

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



WEIHAI CITY COMMERCIAL BANK CO., LTD.*

威海市商業銀行股份有限公司*

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

(Stock Code: 9677)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The board of directors (the “**Board**”) of Weihai City Commercial Bank Co., Ltd.* (the “**Bank**”) hereby announces the audited annual results of the Bank and its subsidiary (the “**Group**”) for the year ended 31 December 2020. This announcement, containing the full text of the 2020 annual report of the Bank, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of annual results. The Group’s final results for the year ended 31 December 2020 have been reviewed by the audit committee of the Bank. This results announcement will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Bank’s website (www.whccb.com). The Bank’s 2020 annual report will be despatched to the holders of H shares of the Bank and published on the websites of The Stock Exchange of Hong Kong Limited and the Bank in due course.

By Order of the Board
Weihai City Commercial Bank Co., Ltd.*
TAN Xianguo
Chairman

Weihai, China
31 March 2021

As at the date of this announcement, the Board of Directors of the Bank comprises Mr. TAN Xianguo, Mr. MENG Dongxiao, Mr. ZHANG Renzhao, Mr. BI Qiubo and Ms. TAO Zunjian as executive Directors; Mr. LI Hang, Mr. WANG Song, Mr. SUN Chenglong, Mr. YI Jijun and Mr. WANG Qixiang as non-executive Directors; Mr. LIU Xue, Mr. LU Qing, Mr. SUN Guomao, Mr. ZHANG Guanghong and Mr. FAN Chi Chiu as independent non-executive Directors.

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

CONTENTS

2	Chapter 1	Important Notice
3	Chapter 2	Definitions
6	Chapter 3	Corporate Information
10	Chapter 4	Summary of Four-Year Accounting Data and Financial Indicators
13	Chapter 5	Management Discussion and Analysis
82	Chapter 6	Changes in Share Capital and Information on Shareholders
88	Chapter 7	Directors, Supervisors, Senior Management and Employees
107	Chapter 8	Corporate Governance Report
129	Chapter 9	Report of the Board of Directors
139	Chapter 10	Report of the Board of Supervisors
142	Chapter 11	Important Events
144	Chapter 12	Independent Auditor's Report
153	Chapter 13	Consolidated Financial Statements and the Notes to the Consolidated Financial Statements
284	Chapter 14	Unaudited Supplementary Financial Information
299		List of Institutions

CHAPTER 1 IMPORTANT NOTICE

1. The Board of Directors, the Board of Supervisors, Directors, Supervisors and senior management of the Bank warrant that there are no false representations, misleading statements or material omissions contained in this report, and jointly and severally accept responsibility for the truthfulness, accuracy and completeness of the information contained in this report.
2. The 2020 annual report of the Bank (the “Annual Report”) was approved unanimously at the 23rd meeting of the seventh session of the Board of the Bank held on 31 March 2021, which was considered and approved by way of valid voting. 15 directors were eligible to attend the meeting, and 14 directors attended the meeting in person. Certain Supervisors of the Bank attended the meeting.
3. The 2020 financial report of the Group prepared in accordance with the China Accounting Standards for Business Enterprises has been audited by BDO China Shu Lun Pan Certified Public Accountants LLP, which has issued a standard unqualified audit report. The 2020 financial report prepared in accordance with the International Financial Reporting Standards has been audited by BDO Limited, which has issued a standard unqualified audit report.
4. TAN Xianguo, Chairman, MENG Dongxiao, President, and TAO Zunjian, Chief Accountant and Head of the Finance Department of the Bank, warrant the truthfulness, accuracy and completeness of the financial report in this annual report.
5. The Board of Directors of the Bank proposes to distribute a cash dividend of RMB10 (tax inclusive) per 100 shares to the ordinary shareholders whose names appeared on the register of members on the record date for equity distribution. The profit distribution plan will be submitted to the 2020 Annual General Meeting for approval. Further announcement will be made in respect of the date of the closure of register and the record date in relation to the proposed final dividend.
6. Forward-looking statements, including future plans, contained in this annual report do not constitute any actual commitments of the Bank to investors. Investors and related persons are advised to maintain sufficient risk awareness and understand the difference between plans, forecasts and commitments.
7. During the Reporting Period, the Bank was not aware of any major risks that would adversely affect the Bank’s future development strategies and business objectives. The principal risks exposed by the Bank in its operation and management as well as the corresponding measures adopted by the Bank are detailed in this annual report. For details, please refer to “Risk Management” and “Future Prospects” in the section headed “Management Discussion and Analysis” of this annual report.
8. The financial data and indicators set out in this annual report, save as stated otherwise, the monetary unit is denominated in RMB. Certain amounts and percentage figures set out in this annual report have been subject to rounding adjustments. Any discrepancy between the totals and sum of the amounts in any tables is due to such rounding.
9. This annual report is prepared in both Chinese and English. In the event of any discrepancy, the Chinese version shall prevail.

CHAPTER 2 DEFINITIONS

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

“Articles of Association”	the articles of association of the Bank, namely the Articles of Association of Weihai City Commercial Bank Co., Ltd., as may be amended, supplemented or otherwise modified from time to time
“Bank”, “our Bank” or “Weihai City Commercial Bank”	Weihai City Commercial Bank Co., Ltd., a joint stock limited company established in the PRC in July 1997 in accordance with the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches, excluding its subsidiaries
“Board” or “Board of Directors”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“CBIRC Shandong Office”	China Banking and Insurance Regulatory Commission Shandong Office
“CNHTC”	China National Heavy Duty Truck Group Co., Ltd. (中國重型汽車集團有限公司)
“Corporate Governance Code”	Corporate Governance Code under Appendix 14 to the Listing Rules
“Directors”	the directors of the Bank
“Domestic Shares”	the ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
“Group”, “our Group”, “we” or “us”	the Bank and its subsidiaries and, where the context requires, includes its predecessors, branches and sub-branches
“H Shares”	the ordinary shares issued by the Bank in Hong Kong, with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed and traded on the Hong Kong Stock Exchange
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong

Chapter 2 Definitions

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards, International Accounting Standards, the related standards, amendments and explanatory announcement, as issued by the International Accounting Standards Board
“Listing Date”	October 12, 2020, being the listing date of the H Shares on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“PBOC” or “Central Bank”	the People’s Bank of China
“PRC” or “China”	the People’s Republic of China
“PRC Company Law”	The Company Law of the People’s Republic of China
“Qilu Transportation”	Qilu Transportation Development Group Co., Ltd. (齊魯交通發展集團有限公司)
“Reporting Period”	the year ended December 31, 2020
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shandong Hi-Speed”	Shandong Hi-Speed Company Limited (山東高速股份有限公司), a non-wholly owned subsidiary of Shandong Hi-Speed Group Company and a substantial Shareholder of the Bank
“Shandong Hi-Speed Group Company”	Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司), a controlling Shareholder of the Bank

Chapter 2 Definitions

“Shandong SASAC”	State-owned Assets Supervision and Administration Commission of Shandong Provincial People’s Government (山東省人民政府國有資產監督管理委員會)
“Shareholder(s)”	holder(s) of the Shares of the Bank
“Share(s)”	ordinary share(s) in the share capital of the Bank with a nominal value of RMB1.00 each
“Subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Supervisors”	the supervisors of the Bank
“Tongda Financial Leasing”	Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)

CHAPTER 3 CORPORATE INFORMATION

BASIC INFORMATION

Legal Chinese Name	威海市商業銀行股份有限公司
Chinese Abbreviation	威海市商業銀行
Legal English Name	Weihai City Commercial Bank Co., Ltd.
English Abbreviation	Weihai City Commercial Bank
Legal Representative	TAN Xianguo
Secretary to the Board	BI Qiubo
Joint Company Secretaries	BI Qiubo, TAM Pak Yu, Vivien
Paid-in Capital	5,980,058,344
Registered Address	No. 9 Bao Quan Road, Weihai City, Shandong Province, the PRC
Postcode of Registered Address	264200
Place of Business in Hong Kong	40th Floor, Dah Sing Financial Centre, 248 Queen's Road East, Wan Chai, Hong Kong
Contact Number	(86) 631-5236187
Facsimile	(86) 631-5210210
E – mail	whccb@whccb.com
Website	www.whccb.com

Chapter 3 Corporate Information

Unified Social Credit Code	913700002671339534
Financial License Institution Number	B0176H237100001
Customer Service Hotline	(86) 40000-96636
Complaint Hotline	(86) 631-5221290
Place of Listing of Shares	The Stock Exchange of Hong Kong Limited
Stock Short Name	WEIHAI BANK
Stock Code	9677
H Share Registrar	Computershare Hong Kong Investor Services Limited
Annual Reports are Available at:	Office of the Board and principal place of business of the Bank
PRC Legal Advisers	Beijing Dentons Law Offices, LLP
Hong Kong Legal Adviser	Paul Hastings 21-22/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong
PRC Auditor	BDO China Shu Lun Pan Certified Public Accountants LLP 9/F, 17-20/F, Tower A, China Overseas International Center, Building 7, No. 5 Anding Road, Chaoyang District, Beijing
International Auditor	BDO Limited 25th Floor, Wing On Centre, 111 Connaught Road Central, Sheung Wan, Hong Kong
Compliance Adviser	Central China International Capital Limited
Principal Scope of Business	Taking deposits from the public, extending short-term, medium-term and long-term loans, effecting domestic and overseas settlements, accepting and discounting bills, issuing financial bonds, acting as an agent for issuance of, settlement for, and underwriting of, government bonds, trading government bonds, financial bonds, engaging in inter-bank lending, trading, acting as an agent for foreign exchange, engaging in bank card business, providing letter of credit services and guarantees, acting as an agent for collection and payment of monies and insurance agency business, providing safe deposit box services, handling entrusted deposits of funds used for local financial credit turnover, loan business, and other businesses approved by the CBIRC, the PBOC, China Securities Regulatory Commission (the CSRC) and State Administration of Exchange Control (the SAFE).

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

COMPANY PROFILE

Established in 1997, Weihai City Commercial Bank is the product of financial reform in the PRC. Since its establishment, the Bank has always kept in mind its original intention and mission of serving the real economy, adhered to the market positioning of “serving the local economy, serving small and micro enterprises, and serving urban and rural residents”, adhered to the service concept of “mutual support and delightful growth”, insisted on innovation in reform, and surpassed in development, thus moving out a unique development path. It currently has 120 branches and sub-branches in Jinan, Tianjin, Qingdao, etc., and is the first local legal person bank in Shandong Province to achieve “full coverage of the province”. In 2016, the Bank was the first financial institution in Shandong Province to initiate the establishment of a financial leasing company, marking a substantial step in its integrated operation. On October 12, 2020, the Bank was successfully listed on the Main Board of the Hong Kong Stock Exchange and raised net proceeds of HKD3.277 billion, all of which were used to replenish the Bank’s core tier-one capital, further enhance the capital strength and support the sustainable growth of the business.

Quality services and good performance have been highly recognized and well received by all sectors of society. From 2016 to 2020, the Bank was awarded the “Top 10 City Commercial Banks in China” in the Golden Medal List of Chinese Financial Institutions • Golden Dragon Award (中國金融機構金牌獎 • 金龍獎“全國十佳城市商業銀行”) for five consecutive years, and ranked first in the performance evaluation of local financial enterprises organized by the Shandong Provincial Government for several times, and enjoyed a corporate credit rating of AAA. The Bank was successively awarded the “Best Special Bank in China” (中國最佳特色銀行), “Best Retail Bank in China” (中國最佳零售銀行), “Best Financial Service Institution for Small and Medium Enterprises in China” (中國最佳中小企金融服務機構), “Demonstration Unit for Corporate Culture Construction in China’s Financial Industry” (中國金融行業企業文化建設示範單位), “First Batch of A-Grade Tax-paying Financial Institutions in Shandong Province” (山東省首批A級納稅金融單位), “Quality Award in Shandong Province” (山東省質量獎) and “Outstanding Enterprise in Management and Innovation in Shandong Province” (山東省管理創新優秀企業). The brand reputation and social influence were significantly improved.

Development Vision: Continue to build a “a bank with a strong desire to learn and a happy work environment” (“學習型快樂銀行”).

Strategic Approaches: The bank plans to develop technology-driven “Bi-Focus Retail Banking” (“兩端型零售銀行”) business model and focus on enhancing differentiated strengths, retail banking business, intensive management, comprehensive coverage, capitalization, branding and conglomeration.

Development Strategies:

1. Consolidate the advantages of featured businesses: adhere to the strategy of “Bi-Focus retail banking”, focus on high-end customers in corporate banking, and adhere to the direction of professional and intensive development. As for the retail banking business, the Bank continues to innovate featured products by closely following the mass market.
2. Enhance application of advanced Fintech: The Bank has established the concepts of “technology leading business” and “technology serving business”, implemented the “three-step” strategy of “offline business online, online business enrichment, and digital banking strategy”, and solidly promoted the construction of “digital banking”.

Chapter 3 Corporate Information

3. Improve the quality and efficiency of compliance risk management: strengthen the application of advanced technologies in risk management and build a precise and agile risk warning system. The Bank will continue to strengthen capital management and enhance its ability to resist risks.
4. Deepen the construction of corporate culture: actively advocate the concept of “people-oriented” and create a harmonious corporate culture atmosphere. We will firmly implement the strategy of “building a stronger bank with talents” (“人才強行”), continuously optimize the structure of talent team and improve the quality of talent team.

