk authorisation management, and optimised the mode of limit management. In addition, the Bank intensified efforts in the development of a market risk management system, optimised risk measurement models, and improved intelligent and refined risk management. It also actively carried out risk investigation and strengthened the overall management and control of the Group's market risk. It improved the emergency planning system and enhanced its capacity to handle market risk emergencies. Please refer to Note VI.3 to the Consolidated Financial Statements for detailed information regarding market risk.

The Bank improved the market risk limit system for its bond investment business and strengthened cross-risk management. It continued to strengthen risk control of its securities investment activities, bolstered the early warning of domestic bond market default risks and the tracking of the Chinese offshore USD bond market, and enhanced its post-investment monitoring and early-warning capabilities.

In terms of exchange rate risk management, the Bank sought to achieve currency matching between fund source and application. It controlled its foreign exchange exposure through currency conversion and hedging, thus maintaining its exchange rate risk at a reasonable level.

## Management of Interest Rate Risk in the Banking Book

Based on the principles of “matching, comprehensiveness and prudence”, the Bank strengthened the management of interest rate risk in the banking book (IRRBB). The Bank’s IRRBB management strategy is to control risks within an acceptable level by considering factors such as the Bank’s risk appetite and risk profile, as well as macro-economic and market conditions, so as to achieve a reasonable balance between risk and return and thus maximise shareholder value.

The Bank assessed the interest rate risk in the banking book mainly through the analysis of interest rate repricing gaps. Based on changes in the market situation, it made timely adjustments to the structure of its assets and liabilities, optimised its internal and external pricing strategy or implemented risk hedging. Assuming that the yield curves of all currencies were to shift up or down by 25 basis points in parallel, the Group’s sensitivity analysis of net interest income on all currencies is as follows<sup>7</sup>.

Unit: RMB million

Items	As at 31 December 2021				As at 31 December 2020			
	RMB	USD	HKD	Other	RMB	USD	HKD	Other
Up 25 bps	(3,846)	(816)	160	151	(3,405)	(921)	16	203
Down 25 bps	3,846	816	(160)	(151)	3,405	921	(16)	(203)

The Bank attached great importance to the reform of interest rate benchmarks, proactively participated in the establishment of the global benchmark rate market by capitalising on its advantages in globalised operations, and took a crucial part in the invention and promotion of alternative benchmark rate products. It also pressed ahead with the transition of remaining LIBOR contracts as scheduled by strengthening customer communication, and the overall transition risk is under effective control.

## Liquidity Risk Management

The Bank endeavoured to develop a sound liquidity risk management system with the aim of effectively identifying, measuring, monitoring and controlling liquidity risk at the institution and Group level, including that of branches, subsidiaries and business lines, thus ensuring that liquidity demand is met in a timely manner and at a reasonable cost.

Adhering to an appropriate balance of safety, liquidity and profitability, and following regulatory requirements, the Bank improved its liquidity risk management in a forward-looking and scientific manner. It enhanced liquidity risk management at the institution and Group level, including that of branches, subsidiaries and business lines. It formulated sound liquidity risk management policies and contingency plans, periodically re-examined liquidity risk limits, upgraded the early warning system for liquidity risk, and strengthened the management of high-quality liquid assets in order to strike an appropriate balance between risk and return. In addition, the Bank regularly improved its liquidity stress-testing scheme and performed stress tests on a quarterly basis. The test results indicated that the Bank had adequate payment ability to cope with distressed scenarios.

<sup>7</sup> This analysis includes interest-sensitive off-balance sheet positions.