Core Competitiveness:

1. Comprehensive network layout. The Bank has established branches and sub-branches in all cities in Shandong Province, and has set up branches in Tianjin outside the province. The number of branches reached 120, of which 51 were located in Weihai, creating a comprehensive branch network and forming a unique comparative advantage of serving regional economy.
2. Quality shareholder structure. Our substantial shareholders include Shandong Hi-Speed Group Company, which is a large state-owned enterprise, Weihai Municipal Finance Bureau, and other corporate shareholders which are mostly large and well-developed local listed companies in Weihai. All substantial shareholders are able to comply with laws and regulations and act in a scientific and reasonable manner to provide strong support for the long-term development of the Bank.
3. Featured product portfolio. In the corporate banking segment, the Bank focuses on high-end customers and provides comprehensive financial products and services. In the retail banking segment, the Bank adheres to the principle of “customer-oriented and market-oriented” and accelerates the implementation of platform marketing. In the financial market business segment, the Bank has optimized the structure of assets and liabilities, established a sound investment product line, and continuously improved investment returns.
4. Strong cultural heritage. With “Happy Culture” and “Execution Culture” as the core, the Bank has established corporate culture concepts which value learning, gratitude and responsibility, created a strong cultural atmosphere and formed a unique cultural competitiveness.

CHAPTER 4 SUMMARY OF FOUR-YEAR ACCOUNTING DATA AND FINANCIAL INDICATORS

Unit: RMB million

Item	2020	2019	Current year compared to previous year	2018	2017
Operating results			Change (%)		
Net interest income	4,658.3	3,306.2	40.90	1,902.5	3,644.3
Net fee and commission income	463.7	271.7	70.67	73.2	236.7
Net trading gains, net gains arising from investment securities and other net operating income	912.0	1,369.3	(33.40)	1,857.9	27.0
Operating income	6,034.0	4,947.2	21.97	3,833.6	3,908.0
Operating expenses	(1,577.7)	(1,462.3)	7.89	(1,348.8)	(1,439.2)
Impairment losses on assets	(2,505.0)	(1,671.2)	49.89	(1,335.3)	(511.2)
Profit before tax	1,951.3	1,813.7	7.59	1,149.5	1,957.6
Net profit	1,648.2	1,523.7	8.17	1,017.3	1,602.8
Including: Net profit attributable to equity shareholders of the Bank	1,509.5	1,439.7	4.85	964.4	1,567.0
Per share (RMB/share)					
Earnings per share attributable to equity shareholders of the Bank	0.26	0.29	(10.34)	0.23	0.38

Item	2020	2019	As at end of current year compared to end of previous year	2018	2017
Key indicators of assets and liabilities			Change (%)		
Total assets	267,601.6	224,635.5	19.13	203,121.9	204,497.9
Including: Loans and advances to customers	117,749.1	90,111.6	30.67	73,316.5	64,797.4
Total liabilities	245,927.9	206,712.0	18.97	189,314.4	193,426.8
Including: Deposits from customers	179,588.5	144,234.0	24.51	117,469.7	120,096.0
Share capital	5,980.1	4,971.2	20.29	4,971.2	4,171.2
Total equity attributable to equity shareholders of the Bank	17,906.0	14,399.4	24.35	13,367.0	10,683.5
Total equity	21,673.7	17,923.5	20.92	13,807.5	11,071.1
Per share (RMB/share)					
Net assets per share attributable to equity shareholders of the Bank	2.99	2.90	3.10	2.69	2.56

Chapter 4 Summary of Four-Year Accounting Data and Financial Indicators

Item	2020	2019	As at end of	2018	2017
			current year compared to end of previous year		
Profitability indicators (%)			Change		
Return on average total assets ⁽¹⁾	0.67	0.71	(0.04)	0.50	0.82
Weighted average return on net assets ⁽²⁾	8.42	10.27	(1.85)	8.02	15.30
Net interest spread ⁽³⁾	1.88	1.83	0.05	1.49	1.73
Net interest margin ⁽⁴⁾	1.99	1.74	0.25	1.16	1.96
Net fee and commission income to operating income ratio	7.69	5.48	2.21	1.91	6.08
Cost-to-income ratio ⁽⁵⁾	25.08	28.68	(3.60)	34.23	35.89
Asset quality indicators (%)					
Non-performing loan ratio ⁽⁶⁾	1.47	1.80	(0.33)	1.82	1.47
Provision coverage ratio ⁽⁷⁾	173.39	165.50	7.89	163.26	175.93
Allowance-to-borrowings ratio ⁽⁸⁾	2.56	2.99	(0.43)	2.98	2.59
Capital adequacy indicators (%)					
Core tier-one capital adequacy ratio	9.88	9.76	0.12	10.39	8.29
Tier-one capital adequacy ratio	11.53	11.78	(0.25)	10.42	8.32
Capital adequacy ratio	15.18	16.03	(0.85)	15.12	12.82
Total equity to total assets ratio	8.10	7.98	0.12	6.80	5.41
Other indicators (%)					
Liquidity ratio	52.61	61.89	(8.27)	46.67	30.50
Loan-to-deposit ratio ⁽⁹⁾	67.78	65.01	2.77	64.94	55.38

Chapter 4 Summary of Four-Year Accounting Data and Financial Indicators

Notes:

- (1) Calculated by dividing net profit for the period by the average balance of total assets as at the beginning and the end of the period.
- (2) Calculated in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision).
- (3) Net interest spread = the average yield on total interest-earning assets – the average cost of total interest-bearing liabilities.
- (4) Net interest margin = net interest income/average balance of total interest-earning assets.
- (5) Cost-to-income ratio = operating and management fees/operating income.
- (6) Calculated by dividing total non-performing loans by total loans and advances to customers.
- (7) Calculated by dividing total provision for impairment losses on loans to customers by total non-performing loans.
- (8) Calculated by dividing total provision for impairment losses on loans to customers by total loans and advances to customers.
- (9) Calculated by dividing total loans and advances to customers by total deposits from customers. Prior to October 1, 2015, commercial banks in the PRC were required to maintain a loan-to-deposit ratio of no more than 75%. Since October 1, 2015, the 75% maximum loan-to-deposit ratio requirement has been cancelled under the revised PRC Commercial Banking Law.
- (10) The Group applied IFRS 39 prior to 2018, and has applied IFRS 9 Financial Instruments (“IFRS 9”) since 2018 and IFRS 16 since January 1, 2019.

CHAPTER 5 MANAGEMENT DISCUSSION AND ANALYSIS

I. REVIEW OF ECONOMIC, FINANCIAL AND POLICY ENVIRONMENT

Looking back to 2020, the sudden outbreak of COVID-19 has hit the global economy hard. It has accelerated reform in the international situation and brought profound changes to the domestic development environment. Facing the severe and complicated external environment, China has maintained its strategic focus, accurately judged the situation, carefully set up plans and deployment and decisively took actions to contain the spread of the epidemic and promote economic and social development, making it one of the leading countries in the world in terms of outbreak control and economy recovery. By speeding up the setting out of new growth strategy, “dual circulation”, in which emphasis on growth through exports is being bolstered by a focus on domestic demand, China has grasped the initiative of development. In addition, China’s scientific deployment of the “14th Five-Year Plan” and the long term strategy for economic growth in the future has laid a solid foundation for the commencement of economic work in the upcoming year. According to the preliminary calculation made by the National Bureau of Statistics, China’s GDP in 2020 has reached RMB101,598.6 billion, exceeding RMB100 trillion for the first time and representing an increase of 2.3% over the previous year as calculated on comparable price basis. In 2020, the economy of Shandong has shown a full recovery and upward trend, with the major indicators better than the national average. In particular, the unified calculation results of GDP for the region showed that the annual GDP for 2020 was RMB7,312.9 billion, representing a year-on-year increase of 3.6% as calculated on comparable price basis.

II. SUMMARY OF OVERALL OPERATIONS

During the Reporting Period, in view of the impact of the epidemic and the complicated economic situation, we have always adhered to the general working principle of “making progress while maintaining stability”. With the mindset of “five aspects”, being “transformation towards Bi-Focus, attaining precision in management, establishing a platform style for marketing, improving skills for risk management and building service network”, we focused on the annual work objectives, closely monitored the changes in policy environment, stimulated the endogenous drivers for reform, proactively coped with pressure and challenges, and strived to seize development opportunities. By taking these measures, we successfully completed various goals and tasks and maintained sustainable, healthy and high-quality development.

Business scale expanded significantly. Total assets amounted to RMB267.602 billion, representing an increase of RMB42.966 billion as compared to the end of 2019; deposit balances increased by RMB35.280 billion as compared to the end of 2019; loan balances increased by RMB27.842 billion as compared to the end of 2019, with all major operating indicators rising to record high.

Stable quality maintained. The Bank’s non-performing loan ratio was 1.47%, representing a decrease of 0.33 percentage point as compared to the end of 2019, demonstrating resilience to the challenges and tests brought by the complex situation; the capital adequacy ratio reached over 15% and the allowance coverage ratio was 173.39%. All regulatory indicators met the standards and showed improvement continuously, while the development was more scientific and steady.

Efficiency increased constantly. Net profit for the year amounted to RMB1.648 billion, representing a year-on-year increase of RMB125 million or 8.17%.

II. SUMMARY OF OVERALL OPERATIONS (CONT'D)

Energy released from reform. We further promoted the reform of “Bi-focus retail banking” and insisted on “targeting corporates for retail banking, which is crucial to our future success”. Through consolidating the right to approve and managing corporate loan business, the outlets could be unswervingly and precisely focused on retail banking, thereby unceasingly paving the way to “Bi-focus” and releasing energy from the reform, which helped us take a big step forward towards business development.

Comprehensive network coverage. As Rizhao Branch and Binzhou Branch successfully opened, the number of our branches reached 120. We took the lead among local corporate banks in Shandong Province to achieve “full coverage of the whole province” and further enhanced our ability to serve regional economic and social development.

Successfully listed. On October 12, 2020, we were successfully listed on the Main Board of the Hong Kong Stock Exchange and raised net proceeds of HKD3.277 billion, all of which were used for replenishing the Bank’s core tier-one capital, which further enhanced our capital strength and supported sustainable business development.

Accurate and efficient service provided. Carrying out our original intention and mission as a financial enterprise deeply, we continuously improved our financial services, increased the credit supply for strategic emerging industries, high-end equipment manufacturing industry, livelihood service industry and other real economies, effectively lowered the financing threshold for small and micro enterprises and continuously improved the credit availability.

Brand image enhanced. We were rated as the “National Top 10 City Commercial Bank” for five consecutive years, ranked the first in the performance evaluation of local financial enterprises assessed by the Shandong provincial government, and enjoyed a corporate credit rating of AAA. As for the management model, business innovation, party building work, corporate culture, we have won the first place in Shandong and attained the best performance in China for many times, which enhanced our brand image greatly.

III. ANALYSIS OF INCOME STATEMENT

3.1 Financial Highlights

During the Reporting Period, our operating income amounted to RMB6.034 billion, representing an increase of RMB1.087 billion or 21.97% as compared to 2019; profit before tax amounted to RMB1.951 billion, representing an increase of RMB138 million or 7.59% as compared to 2019; net profit amounted to RMB1.648 billion, representing an increase of RMB125 million or 8.17% as compared to 2019, mainly due to the continuous development of corporate and retail banking business, resulting in a year-on-year increase in net interest income and net fee and commission income.

Unit: RMB million

Item	December 31, 2020	December 31, 2019	Change	Rate of change (%)
Net interest income	4,658.3	3,306.2	1,352.1	40.90
Interest income	11,090.5	8,957.6	2,132.9	23.81
Interest expenses	(6,432.2)	(5,651.4)	(780.8)	13.82
Net fee and commission income	463.7	271.7	192.0	70.67
Fee and commission income	533.4	416.4	117.0	28.10
Fee and commission expenses	(69.7)	(144.7)	75.0	(51.83)
Net trading gains, net gains arising from investment securities and other net operating income	912.0	1,369.3	(457.3)	(33.40)
Operating income	6,034.0	4,947.2	1,086.8	21.97
Operating expenses	(1,577.7)	(1,462.3)	(115.4)	7.89
Impairment losses on assets	(2,505.0)	(1,671.2)	(833.8)	49.89
Profit before tax	1,951.3	1,813.7	137.6	7.59
Income tax expense	(303.1)	(290.0)	(13.1)	4.52
Net profit	1,648.2	1,523.7	124.5	8.17
Including: Net profit attributable to equity shareholders of the Bank	1,509.5	1,439.7	69.8	4.85
Net profit attributable to non-controlling interests	138.7	84.0	54.7	65.12

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.2 Net Interest Income

Net interest income was the largest component of our operating income, representing 66.83% and 77.20% of our operating income in 2019 and 2020, respectively. Our net interest income increased by RMB1.352 billion or 40.90% to RMB4.658 billion in 2020 from RMB3.306 billion in 2019, primarily due to an increase of 23.81% in interest income, partially offset by an increase of 13.82% in interest expense. The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, the related interest income or expense and the related average yields on assets or related average costs of liabilities for the periods indicated.

Unit: RMB million

	December 31, 2020			December 31, 2019		
	Average balance	Interest income/expense	Average yield/cost (%) ⁽¹⁾	Average balance	Interest income/expense	Average yield/cost (%) ⁽¹⁾
Interest-earning assets						
Loans and advances to customers	108,274.2	5,844.2	5.40	87,840.8	4,665.0	5.31
Financial investments	85,873.3	3,854.4	4.49	70,251.4	3,114.8	4.43
Deposits with the central bank ⁽²⁾	17,355.8	245.8	1.42	15,301.4	224.4	1.47
Deposits with banks and other financial institutions	1,180.4	1.8	0.15	662.1	12.5	1.89
Placements with banks	1,869.3	69.3	3.71	843.8	27.3	3.24
Finance lease receivables	15,763.8	1,011.8	6.42	13,366.2	869.6	6.51
Financial assets held under resale agreements	3,504.2	63.2	1.80	1,855.8	44.0	2.37
Total interest-earning assets	233,821.0	11,090.5	4.74	190,121.5	8,957.6	4.71
Interest-bearing liabilities						
Deposits from customers	163,048.8	4,399.0	2.66	131,264.3	3,202.9	2.44
Deposits from banks	3,473.0	110.9	3.19	5,926.8	208.5	3.52
Placements from banks and other financial institutions	13,363.8	555.7	4.16	10,520.0	462.4	4.40
Borrowing from the central bank	6,539.0	164.4	2.51	3,167.9	102.0	3.22
Financial assets sold under repurchase agreements	6,655.0	114.3	1.72	4,720.7	113.7	2.41
Discounted bills	1,307.7	32.6	2.49	4,485.8	150.7	3.36
Debt securities issued ⁽³⁾	30,325.0	1,055.3	3.48	36,225.9	1,411.2	3.90
Total interest-bearing liabilities	224,712.3	6,432.2	2.86	196,311.4	5,651.4	2.88
Net interest income		4,658.3			3,306.2	
Net interest spread⁽⁴⁾			1.88			1.83
Net interest margin⁽⁵⁾			1.99			1.74

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.2 Net Interest Income (Cont'd)

Notes:

- (1) Calculated as interest income/expense divided by average balance.
- (2) Consisted primarily of statutory deposit reserves and surplus deposit reserves.
- (3) Consisted of certificates of interbank deposits, financial bonds and tier-two capital bonds issued by us.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the average balance of total interest-earning assets.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.2 Net Interest Income (Cont'd)

The following table sets forth the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate for the periods indicated. Changes in volume are measured by changes in the average balances, and changes in rate are measured by changes in the average rates.

Unit: RMB million

	2020 vs 2019		Net increase/ (decrease) ⁽³⁾
	Increase/(decrease) due to Volume ⁽¹⁾	Rate ⁽²⁾	
Assets			
Loans and advances to customers	1,102.9	76.3	1,179.2
Financial investments	701.2	38.4	739.6
Deposits with the central bank ⁽⁴⁾	29.1	(7.7)	21.4
Deposits with banks and other financial institutions	0.8	(11.5)	(10.7)
Placements with banks	38.0	4.0	42.0
Financial lease receivables	153.9	(11.7)	142.2
Financial assets held under resale agreements	29.7	(10.5)	19.2
Changes in interest income	2,055.6	77.3	2,132.9
Liabilities			
Deposits from customers	857.5	338.5	1,196.0
Deposits from banks	(78.3)	(19.2)	(97.5)
Placements from banks and other financial institutions	118.3	(25.0)	93.3
Borrowings from the central bank	84.8	(22.3)	62.5
Financial assets sold under repurchase agreements	33.1	(32.6)	0.5
Discounted bills	(79.2)	(38.9)	(118.1)
Debt securities issued ⁽⁵⁾	(205.3)	(150.6)	(355.9)
Changes in interest expenses	730.9	49.9	780.8
Changes in net interest income	1,324.7	27.4	1,352.1

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.2 Net Interest Income (Cont'd)

Notes:

- (1) Represented the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for the year.
- (2) Represented the average yield/cost for the year minus average yield/cost for the previous year, multiplied by the average balance for the previous year.
- (3) Represented interest income/expense for the year minus interest income/expense for the previous year.
- (4) Consisted primarily of statutory deposit reserves and surplus deposit reserves.
- (5) Consisted of certificates of interbank deposits, financial bonds and tier-two capital bonds issued by us.

3.3 Interest Income

During the Reporting Period, our interest income increased by RMB2.133 billion, or 23.81%, to RMB11.091 billion as compared to 2019, primarily due to an increase in the average balance of our interest-earning assets from RMB190.122 billion in 2019 to RMB233.821 billion in 2020, and an increase in the average yield on our interest-earning assets from 4.71% in 2019 to 4.74% in 2020. The increase in the average balance of interest-earning assets was primarily attributable to the increase in the average balance of loans and advances to customers. The increase in the average yield on interest-earning assets was primarily due to an increase in the average yield on loans and advances to customers and an increase in the average yield on financial investments.

The following table sets forth a breakdown of our interest income for the periods indicated.

Unit: RMB million

	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Interest income				
Loans and advances to customers	5,844.2	52.70	4,665.0	52.08
Financial investments	3,854.4	34.75	3,114.8	34.77
Deposits with banks and other financial institutions	1.8	0.02	12.5	0.14
Placements with banks	69.3	0.62	27.3	0.30
Financial assets held under resale agreements	63.2	0.57	44.0	0.50
Finance lease receivables	1,011.8	9.12	869.6	9.71
Deposits with the central bank ⁽¹⁾	245.8	2.22	224.4	2.50
Total interest income	11,090.5	100.00	8,957.6	100.00

Note:

- (1) Consisted primarily of statutory deposit reserves and surplus deposit reserves.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.3 Interest Income (Cont'd)

Interest income from loans and advances to customers

Our interest income from loans and advances to customers represented 52.08% and 52.70% of our interest income in 2019 and 2020, respectively. In 2020, our interest income from loans and advances to customers amounted to RMB5.844 billion, representing an increase of RMB1.179 billion or 25.28% as compared to 2019, primarily due to the rapid growth of our loan business, the average balance of loans and advances to customers increased by 23.26% from RMB87.841 billion in 2019 to RMB108.274 billion in 2020; meanwhile, the overall yield on loans and advances to customers increased, and the average yield increased from 5.31% in 2019 to 5.40% in 2020.

Interest income from financial investments

During the Reporting Period, our interest income from financial investments amounted to RMB3.854 billion, representing an increase of RMB740 million, or 23.74%, as compared with 2019, primarily due to the increase in the average balance of the corresponding financial investment business as a result of our increased efforts in bond investments.

Interest income from financial assets held under resale agreements

During the Reporting Period, our interest income from financial assets held under resale agreements amounted to RMB63 million, representing an increase of RMB19 million or 43.64% as compared to 2019, primarily due to our adjustment of asset allocation strategy, which resulted in an increase of 88.83% in the average balance of financial assets held under resale agreements from RMB1.856 billion in 2019 to RMB3.504 billion in 2020, and partially offset by a decrease in the average yield on financial assets held under resale agreements from 2.37% in 2019 to 1.80% in 2020.

Interest income from placements with banks

During the Reporting Period, our interest income from placements with banks amounted to RMB69 million, representing an increase of RMB42 million or 153.85% as compared to 2019, mainly due to the increased cooperation with financial leasing companies under the banking system, and the daily average balance of placements with banks increased by 121.53% from RMB844 million in 2019 to RMB1.869 billion in 2020.

Finance lease receivables

During the Reporting Period, our interest income from finance lease receivables was RMB1.012 billion, representing an increase of RMB142 million or 16.35% as compared with 2019, primarily due to the increase in the average balance of our financial leasing business. The increase in the average balance was primarily due to the continuous development of our financial leasing business and our enhanced expansion capabilities beyond Shandong Province.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.4 Interest Expenses

During the Reporting Period, our interest expenses amounted to RMB6.432 billion, representing an increase of RMB781 million or 13.82% as compared to 2019, primarily due to a 14.47% increase in the average balance of interest-bearing liabilities from RMB196.311 billion in 2019 to RMB224.712 billion in 2020, partially offset by a slight decrease in the average cost on interest-bearing liabilities from 2.88% in 2019 to 2.86% in 2020. The following table sets forth a breakdown of our interest expenses for the periods indicated.

Unit: RMB million

	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Interest expenses				
Deposits from customers	4,399.0	68.39	3,202.9	56.67
Deposits from banks	110.9	1.72	208.5	3.69
Placements from banks and other financial institutions	555.7	8.64	462.4	8.18
Borrowings from the central bank	164.4	2.56	102.0	1.80
Financial assets sold under repurchase agreements	114.3	1.78	113.7	2.01
Discounted bills	32.6	0.51	150.7	2.67
Debt securities issued ⁽¹⁾	1,055.3	16.40	1,411.2	24.98
Total interest expenses	6,432.2	100.00	5,651.4	100.00

Note:

(1) Consisted of certificates of interbank deposits, financial bonds and tier-two capital bonds issued by us.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.4 Interest Expenses (Cont'd)

Interest expenses on deposits from customers

Deposits from customers were our primary source of funding. Interest expenses on deposits from customers represented 56.67% and 68.39% of our total interest expenses in 2019 and 2020, respectively. Our interest expenses on deposits from customers increased by RMB1.196 billion or 37.34% to RMB4.399 billion in 2020 as compared to 2019, primarily due to the fact that we enhanced efforts in the development of our deposit business, and the average balance of deposits from customers increased by 24.21% to RMB163.049 billion in 2020 from RMB131.264 billion in 2019; meanwhile, the proportion of daily average volume of time deposits increased, which led to an increase in the average cost of deposits from customers to 2.66% in 2020 from 2.44% in 2019.

The following table sets forth the average balance, interest expenses and average cost of our deposits from customers by product type for the periods indicated.

Unit: RMB million

	December 31, 2020			December 31, 2019		
	Average balance	Interest expenses	Average cost (%)	Average balance	Interest expenses	Average cost (%)
Corporate deposits⁽¹⁾						
Time	51,183.3	1,790.6	3.44	41,992.3	1,298.6	3.09
Demand	45,657.4	374.6	0.82	37,841.2	291.6	0.77
Sub-total	96,840.7	2,165.2	2.21	79,833.5	1,590.2	1.99
Personal deposits						
Time	58,028.3	2,189.9	3.71	44,280.7	1,574.4	3.56
Demand	8,179.8	43.9	0.54	7,150.1	38.3	0.54
Sub-total	66,208.1	2,233.8	3.32	51,430.8	1,612.7	3.14
Total deposits from customers	163,048.8	4,399.0	2.66	131,264.3	3,202.9	2.44

Note:

(1) Including pledged deposits.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.4 Interest Expenses (Cont'd)

Interest expenses on deposits from banks

Interest expenses on deposits from banks accounted for 3.69% and 1.72% of our total interest expenses in 2019 and 2020, respectively. Our interest expenses on deposits from banks decreased by RMB98 million or 46.81% to RMB111 million in 2020 as compared to 2019, primarily due to our adjustment of financing structure, a decrease in the scale of deposits from banks and a decrease in the market interest rate of deposits from banks and other financial institutions.

Interest expenses on placements from banks and other financial institutions

Interest expenses on placements from banks and other financial institutions accounted for 8.18% and 8.64% of our total interest expenses in 2019 and 2020, respectively. Interest expenses on placements from banks and other financial institutions was RMB556 million in 2020, representing an increase of RMB93 million or 20.18% as compared with 2019, primarily due to the increase in the scale of our financial leasing business and the increase in the amount of placements from banks and other financial institutions.

Interest expenses on debt securities issued

Interest expenses on debt securities issued accounted for 24.98% and 16.40% of our total interest expenses in 2019 and 2020, respectively. Our interest expenses on debt securities issued decreased by RMB356 million or 25.22% to RMB1.055 billion in 2020 as compared to 2019, primarily because of our adjustment of the structure of our liability business based on the liquidity needs and a decrease in the certificates of interbank deposits business, as well as the impact of the decline in market interest rate as a result of decreased liquidity.