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As at the end of 2021, the Group's liquidity risk indicator met regulatory requirements. The Group's liquidity ratio is shown in the table below (in accordance with the relevant provisions of regulatory authorities in the Chinese mainland):

		Unit: %			
Ratio		Regulatory standard	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
Liquidity ratio	RMB	≥25	49.6	54.5	54.6
	Foreign currency	≥25	69.9	58.6	60.4

Liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gap results are periodically calculated, monitored and used for sensitivity analysis and stress testing. As at the end of 2021, the Bank's liquidity gap was as follows (please refer to Note VI.4 to the Consolidated Financial Statements):

		Unit: RMB million	
Items		As at 31 December 2021	As at 31 December 2020
Overdue/undated		2,111,462	2,036,554
On demand		(9,586,299)	(8,932,662)
Up to 1 month		(364,383)	(693,580)
1–3 months (inclusive)		(685,992)	(143,909)
3–12 months (inclusive)		(300,183)	70,657
1–5 years (inclusive)		3,330,756	2,895,333
Over 5 years		7,845,192	6,930,444
Total		2,350,553	2,162,837

Note: Liquidity gap = assets that mature in a certain period – liabilities that mature in the same period.

### Reputational Risk Management

The Bank earnestly implemented regulatory requirements on reputational risk management, continued to enhance its reputational risk management system and mechanism and strengthened the consolidated management of reputational risk, so as to enhance its overall reputational risk management capabilities. It attached great importance to the investigation and pre-warning of potential reputational risk factors, strengthened public opinion monitoring, continued to conduct reputational risk identification, assessment and reporting, and dealt appropriately with reputational events, thus effectively protecting its

brand reputation. In addition, the Bank continued to roll out reputational risk management training so as to enhance employees' awareness and foster a culture of reputational risk management.

### Internal Control and Operational Risk Management

#### Internal Control

The Board of Directors, senior management and their special committees earnestly performed their duties regarding internal control and supervision while emphasising early risk warning and prevention, thus improving the Group's level of operational compliance.

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The Bank continued to adopt the “Three Lines of Defence” mechanism for internal control. The first line of defence consists of business departments and all banking outlets. They are the owners of, and are accountable for, local risks and controls. They undertake self-directed risk control and management functions in the course of their business operations, including formulating and implementing policies, conducting business examination, reporting control deficiencies and organising rectifications.

The internal control and risk management departments of the Bank’s institutions at all levels form the second line of defence. They are responsible for the overall planning, implementing, examining and assessment of risk management and internal control, as well as for identifying, measuring, monitoring and controlling risks. They lead the first line of defence to enhance its use of the Group’s operational risk monitoring and analysis platform, and are responsible for handling employee violations and management accountability. Through regular monitoring of material risks, the Bank identified and mitigated risks in a timely manner and promoted the optimisation of its business processes and systems.

The third line of defence rests in the audit department of the Bank. The audit department is responsible for performing internal audits of the Bank’s internal control and risk management in respect of its adequacy and effectiveness. Adhering to the risk-oriented principle and focusing on the implementation of national policies, regulatory requirements and the Group’s strategies, the audit department concentrated its efforts on the main responsibilities of audit supervision, closely monitored material potential risks and weak links, and carried out audit inspections as scheduled. It carried out audits in a more forward-looking and proactive manner, and improved the capabilities of the first and second lines of defence for preventing problems, hence nipping problems in the bud. The audit department attached equal importance to problem revelation and rectification supervision. It further improved its rectification supervision mechanism for audit findings, strengthened the tracking, inspection and prioritised supervision of audit findings rectification, and promoted the application

of audit results and the improvement of rectification quality and efficiency. The Bank also stepped up overall audit planning, deepened audit system reform, continued to enhance audit team building and promoted IT applications in audit, thus further reinforcing the efficiency of audit supervision.

The Bank devoted great efforts to internal control and case prevention management, consolidated the liabilities of primary responsible parties and took multiple control measures. It consistently improved internal control rules, processes and systems, formulated the policy and measures for case prevention management, and refined the management measures for internal control inspection. It also stepped up efforts in the building of its internal control inspection team, organised Bank-wide risk screening, and carried out the campaign of “Year for Improving Internal Control and Compliance Management”, thereby continuously improving its internal control and compliance management. The Bank also focused on the rectification of issues and findings, conducted warning and education activities on a regular basis, raised employees’ compliance awareness and fostered an internal control compliance culture.