3.5 Net Fee and Commission Income

During the Reporting Period, our net fee and commission income amounted to RMB464 million, representing an increase of RMB192 million or 70.67% as compared to 2019, primarily due to the rapid development of agency wealth management and bank card businesses, resulting in a higher increase in fee income; meanwhile, fee expenses decreased from RMB145 million in 2019 to RMB70 million in 2020, primarily due to the decrease in agency service fees we paid to cooperative banks. The following table sets forth, for the periods indicated, the principal components of our net fee and commission income.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.5 Net Fee and Commission Income (Cont'd)

Unit: RMB million

	December 31, 2020	December 31, 2019
Fee and commission income		
Agency service fees	166.5	129.1
Settlement and clearing fees	71.2	58.1
Consultancy service fees	98.5	61.2
Bank card service fees	36.2	17.4
Acceptance and guarantee service fees	42.3	46.2
Finance leases service fees	99.9	87.1
Others ⁽¹⁾	18.8	17.3
Sub-total	533.4	416.4
Fee and commission expenses		
Settlement and clearing fees	(46.2)	(16.9)
Bank card service fees	(14.9)	(36.0)
Agency service fees	–	(75.7)
Others ⁽²⁾	(8.6)	(16.1)
Sub-total	(69.7)	(144.7)
Net fee and commission income	463.7	271.7

Notes:

- (1) Consisted primarily of income from payment and collection clearance accounts and safekeeping business.
- (2) Consisted primarily of safekeeping fees and other expenses.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.6 Net Trading Gains, Net Gains Arising from Investment Securities and Other Net Operating Income

During the Reporting Period, our net trading gains, net gains arising from investment securities and other net operating income amounted to RMB912 million, representing a decrease of RMB457 million or 33.40% as compared to 2019, of which the decrease in net trading gains of RMB233 million was mainly due to the decrease in profit or loss from changes in fair value as a result of derecognition of held-for-trading financial assets and the decrease in exchange gains as a result of fluctuations in market exchange rates and appreciation of RMB; the decrease of RMB238 million in net investment gains was mainly due to the decrease in the scale of held-for-trading financial assets and the corresponding decrease in interest income from held-for-trading financial assets. The following table sets forth the details of our net trading (losses)/gains, net gains arising from investment securities and other net operating income for the periods indicated:

Unit: RMB million

	December 31, 2020	December 31, 2019
Net trading (losses)/gains	(159.0)	74.4
Net gains arising from investment securities	1,056.8	1,294.5
Other operating income	14.2	0.4
Total	912.0	1,369.3

3.7 Operating Expenses

During the Reporting Period, our operating expenses amounted to RMB1,578 million, representing an increase of RMB115 million or 7.89% as compared to 2019, primarily due to the increase in staff costs and other general and administrative expenses. The following table sets forth the principal components of our total operating expenses for the periods indicated.

Unit: RMB million

	December 31, 2020	December 31, 2019
Staff costs	855.8	799.5
Depreciation and amortisation	204.6	217.7
Taxes and surcharges	64.1	43.6
Rental and property management expenses	17.9	11.9
Interest expenses on lease liabilities	20.3	22.9
Other general and administrative expenses	415.0	366.7
Total operating expenses	1,577.7	1,462.3
Cost-to-income ratio	25.08%	28.68%

Our cost-to-income ratio (excluding taxes and surcharges) was 28.68% and 25.08% in 2019 and 2020, respectively. The decrease in cost-to-income ratio was primarily because of our cost control measures and the increase in our operating income.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.7 Operating Expenses (Cont'd)

Staff costs

Staff costs were the largest component of our operating expenses, representing 54.67% and 54.24% of our total operating expenses in 2019 and 2020, respectively. During the Reporting Period, our staff costs amounted to RMB856 million, representing an increase of RMB56 million, or 7.04%, as compared to 2019, primarily due to the increase in performance-based salary driven by the growth of our business. The following table sets forth the components of our staff costs for the periods indicated.

Unit: RMB million

	December 31, 2020	December 31, 2019
Salaries, bonuses and allowances	725.1	624.2
Social insurance	34.0	82.9
Housing allowances	39.7	39.8
Staff welfares	10.5	10.4
Supplementary retirement benefits	20.9	20.3
Employee education expenses and labour union expenses	25.6	21.9
Total staff costs	855.8	799.5

Other general and administrative expenses

Our other general and administrative expenses primarily consist of business promotion expenses, electronic equipment operating expenses, security expenses and insurance expenses. During the Reporting Period, our other general and administrative expenses amounted to RMB415 million, representing an increase of RMB48 million or 13.17% as compared to 2019, mainly due to the increase in business development expenses such as business promotion as a result of business development.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.8 Impairment Losses on Assets

During the Reporting Period, our impairment losses on assets amounted to RMB2.505 billion, representing an increase of RMB834 million or 49.89% as compared to 2019, primarily due to (i) an increase of 42.14% in our impairment losses on loans and advances to customers from RMB1.361 billion in 2019 to RMB1.935 billion in 2020, which was primarily due to our increased allowance for and disposal of risk assets in order to improve our risk resistance capacity as a result of the expansion of loan scale and changes in economic environment; (ii) an increase of 210.53% in our impairment losses on financial investments from RMB132 million in 2019 to RMB410 million in 2020, primarily due to an increase in provision for impairment losses on financial investments as a result of operational difficulties of some counterparties. The table below sets forth the principal components of our impairment losses on assets for the periods indicated.

Unit: RMB million

	December 31, 2020	December 31, 2019
Financial assets held under resale agreements	(3.2)	2.6
Loans and advances to customers	1,934.7	1,361.1
Financial investments	409.9	132.0
Financial lease receivables	114.0	138.5
Credit commitments	15.8	5.4
Others	33.8	31.6
Total	2,505.0	1,671.2

3.9 Income Tax Expense

During the Reporting Period, our income tax expense was RMB303 million, representing an increase of RMB13 million or 4.49% as compared to 2019, primarily due to the increase in profit before tax in 2020. The following table sets forth the reconciliation between the income tax calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax for the periods indicated.

Unit: RMB million

	December 31, 2020	December 31, 2019
Profit before tax	1,951.3	1,813.7
Income tax calculated at statutory tax rate	487.8	453.4
Non-deductible expenses	16.7	2.5
Non-taxable income ⁽¹⁾	(201.5)	(165.9)
Income tax expense	303.0	290.0

Note:

- (1) Non-taxable income mainly represents interest income from PRC government bonds, which is non-taxable in accordance with PRC tax regulations.

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION

4.1 Assets

As at the end of the Reporting Period, our total assets amounted to RMB267.602 billion, representing an increase of RMB42.966 billion or 19.13% as compared to the end of 2019, primarily due to an increase of 30.67% in loans and advances to customers from RMB90.112 billion as at the end of 2019 to RMB117.749 billion as at the end of 2020, and an increase of 13.57% in financial investments from RMB89.128 billion as at the end of 2019 to RMB101.221 billion as at the end of 2020. The following table sets forth the composition of our total assets as of the dates indicated.

Unit: RMB million

	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Loans and advances to customers	117,749.1	44.00	90,111.6	40.11
Financial investments	101,221.4	37.83	89,128.4	39.68
Cash and deposits with central bank	23,500.3	8.78	21,203.8	9.44
Financial assets held under resale agreements	605.1	0.23	5,386.6	2.40
Deposits with banks and other financial institutions	4,875.3	1.82	2,026.9	0.90
Placements with banks	241.4	0.09	507.2	0.23
Property and equipment	702.2	0.26	705.5	0.31
Right-of-use assets	454.0	0.17	476.9	0.21
Deferred tax assets	1,372.7	0.51	957.8	0.43
Other assets ⁽¹⁾	16,880.1	6.31	14,130.8	6.29
Total assets	267,601.6	100.00	224,635.5	100.00

Note:

- (1) Other assets consist primarily of interest receivable, prepayments for acquisition of property and equipment, finance lease receivables and other receivables.

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers

As at the end of the Reporting Period, the balance of our corporate loans amounted to RMB79.233 billion, representing an increase of RMB15.734 billion or 24.78% as compared to the end of 2019; personal loans amounted to RMB33.533 billion, representing an increase of RMB11.242 billion or 50.43% as compared to the end of 2019; discounted bills amounted to RMB7.527 billion, representing an increase of RMB866 million or 13.00% as compared to the end of 2019; our total loans and advances to customers amounted to RMB120.293 billion, representing an increase of RMB27.842 billion or 30.12% as compared to the end of 2019.

Loans by business type

Unit: RMB million

As of:	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Item:				
Corporate loans	79,233.2	65.86	63,499.1	68.68
Personal loans	33,533.4	27.88	22,291.4	24.11
Discounted bills	7,526.8	6.26	6,661.1	7.21
Total loans and advances to customers	120,293.4	100.00	92,451.6	100.00
Add: interest accrued	522.7	–	413.4	–
Less: Provision for loans and advances to customers measured at amortized cost	3,067.0	–	2,753.4	–
Net loans and advances to customers	117,749.1	–	90,111.6	–

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Corporate loans by maturity

Unit: RMB million

As of:	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Item:				
Short-term loans ⁽¹⁾ and advances	31,577.7	39.85	33,680.3	53.04
Medium-and long-term loans	47,655.5	60.15	29,818.8	46.96
Total corporate loans	79,233.2	100.00	63,499.1	100.00

Note:

- (1) Short-term loans are loans and advances with a maturity of one year or less; medium-and long-term loans are loans that mature in more than one year.

As at the end of the Reporting Period, the balance of our short-term loans and advances was RMB31.578 billion, accounting for 39.85% of our loans and representing a decrease of RMB2.103 billion or 6.24% as compared to the end of 2019, mainly due to a decrease of RMB251 million in advances as compared to the end of 2019.

As at the end of the Reporting Period, the balance of our medium-and long-term loans amounted to RMB47.655 billion, accounting for 60.15% of our loans and representing an increase of RMB17.837 billion or 59.82% as compared to the end of 2019. The increase in the proportion of medium-and long-term loans was mainly because, under the impact of the COVID-19 epidemic and other factors, we actively responded to the national policy to increase medium-and long-term loans related to people's livelihood infrastructure and adopt strategies allowing payment delay required by enterprises affected by the COVID-19 epidemic, with an aim to fully support local economic development.

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Corporate loans by product type

Unit: RMB million

As of:	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Item:				
Working capital loans	52,347.7	66.07	46,485.9	73.21
Fixed asset loans	25,097.3	31.67	15,215.4	23.96
Other loans ⁽¹⁾	1,788.2	2.26	1,797.8	2.83
Total corporate loans	79,233.2	100.00	63,499.1	100.00

Note:

(1) Other loans consisted primarily of trade financing and advances.

As at the end of the Reporting Period, the balance of our working capital loans amounted to RMB52.348 billion, representing an increase of RMB5.862 billion or 12.61% as compared to the end of 2019; the balance of our fixed asset loans amounted to RMB25.097 billion, representing an increase of RMB9.882 billion or 64.95% as compared to the end of 2019. The increase in our working capital loans and fixed asset loans as compared to the end of 2019 was mainly due to our active response to the government and regulatory call to strengthen our inner-bank system construction and policy adjustment, adopt differentiated strategies and guide our branches to increase credit reserves and loans, so as to fully support local economic development.

As at the end of the Reporting Period, the balance of our other loans amounted to RMB1.788 billion, representing a decrease of RMB10 million or 0.53% as compared to the end of 2019, mainly due to the decrease in trade financing demand as a result of the greater impact of the epidemic in foreign countries.

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Corporate loans by industry

Unit: RMB million

As of:	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Industry:				
Manufacturing	18,149.3	22.91	17,571.5	27.67
Leasing and business services	14,658.0	18.50	10,759.5	16.94
Water conservancy, environment and public facilities management	11,370.4	14.35	5,642.4	8.89
Construction	7,801.6	9.85	6,416.7	10.11
Real estate	7,654.7	9.66	4,581.8	7.22
Wholesale and retail	6,365.0	8.03	7,564.7	11.91
Agriculture, forestry, animal husbandry and fishery	3,031.6	3.83	1,881.9	2.96
Electricity, heat, gas and water production and supply	2,357.3	2.97	1,139.0	1.79
Transportation, warehousing and postal services	1,849.2	2.33	1,773.6	2.79
Hygiene and social welfare	895.1	1.13	1,048.1	1.65
Culture, sports and entertainment	325.8	0.41	734.6	1.16
Others ⁽¹⁾	4,775.2	6.03	4,385.3	6.91
Total corporate loans	79,233.2	100.00	63,499.1	100.00

Note:

- (1) Others consist primarily of information transmission, software and information technology services, education, resident services, maintenance and other services and accommodation and catering.

As at the end of the Reporting Period, the top five industries to which we distributed loans were the manufacturing, the leasing and business services, the water conservancy, environment and public facilities management, the construction and the real estate, with the total amount of loans provided to customers in these five industries amounting to RMB18.149 billion, RMB14.658 billion, RMB11.370 billion, RMB7.802 billion and RMB7.655 billion, and accounting for 22.91%, 18.50%, 14.35%, 9.85% and 9.66% of our total loans, respectively.

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Personal loans by product type

Unit: RMB million

As of:	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Item:				
Residential mortgage loans	13,913.6	41.49	9,968.9	44.72
Personal consumption loans	3,173.7	9.47	1,980.5	8.89
Personal business loans	15,704.6	46.83	9,882.2	44.33
Credit cards	741.5	2.21	459.8	2.06
Total personal loans	33,533.4	100.00	22,291.4	100.00

As at the end of the Reporting Period, the balance of our residential mortgage loans amounted to RMB13.914 billion, representing an increase of RMB3.945 billion or 39.57% as compared to the end of 2019, mainly attributable to our efforts to grow the personal residential mortgage loans by improving the approval efficiency of personal residential mortgage loans through process optimization and automatic review and approval. These loans were generally secured by residential properties with relatively low risks.

As at the end of the Reporting Period, the balance of our personal consumption loans amounted to RMB3.174 billion, representing an increase of RMB1.193 billion or 60.25% as compared to the end of 2019, mainly due to the growth of the existing loan facilitation business and the newly added online product type.

As at the end of the Reporting Period, the balance of our personal business loans amounted to RMB15.705 billion, representing an increase of RMB5.822 billion or 58.92% as compared to the end of 2019, mainly due to the continuous development of featured platform products such as "Property e-loan" and "Commercial Vehicle Loan (商車貸)" by relying on the two-wheel drivers of "Finance + Technology" and making full use of the advantages of online application, online approval and quick loan and repayment services.

As at the end of the Reporting Period, the balance of our credit cards amounted to RMB741 million, representing an increase of RMB282 million or 61.27% as compared to the end of 2019, mainly due to the increase in the facility balance of credit cards as a result of our enhanced marketing efforts in 2020, which distributed additional 37,959 cards and making the existing credit cards nearly 100,000.

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Distribution of loans and advances to customers by collateral

Unit: RMB million

As of:	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Item:				
Pledged loans	6,224.3	5.17	4,120.4	4.46
Collateralised loans	50,123.0	41.67	35,719.8	38.64
Guaranteed loans	46,346.4	38.53	38,929.8	42.11
Unsecured loans	10,072.9	8.37	7,020.5	7.59
Discounted bills	7,526.8	6.26	6,661.1	7.20
Gross loans and advances to customers	120,293.4	100.00	92,451.6	100.00

Distribution of loans and advances to customers by geographical region

Unit: RMB million

As of:	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Region:				
Weihai City	34,703.0	28.85	31,374.0	33.94
Outside Weihai City	85,590.4	71.15	61,077.6	66.06
Gross loans and advances to customers	120,293.4	100.00	92,451.6	100.00

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Discounted bills

As at the end of the Reporting Period, the total amount of discounted bills was RMB7.527 billion, accounting for 6.26% of our total loans and advances to customers, representing an increase of RMB866 million or 13.00% as compared to the end of 2019, mainly due to the increase in our asset scale and the moderate increase of our bills size as we enhance our efforts in distributing discounted bills to support the resumption of work and production of enterprises as a result of the epidemic.

The table below sets forth the distribution of our discounted bills by type of discounted bills as of the dates indicated:

Unit: RMB million

Item	31 December 2020		31 December 2019	
	Amount	% of total	Amount	% of total
Bank acceptance bill	6,671.8	88.64	5,793.4	86.97
Commercial acceptance bill	855.0	11.36	867.7	13.03
Total discounted bills	7,526.8	100.00	6,661.1	100.00

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

4.1 Assets (Cont'd)

4.1.2 Financial investments

As at the end of the Reporting Period, the carrying value of our financial investments was RMB101.221 billion, representing an increase of RMB12.093 billion or 13.57% as compared to the end of 2019. The following table sets forth the composition of our financial investment portfolio as of the dates indicated.

Classification of financial investments by business model and cash flow characteristics

Unit: RMB million

Item	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Financial investments measured at amortised cost	68,052.2	67.23	56,722.1	63.64
Financial investments measured at fair value through other comprehensive income	18,272.2	18.05	13,899.2	15.59
Financial investments measured at fair value through profit or loss	14,897.0	14.72	18,507.1	20.77
Total financial investments	101,221.4	100.00	89,128.4	100.00

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)**4.1 Assets (Cont'd)***4.1.2 Financial investments (Cont'd)*

Financial investments measured at amortised cost

As at the end of the Reporting Period, the carrying value of our financial investments measured at amortised cost amounted to RMB68.052 billion, representing an increase of RMB11.330 billion or 19.97% as compared with that of the end of 2019. In 2020, such increase in such assets was mainly due to the adjustment in investment structure by increasing the investment in non-financial corporate bonds guided by supporting the real economy. The following table sets forth the components of our financial investments measured at amortised cost as of the dates indicated.

Unit: RMB million

Items	December 31, 2020	December 31, 2019
Debt securities issued by the following institutions in mainland China:		
Government	5,249.8	4,790.2
Policy banks	15,171.8	17,789.1
Banks and other financial institutions	760.0	230.0
Corporate	16,447.3	4,609.9
Government backed institutions	2,559.5	2,558.9
Local governments	12,770.9	7,990.5
Interests accrued	1,182.8	790.1
Sub-total	54,142.1	38,758.7
Investment management products	14,032.5	16,919.2
Asset backed securities	509.4	1,344.7
Less: Provision for impairment losses	(631.8)	(300.5)
Total	68,052.2	56,722.1

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

4.1 Assets (Cont'd)

4.1.2 Financial investments (Cont'd)

Financial investments measured at fair value through other comprehensive income

As at the end of the Reporting Period, the carrying value of our financial investments measured at fair value through other comprehensive income amounted to RMB18.272 billion, representing an increase of RMB4.373 billion or 31.46% as compared with that of the end of 2019. Such increase was mainly due to the increase in policy financial bonds for the purpose of both liquidity and efficiency, and the Bank's adjustment in investment structure by increasing the investment in non-financial corporate bonds guided by supporting the real economy. The following table sets forth the components of our financial investments measured at fair value through other comprehensive income as of the dates indicated.

Unit: RMB million

Items	December 31, 2020	December 31, 2019
Debt securities held for trading and issued by the following entities in mainland China		
Government	–	1,392.0
Policy banks	10,648.7	6,892.7
Banks and other financial institutions	130.5	80.6
Corporate	5,841.0	2,944.0
Government backed institutions	264.6	268.0
Local government	19.5	–
Interest accrued	408.5	277.7
Sub-total	17,312.8	11,855.0
Interbank deposits	615.8	1,767.8
Asset backed securities	85.1	80.8
Equity investments	258.5	195.6
Total	18,272.2	13,899.2

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)**4.1 Assets (Cont'd)***4.1.2 Financial investments (Cont'd)*

Financial investments measured at fair value through profit or loss

As at the end of Reporting Period, the carrying value of our financial investments measured at fair value through profit or loss amounted to RMB14.897 billion, representing a decrease of RMB3.610 billion or 19.51% as compared with that of the end of 2019. Such decrease was mainly due to the failure in resuming the trading trust scheme and capital management scheme business when due. The following table sets forth the components of our financial investments measured at fair value through profit or loss as of the dates indicated.

Unit: RMB million

Items	December 31, 2020	December 31, 2019
Debt securities issued by the following institutions in mainland China		
– Government	–	134.0
– Policy banks	1,156.4	74.1
– Banks and other financial institutions	593.8	203.3
– Corporate	1,901.0	3,516.7
Sub-total	3,651.2	3,928.1
Asset backed securities	418.6	–
Investment funds	714.7	699.9
Wealth management products	–	1,019.5
Investment management products	10,112.5	12,859.6
Total	14,897.0	18,507.1

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

4.2 Liabilities:

As at the end of the Reporting Period, our total liabilities amounted to RMB245.928 billion, representing an increase of RMB39.216 billion or 18.97% as compared to the end of 2019, mainly due to the rapid growth of deposits from customers. The following table sets forth the composition of our total liabilities as of the dates indicated.

Unit: RMB million

	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Deposits from customers	179,588.5	73.02	144,234.0	69.78
Financial assets sold under repurchase agreements	6,545.7	2.66	9,945.3	4.81
Deposits from banks	3,085.8	1.25	5,002.1	2.42
Placements from banks and other financial institutions	15,234.6	6.19	10,429.5	5.05
Debt securities issued	30,872.7	12.55	29,624.8	14.33
Borrowings from the central bank	7,240.7	2.94	4,730.9	2.29
Income tax payable	345.4	0.14	379.0	0.18
Deferred tax liabilities	0.3	0.00	5.2	0.00
Lease liabilities	423.6	0.17	448.7	0.22
Other liabilities ⁽¹⁾	2,590.6	1.08	1,912.5	0.92
Total liabilities	245,927.9	100.00	206,712.0	100.00

Note:

- (1) Other liabilities consisted primarily of interest payable, payment and collection clearance accounts, accrued staff costs and dividend payable.

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

4.2 Liabilities: (Cont'd)

4.2.1 Deposits from customers

Deposits from customers are our primary source of funding, accounting for 69.78% and 73.02% of our total liabilities as of the end of 2019 and 2020, respectively. As at the end of the Reporting Period, our deposits from customers amounted to RMB179.589 billion, representing an increase of RMB35.355 billion or 24.51% as compared to the end of 2019, mainly due to the increase in our corporate deposits and personal deposits. The following table sets forth the composition of our deposits from customers as of the dates indicated.

Unit: RMB million

	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Corporate deposits				
Demand deposits	56,744.6	31.97	40,815.1	28.70
Time deposits	47,526.0	26.78	43,624.8	30.68
Sub-total	104,270.6	58.75	84,439.9	59.38
Personal Deposits				
Demand deposits	9,270.8	5.23	7,808.4	5.49
Time deposits	63,882.2	35.99	49,891.5	35.09
Sub-total	73,153.0	41.22	57,699.9	40.58
Inward and outward remittances	57.5	0.03	61.6	0.04
Total	177,481.1	100.00	142,201.4	100.00
Interest accrued	2,107.4		2,032.6	
Deposits from customers	179,588.5		144,234.0	

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

4.2 Liabilities: (Cont'd)

4.2.2 *Financial assets sold under repurchase agreements*

As at the end of the Reporting Period, the balance of our financial assets sold under repurchase agreements was RMB6.546 billion, representing a decrease of RMB3.4 billion or 34.18% as compared to the end of 2019, primarily because we had appropriately adjusted the scale of financial assets sold under repurchase agreements according to our liquidity management needs.

4.2.3 *Deposits from banks*

As at the end of the Reporting Period, our deposits from banks amounted to RMB3.086 billion, representing a decrease of RMB1.916 billion or 38.31% as compared to the end of 2019, primarily due to the increase in deposits from customers, which increased our sources of funding, and therefore we reduced the scale of deposits from banks.

4.2.4 *Placements from banks and other financial institutions*

As at the end of the Reporting Period, the balance of our placements from banks and other financial institutions amounted to RMB15.235 billion, representing an increase of RMB4.805 billion or 46.07% as compared to the end of 2019, mainly due to the increase in the scale of our finance lease and the corresponding increase in the amount of placements from banks and other financial institutions.

4.2.5 *Debt securities issued*

Debt securities issued consist primarily of certificates of interbank deposit, financial bonds and tier-two capital debts issued by us. As at the end of the Reporting Period, the balance of our debt securities issued amounted to RMB30.873 billion, representing an increase of RMB1.248 billion or 4.21% as compared to the end of 2019, mainly due to the increase in the scale of interbank deposits issued by us.

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

4.3. Shareholders' Equity

As at the end of the Reporting Period, our total shareholders' equity amounted to RMB21.674 billion, representing an increase of RMB3.75 billion or 20.92% as compared to the end of 2019; our total equity attributable to equity shareholders amounted to RMB17.906 billion, representing an increase of RMB3.507 billion or 24.35% as compared to the end of 2019, mainly due to the completion of our initial public offering of 1.009 billion H Shares in the second half of 2020, the gross proceeds of which amounted to HKD3.38 billion, and the increase in retained earnings. The following table sets forth the composition of our shareholders' equity as of the dates indicated.

Unit: RMB million

	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Share capital	5,980.1	27.59	4,971.2	27.74
Capital reserve	4,947.6	22.83	3,120.0	17.41
Surplus reserve	1,225.7	5.66	1,089.1	6.08
General reserve	2,293.0	10.58	2,079.2	11.60
Fair value reserve	(225.6)	(1.04)	(29.8)	(0.17)
Impairment reserve	11.4	0.05	9.2	0.05
Retained earnings	3,673.8	16.95	3,160.6	17.63
Total equity attributable to equity shareholders of the Bank	17,906.0	82.62	14,399.4	80.34
Perpetual bonds	2,999.7	13.84	2,999.7	16.74
Non-controlling interests	768.0	3.54	524.4	2.92
Total equity	21,673.7	100.00	17,923.5	100.00

V. OFF-BALANCE SHEET ITEMS

Our off-balance sheet items particularly include credit commitment and capital commitment. Credit commitment is the most important component, and as at the end of the Reporting Period, the balance of credit commitment amounted to RMB37.114 billion. For details, please refer to note 45 to the financial statements in this annual report.

VI. ANALYSIS OF LOAN QUALITY

During the Reporting Period, we strengthened the management and control of the quality of credit assets. While the credit assets grew steadily, the quality of credit assets continued to improve, and the non-performing loan ratio decreased. As at the end of the Reporting Period, our total loans (excluding accrued interest) amounted to RMB120.293 billion, representing an increase of RMB27.842 billion or 30.12% as compared with the end of 2019; overdue loans totaled RMB3,661 million, representing a decline of RMB440 million or 10.73% from the end of 2019; the total non-performing loans amounted to RMB1.774 billion, representing an increase of RMB106 million or 6.32% as compared with the end of 2019; the non-performing loan ratio was 1.47%, representing a decrease of 0.33 percentage point as compared with the end of 2019.

6.1 Distribution of Loans by Five-category Classification

Unit: RMB million

Item	December 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
Normal loans	113,454.4	94.32	85,436.0	92.42
Special mention loans	5,065.3	4.21	5,347.3	5.78
Sub-total of normal loans	118,519.7	98.53	90,783.3	98.20
Substandard loans	1,573.3	1.31	1,635.6	1.77
Doubtful loans	200.4	0.16	32.7	0.03
Loss loans	–	–	–	–
Sub-total of non-performing loans	1,773.7	1.47	1,668.3	1.80

Under the five-category loan classification system, our non-performing loans include substandard, doubtful and loss loans. As at the end of the Reporting Period, our non-performing loan ratio decreased by 0.33 percentage point to 1.47% as compared with the end of 2019, of which the proportion of substandard loans decreased by 0.46 percentage point from the end of 2019 to 1.31%, the proportion of doubtful loans increased by 0.13 percentage point from the end of 2019 to 0.16%, and the loss loans remained the same as compared with the end of 2019.