The Bank continued to implement the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, and implemented the *Guidelines for Internal Control of Commercial Banks* by following the basic principles of “complete coverage, checks and balances, prudence and correspondence”, so as to promote internal control governance and an organisational structure characterised by a reasonable delegation of work, well-defined responsibilities and clear reporting lines.

The Bank established and implemented a systematic financial accounting policy framework in accordance with relevant accounting laws and regulations. As such, its accounting basis was solidified and the level of standardisation and refinement of its financial accounting management was further improved. From 2019 to 2021, the Bank endeavoured to implement sound accounting standards and establish a long-term accounting management mechanism. It continuously strengthened the quality management of

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its accounting information to ensure internal control effectiveness over financial reporting. The financial statements of the Bank were prepared in accordance with the applicable accounting standards and related accounting regulations, and the financial position, operational performance and cash flows of the Bank were fairly presented in all material respects.

The Bank paid close attention to fraud risk prevention and control, proactively identifying, assessing, controlling and mitigating risks. In 2021, the Bank succeeded in preventing 127 external cases involving RMB79.03 million.

### **Operational Risk Management**

The Bank continuously improved its operational risk management system. It promoted the application of operational risk management tools, including Risk and Control Assessment (RACA), Key Risk Indicators (KRI), Loss Data Collection (LDC), etc., carried out the identification, assessment and monitoring of operational risk, and further standardised its operational risk reporting mechanism, thus continuously improving its risk management measures. The Bank enhanced its IT system support capabilities by optimising its operational risk management information system. It strengthened its business continuity management system, optimised its operating mechanism, enhanced its business continuity policies, and performed business impact analysis. The Bank also refined contingency plans, carried out business continuity drills, proactively addressed the COVID-19 pandemic and improved the Group's business continuity capacity.

### **Compliance Management**

The Bank continuously improved its compliance risk governance mechanism and management process to ensure the Group's sound operation and sustainable development. It improved its anti-money laundering (AML) and sanctions compliance management mechanism, strengthened refined management, optimised institutional money laundering risk assessment, and reinforced transaction monitoring and reporting. It further enhanced its system and model building and improved system functionality. The Bank continuously strengthened the establishment of a long-term robust management framework for

overseas institutions compliance and consolidated its compliance management foundations, thus enhancing the compliance management capabilities of its overseas institutions. It improved its AML and sanction compliance training management mechanism and conducted various forms of compliance training, so as to enhance all employees' compliance awareness and abilities.

The Bank enhanced the management of its connected transactions and internal transactions. It continuously improved the management of connected parties and consolidated the foundation of its connected transaction management. It strengthened the routine monitoring and examination of connected transactions and strictly controlled their risks. In addition, it continuously strengthened its internal transaction management mechanism, implemented internal transaction monitoring and reporting. It was also committed to improving its connected transaction monitoring system and internal transaction management system, and thereby enhanced IT applications in compliance management.

### **Country Risk Management**

The Bank incorporates country risk into its comprehensive risk management system in strict accordance with regulatory requirements. It manages and controls country risk through a series of management tools, including country risk rating, country risk limit, statistics and monitoring of country risk exposures, and provisioning of allowances.

Facing the extremely complicated international political and economic situation, the Bank continued to strengthen country risk management in strict accordance with regulatory requirements and based on business development needs. It optimised the rules for country risk rating and limit determination, and made country rating and limit management more science-based and efficient. It also strengthened country risk monitoring, improved country risk analysis and reporting, and enhanced the country risk management system. The Bank actively pushed forward the provisioning of country risk allowances and enhanced its ability to offset country risk. Country risk exposures were mainly concentrated in countries and regions with low and relatively low country risk, and the overall country risk was controlled at a reasonable level.