VI. ANALYSIS OF LOAN QUALITY (CONT'D)

6.2 Distribution of Non-performing Corporate Loans by Industry

Unit: RMB million

Item	31 December 2020			31 December 2019		
	Amount of non-performing loans	% of total	Non-performing loan ratio%	Amount of non-performing loans	% of total	Non-performing loan ratio%
Manufacturing	1,165.7	71.24	6.42	785.2	49.86	4.47
Wholesale and retail	269.8	16.49	4.24	640.2	40.65	8.46
Construction	94.5	5.78	1.21	26.2	1.66	0.41
Water conservancy, environment and public facilities management	71.0	4.34	0.62	104.6	6.64	1.85
Transportation, warehousing and postal services	2.9	0.18	0.16	7.0	0.44	0.39
Agriculture, forestry, animal husbandry and fishery	2.2	0.13	0.07	4.5	0.29	0.24
Other ⁽¹⁾	30.2	1.84	0.10	7.2	0.46	0.16
Total	1,636.3	100.00	2.07	1,574.9	100.00	2.24

Note:

- (1) Consist primarily of accommodation and catering; electricity, heat, gas and water production and supply; residential services, repairs and other services; culture, sports and entertainment, etc.

VI. ANALYSIS OF LOAN QUALITY (CONT'D)

6.3 Distribution of Non-performing Loans by Product Type

Unit: RMB million

Item	31 December 2020			31 December 2019		
	Amount	% of total	Non-performing loan ratio (%)	Amount	% of total	Non-performing loan ratio (%)
Working capital loans	1,476.0	83.22	2.82	1,300.3	77.94	2.80
Fixed asset loans	20.0	1.13	0.08	–	–	–
Other corporate loans ⁽¹⁾	140.3	7.91	7.85	274.6	16.46	15.27
Residential mortgage loans	13.7	0.77	0.10	10.4	0.63	0.10
Personal consumption loans	4.7	0.26	0.15	4.1	0.24	0.21
Personal business loans	113.7	6.41	0.72	78.3	4.69	0.79
Credit cards	5.3	0.30	0.71	0.6	0.04	0.13
Total	1,773.7	100.00	1.47	1,668.3	100.00	1.80

Note: Other corporate loans mainly include trade financing, advances, etc.

6.4 Distribution of Non-performing Loans by Geographical Region

Unit: RMB million

Region	31 December 2020			31 December 2019		
	Amount	% of total	Non-performing loan ratio (%)	Amount	% of total	Non-performing loan ratio (%)
Weihai City	105.1	5.93	0.30	100.6	6.03	0.32
Outside Weihai City	1,668.6	94.07	1.95	1,567.7	93.97	2.57
Total non-performing loans	1,773.7	100.00	1.47	1,668.3	100.00	1.80

VI. ANALYSIS OF LOAN QUALITY (CONT'D)

6.5 Concentration of Borrowers

Pursuant to the Administrative Measures for the Large Risk Exposure of Commercial Banks and the Core Indicators for Risk Supervision of Commercial Banks (Provisional), loans to a single borrower by a commercial bank shall not exceed 10% of its net capital. As at the end of the Reporting Period, our largest single customer accounted for 6.37% of our net capital, which was in compliance with regulatory requirements.

Loans to the top ten single borrowers

Unit: RMB million

Borrower:	Industry	Loan amount as at the end of the Reporting Period	% of total loans	% of net capital	Five- category classification
Borrower A	Manufacturing	1,800.0	1.50	6.37	Normal
Borrower B	Water conservancy, environment and public facilities management	1,795.0	1.49	6.35	Normal
Borrower C	Water conservancy, environment and public facilities management	1,631.3	1.36	5.78	Normal
Borrower D	Construction	1,400.0	1.16	4.96	Normal
Borrower E	Leasing and business services	1,379.4	1.15	4.88	Normal
Borrower F	Real estate	1,000.0	0.83	3.54	Normal
Borrower G	Education	998.0	0.83	3.53	Normal
Borrower H	Leasing and business services	997.7	0.83	3.53	Normal
Borrower I	Electricity, heat, gas and water production and supply	900.0	0.75	3.19	Normal
Borrower J	Manufacturing	800.0	0.66	2.83	Normal
Total		12,701.4	10.56	44.96	

VI. ANALYSIS OF LOAN QUALITY (CONT'D)

6.5 Concentration of Borrowers (Cont'd)

Credit lines of top ten group customers

According to the Core Indicators for Risk Supervision of Commercial Banks (Provisional), the total amount of credit extended to a single customer by a commercial bank shall not exceed 15% of its net capital. As at the end of the Reporting Period, our total credit exposure to the largest single group accounted for 9.91% of our net capital, which was in compliance with regulatory requirements.

Unit: RMB million

Borrower:	Industry	Loan balance	% of total loans	Credit lines	Credit line as a percentage of total loans (%)	% of net capital	Five-category classification
Group A	Leasing and business services	800.0	0.67	2,800.0	2.33	9.91	Normal
Group B	Water conservancy, environment and public facilities management	2,794.0	2.32	2,794.0	2.32	9.89	Normal
Group C	Manufacturing	2,000.0	1.66	2,000.0	1.66	7.08	Normal
Group D	Water conservancy, environment and public facilities management	2,099.3	1.75	1,931.3	1.61	6.84	Normal
Group E	Construction	1,903.0	1.58	1,903.0	1.58	6.73	Normal
Group F	Manufacturing	870.0	0.72	1,847.0	1.53	6.54	Normal
Group G	Leasing and business services	1,401.0	1.17	1,765.5	1.47	6.25	Normal
Group H	Water conservancy, environment and public facilities management	1,460.0	1.21	1,757.0	1.46	6.22	Normal
Group I	Leasing and business services	988.0	0.82	1,488.0	1.24	5.27	Normal
Group J	Leasing and business services	1,379.4	1.15	1,429.4	1.19	5.06	Normal
Total		15,694.7	13.05	19,715.2	16.39	69.79	

VII. SEGMENT REPORTING

The following segment operating results are presented by business segment. Our principal businesses include corporate banking, retail banking, financial market business and others. The following table sets forth our key operating results for each of our business segments for the periods indicated.

Unit: RMB million

	December 31, 2020		December 31, 2019	
	Operating income of the segment	% of total	Operating income of the segment	% of total
Corporate banking	3,521.0	58.35	2,931.7	59.26
Retail banking	1,272.6	21.09	897.2	18.14
Financial market business	1,230.8	20.40	1,129.2	22.83
Others	9.6	0.16	(10.9)	(0.23)
Total	6,034.0	100.00	4,947.2	100.00

Unit: RMB million

	December 31, 2020		December 31, 2019	
	Segment profit before tax	% of total	Segment profit before tax	% of total
Corporate banking	897.8	46.01	826.5	45.57
Retail banking	451.4	23.13	364.8	20.11
Financial market business	609.3	31.23	660.6	36.42
Others	(7.2)	(0.37)	(38.2)	(2.10)
Total	1,951.3	100.00	1,813.7	100.00

VIII. BUSINESS DEVELOPMENT

Adhering to our regional positioning of “Based in Shandong, Refined Efforts, Characteristic Development”, our overall business has sustained a steady and sound growth in recent years. We strive to focus on high-end corporate banking customers in the corporate banking business by relying on supports from our shareholders and the government, as well as our extensive business network coverage, to capture high-quality customers through providing comprehensive financial services, which in turn attributes to the strong competitiveness in our “Broad Corporate Banking”. In the retail banking business, we stay close to the mass market of retail banking customers (i.e., micro and small enterprises as well as individuals), continuously enrich our “Broad Retail” product portfolio, and, at the same time, expand the “Broad Retail Banking” business, in order to accumulate significant differentiation advantages. We foster our core competitiveness by strengthening technology enabling, continuously enhancing the digital transformation of our products and services.

Our principal business lines include corporate banking (including financial leasing services provided through our subsidiary, Tongda Financial Leasing), retail banking and financial market business.

8.1 Corporate Banking

During the Reporting Period, the Bank’s corporate banking business focused on high-end customers, fully relied on the advantages of shareholders, business scale and network, strengthened the collaboration and linkage marketing mechanism, improved the comprehensive service capabilities, and continuously drove the steady growth of the business scale and efficiency of the Bank through establishing a headquarters-to-headquarters platform, managing clients based on lists, marketing to cover the entire chain and promoting technology applications. The Bank’s corporate business was guided by the client list, and took the project as the starting point to penetrate and deepen the “headquarters-to-headquarters” marketing, effectively used the advantages of large enterprises, large projects and large platforms, improved the accuracy and efficiency in the docking of key projects, and continuously improved the comprehensive income. During the Reporting Period, operating income from corporate banking business amounted to RMB3.521 billion, representing an increase of 20.10% as compared with 2019 and accounting for 58.35% of the total operating income.

(1) Corporate deposits

During the Reporting Period, the Bank was based in Shandong Province and Tianjin region with the “market-oriented and customer-oriented” strategy, and focused on market development and customer management. Through diversified products and comprehensive services, the Bank continued to deepen the cooperation between banks and enterprises and cooperation between banks and the government to achieve steady growth in corporate deposits. In terms of customer service, the Bank focused on the improvement of comprehensive service capabilities, provided customers with a package of services such as investment and financing, settlement services and fund supervision, strengthened the concept of supply chain finance, and continuously enhanced the Bank’s ability to acquire customers, activate customers and retain customers through linkage and collaboration and technology empowerment, extended the fund transfer chain of the Bank and increased the capital accumulation in the Bank.

As at the end of the Reporting Period, the balance of corporate deposits amounted to RMB104.271 billion, representing an increase of RMB19.831 billion or 23.48% as compared with the end of 2019, accounting for 58.75% of the balance of all deposits. In particular, corporate demand deposits amounted to RMB56.745 billion, accounting for 54.42% of corporate deposits; corporate time deposits amounted to RMB47.526 billion, accounting for 45.58% of corporate deposits.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.1 Corporate Banking (Cont'd)

(2) Corporate loans

As at the end of the Reporting Period, the balance of corporate loans was RMB79.233 billion, representing an increase of RMB15.734 billion or 24.78% as compared with the end of 2019, of which the balance of working capital loans was RMB52.348 billion, accounting for 66.07% of the total corporate loans; the balance of fixed asset loans was RMB25.097 billion, accounting for 31.67% of the total corporate loans; the balance of other loans was RMB1.788 billion, accounting for 2.26% of the total corporate loans.

Loans to large and medium enterprises

During the Reporting Period, the Bank actively implemented the policy requirements. Firstly, the Bank implemented the Bi-Focus strategy, highlighted the “high-end and linkage” collaborative operation mode, and used the “platform mode” and “List-based” to actively market large-scale leading enterprises, expand high-end customer groups, and increase the support for key construction projects; secondly, the Bank earnestly supported the financial anti-epidemic work, actively assisted the coordinated resumption of work and production of the industrial chain, and supported the recovery of the real economy; thirdly, the Bank actively supported the development of the real economy, implemented the national policy orientation and regulatory requirements, attached great importance to the support of credit resources on the replacement of old growth drivers with new ones, green finance, technology finance, marine economy, private enterprises, manufacturing enterprises and rural revitalization, and realized the shift of credit resources to the real economy.

As at the end of the Reporting Period, the balance of loans to large enterprises was RMB14.559 billion, and the balance of loans to medium enterprises was RMB29.891 billion.

Loans to small and micro enterprises

After years of in-depth development, the Bank has established an extensive business network covering Shandong Province and Tianjin, with primary sub-branches focusing on retail and inclusive business. The Bank has set up a specialized institution for small and micro-enterprises – the small enterprise financial service center, under which it directly operates a business center and a small and micro-enterprise financial service center. With community and small and micro banks as the carriers, the Bank positioned itself in the community to serve small and micro enterprises. As at the end of the Reporting Period, the Bank had 4 community sub-branches and 2 small and micro sub-branches, with the balance of loans to small and micro enterprises of RMB32.602 billion, representing an increase of RMB4.875 billion as compared with the end of 2019. The average interest rate of loans to small and micro enterprises was 6.13%, covering 927 small and micro enterprise customers. The asset quality of small and micro loans was good.

The Bank made good use of credit policies and broadened its funding sources through multiple channels. The Bank made full use of the credit policies, which support the development of small and micro enterprises and actively used the re-loans of the PBOC and the on-lending funds of policy banks, which effectively expanded the source of funds to support the development of small and micro enterprises and continuously improved the coverage and support of financial services for small and micro enterprises.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.1 Corporate Banking (Cont'd)

(2) *Corporate loans (Cont'd)*

Loans to small and micro enterprises (Cont'd)

The Bank actively served the real economy and actively fulfilled its social responsibilities. Firstly, the Bank provided full support for poverty alleviation. Through promoting businesses such as “Fumin Production Loan” and “Industrial Revitalization Loan”, the Bank developed local characteristic industries according to local conditions, and helped the people in poverty to increase the income; secondly, the Bank served small and micro enterprises with heart. By strengthening the assessment, the Bank stimulated the enthusiasm and initiative of serving small and micro enterprises, actively explored the standardized “short, small, frequent and urgent” inclusive finance business through the online loan platform and the model of industrial chain development for batch customer acquisition, and strived to develop small customers into a large market.

The Bank always maintains the sensitivity to regulatory policies, continuously optimizes the credit extension structure of small and micro enterprises, concentrates credit resources on small and micro enterprises and other fields, formulates special examination plans through the single credit plan for small and micro enterprises, and takes innovative products as the starting point to meet the financial needs of small and micro enterprises in multiple dimensions.

(3) *Corporate customers*

During the Reporting Period, the marketing focus of the Bank’s corporate customers was firstly, to give full play to the headquarters-to-headquarters marketing model, focus on the Bi-Focus strategy, expand the scale and speed advantages of the Bank, highlight the “high-end” business marketing, and form a group of high-quality customers in the livelihood, high-end manufacturing, technology and trade finance categories with platform building and selected customers as the starting point; secondly, the Bank would carry out chain marketing, rely on core customers, integrate core customer resources, make full use of supply chain products, explore upstream and downstream industrial chains, market high-quality supply chain financial customers, gain in-depth linkage and explore potential of customer resources.

As at the end of the Reporting Period, the Bank had 56,312 corporate customers, representing an increase of 15,334 or 37.42% as compared with the end of 2019.

(4) *Trade finance business*

The Bank provides a wide range of financial products and services to corporate customers involving cross-border transactions and domestic trade. Our international settlement services primarily include remittance, collection, letters of credit, letters of guarantee and cross-border RMB settlement. As at the end of the Reporting Period, the Bank had 22 branches and sub-branches providing international settlement services and 254 banks which the Bank has established agency relationship with, covering 35 countries (regions) including mainland China, Hong Kong, Germany and the United States.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.2 Retail Business

During the Reporting Period, under the general environment of “digital” transformation, the Bank clarified the strategic positioning of “focusing on retail”, and achieved high-quality and rapid development of retail business by strengthening technology investment and improving online product functions and service level. During the Reporting Period, operating income from retail banking business amounted to RMB1.273 billion, representing an increase of 41.84% as compared with 2019 and accounting for 21.09% of the total operating income.

(1) Retail customers

The Bank adheres to the “customer-oriented and market-oriented” principle and follows the development strategy of “Bi-Focus retail banking” to establish the concept of platform development, enhance technology empowerment, strengthen cooperation with technology finance companies, internet platforms, life service enterprises, etc., and improve the supply of financial services. During the Reporting Period, all outlets of the Bank passed the supervision and review of the two national standards of the PBOC, and were successfully shortlisted as the “Top Leaders” candidate for banking outlets services in 2020.

The Bank has a wide range of retail banking customers in Shandong Province and Tianjin. As at the end of the Reporting Period, the assets retained by retail customers in the Bank amounted to RMB106.020 billion, representing an increase of 35.74% as compared with the end of 2019. As the wealth management level of the Bank gradually improved, the number of mid-to high-end customers continued to grow. As at the end of the Reporting Period, the financial assets retained in the Bank by customers with personal financial assets of over RMB200,000 amounted to RMB85.857 billion, accounting for 80.98% of the Bank’s personal financial assets.

During the Reporting Period, the Bank actively responded to the epidemic and increased its efforts in online financial services. Through active innovation and cooperation with internet platforms and financial technology companies, the Bank launched a number of online financial products and services such as structured deposits, mobile credit, net-worth wealth management and credit card installment. Relying on the scenario-based integrated business model built online, the traditional business will be gradually transferred from offline to online, the replacement rate of online channels will be improved, and the “scenario-based” integrated service model will be created for a brand new customer experience. Taking community payment and other businesses as the entry point, the Bank established cooperation platforms with local leading enterprises, hospitals, schools and properties to provide customers with “community finance” professional services. The Bank continued to carry out cross-industry cooperation with special merchants in “medical, food, housing and travel” industries around the outlets to achieve resource sharing and improve customer service.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.2 Retail Business (Cont'd)

(2) *Personal deposit business*

During the Reporting Period, the Bank's total personal deposits increased significantly. In addition to traditional demand deposits and time deposits, we provide mid-to high-end customers with large denomination certificates of deposit products of at least RMB200,000. In order to further enrich its product portfolio, the Bank launched a personal structured deposit product in July 2020. As at the end of the Reporting Period, the balance of the Bank's personal deposits reached RMB73.153 billion, representing an increase of RMB15.453 billion or 26.78% as compared with the end of 2019.

(3) *Personal loan business*

We provide residential mortgage loans, personal business loans and personal consumption loans to our retail banking customers.

Personal consumption loans

The Bank vigorously promoted a series of personal consumption loans under the brand name of "Happy Consumption Loan" and featured revolving online personal loan product "Quick e Loan" to meet the personal and family consumption needs. During the Reporting Period, under the premise of effective risk management and control, the Bank actively explored the online process of personal consumption loan business to achieve simultaneous improvement in the scale and quality of consumption loan. As at the end of the Reporting Period, the balance of personal consumption loans of the Bank amounted to RMB3.174 billion, representing an increase of RMB1.193 billion or 60.24% as compared with the end of 2019, and the NPL ratio of personal consumption loans remained within 0.20%.

Residential mortgage loans

During the Reporting Period, the Bank adhered to the positioning of "houses are for living in, not for speculation" and implemented differentiated housing credit policies to support residents' reasonable housing needs and steadily develop individual residential mortgage loans. At the same time, the Bank added a retail rating model to assist the approval and decision-making, strengthened the risk prevention and control of mortgage business, and focused on marketing high-quality developers, high-quality properties and high-quality customers to promote the steady growth of residential mortgage business. As at the end of the Reporting Period, the balance of our residential mortgage loans amounted to RMB13.914 billion, representing an increase of RMB3.945 billion or 39.57% as compared with 2019.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.2 Retail Business (Cont'd)

(3) *Personal loan business (Cont'd)*

Personal business loans

During the Reporting Period, the Bank implemented national policies and regulatory requirements, and developed inclusive loans to support the real economy through various measures such as special incentives for the number of customers, innovative special products and differentiated credit policies. As at the end of the Reporting Period, the balance of the Bank's personal business loans amounted to RMB15.705 billion, representing an increase of RMB5.822 billion or 58.92% as compared with the end of 2019.

Relying on the two drivers of "finance + technology", the Bank made full use of the advantages of online application, online approval, and convenient borrowing and repayment services, and continued to develop featured platform products such as "Property e Loan" and "Commercial Vehicle Loan". As at the end of the Reporting Period, the balance reached RMB2.501 billion and RMB7.526 billion, respectively. The online and platform model became the backbone to promote the growth of inclusive business. Among them, the "Property e Loan" was awarded the "Top Ten Financial Service Innovation Award for Small and Micro Enterprises" by the Chinese Banker, which improved the social reputation and influence of the Bank.

(4) *Personal wealth management business*

During the Reporting Period, the Bank stepped up its efforts in the development of wealth management business and provided customers with a series of products including "Steady Growth" and "Happy Share of Earnings". The personal wealth management business achieved a leapfrog growth. As at the end of the Reporting Period, the scale of the Bank's personal wealth management business reached RMB32.142 billion, representing an increase of RMB12.956 billion or 67.53% as compared with the end of 2019, of which net-worth wealth management accounted for 86.09%.

(5) *Bank card business*

Debit card business: On top of issuing ordinary debit cards, we have launched our VIP cards to gold grade customers, platinum grade customers, diamond grade customers and private banking customers. Compared with traditional debit cards, VIP cardholders can enjoy additional services, such as free ATM interbank withdrawal, use of VIP lounges at Weihai Airport, use of fingerprint safe and other preferential services. In addition, we are a member of China UnionPay and debit cards issued by us can be used in China UnionPay's network in China and other countries and regions overseas. As at the end of the Reporting Period, the total number of debit cards issued was 3.7843 million, representing an increase of 270,400 cards as compared with the end of 2019. During the Reporting Period, the total transaction amount through the Bank's debit cards was RMB7.721 billion.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.2 Retail Business (Cont'd)

(5) *Bank card business (Cont'd)*

Citizen card business: The Bank actively participated in various livelihood projects and payment agency projects in Weihai. In order to cooperate with the construction of “Smart City” of Weihai, the Bank launched the “Weihai City Citizen Card”, which allows cardholders to enjoy services such as public transportation, government services and payment for public utilities. During the Reporting Period, the Bank continued to carry out in-depth marketing for customers of “Weihai City Citizen Card”, achieving extensive coverage of various retail products. As at the end of the Reporting Period, the Bank issued 1.2991 million Citizen Card in total.

Credit card business: The Bank provides different services to various target customer groups and provides three types of credit cards, namely, general cards, gold cards and platinum cards, based on the credit rating of the applicants. The holder of each type of credit card is entitled to receive and enjoy specific services and benefits tailored for the corresponding type of credit card. In addition, we issued the “Tongda Credit Card”, which provides cardholders with a variety of installment products and convenient installment repayment services, including the purchase of automobiles and consumer products in addition to the ordinary functions of other credit cards. Under the premise of strict risk management, the Bank vigorously expanded the market, and the credit card business formed a good trend of stable development, deep exploration of potential and strong management, and realized the simultaneous improvement of business scale and quality. During the Reporting Period, the Bank issued 37,959 new credit cards, with a total of 98,958 credit cards issued.

8.3 Financial Market Business

The Bank’s financial market business leveraged its advantages of extensive outlet network and long-term penetration in local markets, and made intensive efforts in treasury business, explored potential and innovated interbank financial business, optimized asset-liability structure, established a sound portfolio of investment products, and achieved continuous improvement in investment return.

(1) *Proprietary investment*

During the Reporting Period, the Bank continued to optimize investment structure, reduced the proportion of investment and SPV investment, improved asset liquidity and supported the development of the real economy. During the Reporting Period, the Bank had financial investments with a carrying amount of RMB101.221 billion, representing an increase of RMB12.093 billion or 13.57% as compared to last year. The increase in such assets in 2020 was mainly due to the increase in holding of policy financial bonds for both liquidity and efficiency and the adjustment in investment structure by increasing the investment in non-financial corporate bonds to support the real economy.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.3 Financial Market Business (Cont'd)

(2) *Interbank business*

During the Reporting Period, the Bank actively utilized different types of interbank liabilities and reasonably matched their maturity structure, which effectively reduced the cost of interbank liabilities and also met the Bank's needs for liquidity management. During the Reporting Period, the Bank's bond settlement volume in the national inter-bank market reached RMB3.37 trillion. During the Reporting Period, the Bank was awarded the "Top 300 Dealers in the Inter-bank Domestic Currency Market in 2020" (2020年度銀行間本幣市場交易300強) and the "Best Progress Award in the Inter-bank Domestic Currency Market in 2020" (2020年度銀行間本幣市場最佳進步獎) by the National Interbank Funding Center.

The Bank successfully issued tier-two capital bonds of RMB3.0 billion with a coupon rate of 4.20% during the Reporting Period, which were actively subscribed by qualified investors in the market and received good market response.

(3) *Investment banking business*

In recent years, the Bank has continuously expanded various business licenses in the national inter-bank market and promoted the development of various businesses and product innovation. Leveraging on its extensive licenses and qualifications for underwriting and derivatives businesses, the Bank is able to provide comprehensive financial services to customers. During the Reporting Period, the Bank obtained the qualification of lead underwriter of the debt financing plan of Beijing Financial Assets Exchange (北京金融資產交易所) and the qualification of the member of the bond underwriting syndicate of the Export-Import Bank of China, continued to enhance its competitive advantages in the financial market, established its service brand in the debt capital market, and provided customers with comprehensive financing solutions.

(4) *Wealth management*

Since 2011, the Bank's wealth management business has developed into a well-established, stable and distinctive brand, and built a stable customer base. Leveraging its extensive business network coverage, the Bank actively explores customers' demands, based on which, it invested in designing and launching tailor-made wealth management products and services that could offer clients convenient access. The Bank has implemented a diversified, cross-market investment strategy with a stable investment return and controllable risks.

During the Reporting Period, 173 tranches of wealth management products were issued with a total amount of RMB141.449 billion. As of the end of the Reporting Period, the balance was RMB33.776 billion, representing an increase of 67.84% as compared to the end of 2019. Among them, 30 tranches of net-worth wealth management products were issued, and their balance amounted to RMB28.079 billion, representing an increase of RMB26.67 billion or 1,892.90% as compared to the end of 2019. The proportion of net-worth wealth management products was 83.13%, representing an increase of 76.13 percentage points as compared to the end of 2019. The transformation of net-worth wealth management business was accelerated comprehensively.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.4 Distribution Channels/Internet Finance/Information Construction

The Bank always attaches great importance to the importance of technology in driving business development. With digitalization as the key driver, it is able to cultivate core competitiveness enabled by strengthened technology. The Bank has set up the Internet Finance Department for online finance business to continue building a digitalized online smart banking system that delivers outstanding performance.

(1) *Branch network*

The Bank's extensive branch and sub-branch network enables it to effectively provide products and services and penetrate into local markets. As of the end of the Reporting Period, it had one headquarters, 17 branches, 101 sub-branches (including 72 city-level sub-branches and 29 county-level sub-branches) and one specialized institution (Small Enterprises Financial Service Center).

(2) *Self-service banking*

The Bank's self-service banking facilities include ATMs, self-service deposit and withdrawal machines, smart teller machines, Smart Terminals ("智能终端"), Smart Self-Service Receipt Machines ("智能回單機") and automatic inquiry machines. These machines provide customers with convenient banking services while allowing the Bank to reduce operating costs. Services provided through these facilities include balance inquiry, cash deposit and withdrawal, fund transfer, and payment of public utility bills. As of the end of the Reporting Period, the Bank had 374 self-service banking facilities.

In addition, the Bank actively upgrades and uses innovative applied technology on its self-service banking facilities in order to provide better services and experiences to customers. For instance, it had rolled out facial recognition systems on smart devices. Smart devices offer similar functions as traditional bank counters and operate only on touch-screen systems instead of dealing with bank tellers. As of the end of the Reporting Period, the Bank had 107 smart devices.

(3) *Electronic banking channels*

The Bank's electronic channel business includes online banking, mobile banking, direct banking, telephone banking and WeChat banking, which are complementary and extended to its branches and provide customers with comprehensive financial services.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.4 Distribution Channels/Internet Finance/Information Construction (Cont'd)

(3) *Electronic banking channels (Cont'd)*

Online banking

The Bank's online banking platform, accessible via its website www.whccb.com, offers a broad range of financial products and services to both corporate banking and retail banking customers. For corporate banking customers, it provides various services, primarily including account inquiry and management, payment and settlement, payroll services, and money transfer and remittance. For retail banking customers, it primarily offer account inquiry and management, money transfer and remittances, wealth management products, bill payment and personal loans.

As of the end of the Reporting Period, the Bank had a total of approximately 453,000 online banking customers, including approximately 47,000 corporate banking customers and approximately 406,000 retail banking customers. During the Reporting Period, an aggregate transaction volume of RMB696.973 billion was processed through the Bank's online banking platform.

Mobile banking

The Bank began offering mobile banking services through its client end in 2014. A variety of services are offered through its mobile banking app, including account inquiry and management, money transfer, wealth management products and bill payment. To better secure mobile banking transactions, we provide our customers with a short message services (SMS) notification service, whereby we send them SMS notifications relating to bank account transactions, account safety verification, and risk alerts. As of the end of the Reporting Period, the Bank had approximately 1.36 million mobile banking users. During the Reporting Period, an aggregate transaction volume of RMB135.407 billion was processed through the Bank's mobile banking platform.

In addition, the Bank opened its official WeChat account in 2014, which has become an important hub for our communications with the customers. By following this account, the Bank's customers can enjoy a variety of services, including checking bank account information, time-demand optional deposit, access to wealth management products, living payment, application for personal loans, application for credit card, management of credit card, outlet inquiry and appointment for public account. As of the end of the Reporting Period, the Bank's official WeChat account had approximately 284,000 subscribers.

Direct banking

The Bank commenced direct banking business in September 2016 and had invested in the continuous technology upgrade and service improvement of this operation. In managing this business, the Bank has successfully established a multi-functional online platform where customers may conveniently purchase a broad range of financial products and services, including investment and financing products and deposit services. The Bank has also made its direct banking services a convenient gateway for customers to access day-to-day services, such as online account opening, purchase of funds, etc. These services helped us capture potential financial needs of customers in their daily lives and improved the attraction and free-flow of its direct banking channel.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.4 Distribution Channels/Internet Finance/Information Construction (Cont'd)

(3) *Electronic banking channels (Cont'd)*

Online loans

In order to improve the convenience of services, the Bank launched the online “Quick e-Loan” (快e貸) product by using technology means, and applied identification technologies such as device fingerprint, biological probes, simulator identification, and network connections to quickly identify the common online fraud methods in a targeted manner, and equipped with the digital inclusive financial service capabilities of full online process, full real-time approval, and full customer group opening, so as to support the standardized, bulk and intelligent retail credit operations in accordance with the models of “one second for scanning code”, “one minute for customer input”, “one minute for system approval” and “lifetime cloud authorization”. As of the end of the Reporting Period, the balance of Quick e-Loan was RMB682 million.

(4) *Information construction*

During the Reporting Period, the Bank increased investment, strengthened technology empowerment and comprehensively promoted the deep integration of technology and financial business. Driven by “digitalization”, the Bank adhered to the three-step strategy of “online business, enriched online business and strategic digital banking” for products and services, and effectively carried out the construction of digital banking. First, focus on asset business and improve approval efficiency. The Bank launched products such as Shui e Rong (税e融), G7 Logistics Loan (G7物流贷), Hua An Xin Bao Loan Service (華安信保助貸) and Joyway Technology (薔薇科技), effectively increasing the research and development of new products; and launched various functions such as automatic loan granting for commercial vehicles, online change of LPR, paperless housing loan business, electronic credit contracts and mobile credit, and continued to optimize the online approval process to improve the approval efficiency. Second, enrich debt products to meet customers’ needs. The Bank launched cyclical and closed-end net-worth wealth management products and structured deposit products to achieve online multi-channel sales of precious metals and continuously enriched product categories. Third, increase channel opening and improved the level of intelligence. Through new technologies such as facial recognition and OCR, the Bank enriched the functions of internet financial platform, improved mobile marketing system, expanded mobile marketing channels, and continuously improved the intelligent level of business processing. Fourth, optimize the settlement process and improve customer experience. The Bank built and promoted paperless counters, put into operation multi-channel business, and launched the electronic file management system to effectively improve customer experience. Fifth, consolidate the data base and support business development. Through the construction and transformation of data management and control platforms, data quality monitoring systems, unified data dispatch platforms and other basic platforms, the Bank continued to carry out data governance work and continuously improved data mining and data application capabilities.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.4 Distribution Channels/Internet Finance/Information Construction (Cont'd)

(4) Information construction (Cont'd)

During the Reporting Period, the Bank continued to promote the construction of modern data centers and strived to build a national A-grade data center. Firstly, it will build a stable infrastructure with high standards, strong fault tolerance, high efficiency and intelligence, and secondly, it will build a flexible credit structure with easy maintenance, high data security, three-dimensional monitoring and high resource utilization rate.

During the Reporting Period, the Bank's information system operated efficiently and stably, the information system structure was continuously optimized, the system operation and maintenance guarantee ability was continuously improved, and the business continuity was continuously improved. The information security protection mechanism was continuously improved and the technical prevention and control measures were continuously strengthened. During the Reporting Period, the Bank's information system maintained stable operation with zero accident, which provided strong support for business development.

8.5 Analysis of Subsidiaries

As part of our strategy to expand our business operations and broaden our services, we established Shandong Tongda Financial Leasing Co., Ltd. in June 2016, and became the first commercial bank in Shandong Province to initiate the establishment of a financial leasing company. The strong synergy between the businesses of Tongda Financial Leasing and the Bank has notably improved its ability to provide comprehensive financial services to customers. It has become one of the important forces of our "Broad Corporate Banking" (大公司) business segment. Since its establishment in 2016, Tongda Financial Leasing has maintained intensive and precise operations, focused on five target industries with strong potentials, i.e. transportation and logistics, infrastructure, energy conservation and environmental protection, cultural and tourism education, and medical and health care, and has set up seven separate business departments in Beijing, Shanghai, Jinan, Weihai, Chengdu and Shenzhen.

As of the end of the Reporting Period, the registered capital of Tongda Financial Leasing was RMB1.1 billion and it was registered in Shandong. We held 59.09% equity interest in Tongda Financial Leasing, which is principally engaged in the provision of financial leasing solutions to customers, including direct lease and sale-and-leaseback. During the Reporting Period, the operating income of Tongda Financial Leasing was RMB654 million, representing an increase of 25.17% as compared to 2019; profit amounted to RMB347 million, representing an increase of RMB107 million as compared to 2019, accounting for 21.05% of our consolidated net profit; default ratio was 0.78%.

IX. CAPITAL MANAGEMENT

9.1 Capital Adequacy Ratio

We calculate our capital adequacy ratios in accordance with the Administrative Measures for the Capital of Commercial Banks (Provisional) issued by the CBIRC and other relevant regulatory requirements. The scope of the calculation of capital adequacy ratios includes all of our branches and financial institutions in which we invest. Credit risk-weighted assets are measured using the weight method. The measurement of on-balance sheet risk-weighted assets is determined after taking into account the carrying amount of the assets, the weight and the qualified risk mitigation instruments. After the off-balance sheet exposure is converted into equivalent on-balance sheet assets according to the credit conversion factors, it is measured according to the treatment of on-balance sheet assets. Market risk-weighted assets are measured using the standard method, and operational risk-weighted assets are measured using the basic indicator method. During the Reporting Period, we complied with the capital requirements stipulated by the regulatory authorities and there was no change in the measurement of capital.

We have established a comprehensive internal capital adequacy assessment procedure, covering system and process, governance structure, identification and assessment of major risks, stress test of capital adequacy ratio, capital planning, capital adequacy ratio management plan, monitoring and reporting. We conduct internal capital adequacy assessment at least once a year. During the Reporting Period, we continued to optimize the internal capital adequacy assessment framework, system process and design plan, and the assessment framework system was in line with the core regulatory requirements to ensure that major risks were fully identified, measured, monitored and reported. The capital level was in line with the risk appetite and risk management level faced by us. The capital planning was in line with the operating conditions, risk trends and long-term development strategies, and was adjusted and updated in a timely manner when there were material changes in the operating conditions, risk conditions and external environment.

Corresponding relationship between regulatory capital items and balance sheet items

No.	Regulatory capital item	Corresponding balance sheet item	Adjustment content	
1	Core tier-one capital	Paid-in capital or ordinary shares	Share capital	
2	Core tier-one capital	Capital reserve	Capital reserve	
3	Core tier-one capital	Surplus reserve	Surplus reserve	
4	Core tier-one capital	General risk reserve	General risk reserve	
5	Core tier-one capital	Retained earnings	Retained earnings	
6	Core tier-one capital	Qualifying portion of minority shareholders' capital	Minority interests	In accordance with the completion requirements of G4A-2 Statement of Minority Shareholders' Capital (《G4A-2少數股東資本情況表》) as stipulated by the regulatory authority, qualifying portion of minority shareholders' capital in core tier-one capital shall be calculated

IX. CAPITAL MANAGEMENT (CONT'D)

9.1 Capital Adequacy Ratio (Cont'd)

Corresponding relationship between regulatory capital items and balance sheet items (Cont'd)

No.	Regulatory capital item		Corresponding balance sheet item	Adjustment content
7	Core tier-one capital	Currency translation differences	Currency translation differences	
8	Additional tier-one capital	Perpetual bonds	Perpetual bonds	
9	Additional tier-one capital	Qualifying portion of minority shareholders' capital	Minority interests + Adjustment	In accordance with the completion requirements of G4A-2 Statement of Minority Shareholders' Capital as stipulated by the regulatory authority, qualifying portion of minority shareholders' capital in other tier-one capital shall be calculated
10	Tier-two capital	Qualifying tier-two capital instruments and their premium	Adjusted balance of subordinated debts and convertible bonds in bonds payable	
11	Tier-two capital	Over-provision for pre-loan losses	Provision for impairment losses on loans	In accordance with the completion requirements of G4A-1(a) Statement of Loan Loss Allowances (under Weighted Method) 《G4A-1(a)貸款損失準備情況表(權重法)》 as stipulated by the regulatory authority, excess loan loss allowance qualifying for being included in tier-two capital shall be calculated
12	Tier-two capital	Qualifying portion of minority shareholders' capital	Minority interests + Adjustment	In accordance with the completion requirements of G4A-2 Statement of Minority Shareholders' Capital as stipulated by the regulatory authority, qualifying portion of minority shareholders' capital in tier-two capital shall be calculated

IX. CAPITAL MANAGEMENT (CONT'D)

9.1 Capital Adequacy Ratio (Cont'd)

Corresponding relationship between regulatory capital items and balance sheet items (Cont'd)

The following table sets forth, as of the dates indicated, information relating to our capital adequacy ratios calculated in accordance with the Administrative Measures on the Capital of Commercial Banks (for Trial Implementation) 《商業銀行資本管理辦法(試行)》 and PRC GAAP.

Unit: RMB million

Basis of the Group	31 December 2020	31 December 2019
Core tier-one capital		
Share capital	5,980.1	4,971.2
Qualifying portion of capital reserve	4,947.6	3,120.0
Surplus reserve	1,225.7	1,089.1
General reserve	2,293.0	2,079.2
Other comprehensive income	(214.2)	(20.7)
Retained earnings	3,673.8	3,160.6
Qualifying portions of non-controlling interests	525.1	363.7
Total core tier-one capital	18,431.1	14,763.1
Core tier-one capital deductions	(39.0)	(38.9)
Net core tier-one capital	18,392.1	14,724.2
Other tier-one capital	3,069.7	3,048.2
Net tier-one capital	21,461.8	17,772.4
Tier-two capital	6,786.8	6,412.9
Total capital, net	28,248.6	24,185.3
Total risk-weighted assets	186,125.1	150,891.5
Including: Total credit risk-weighted assets	175,673.9	141,831.8
Total market risk-weighted assets	1,308.1	1,162.1
Total operational risk-weighted assets	9,143.1	7,897.6
Core tier-one capital adequacy ratio	9.88%	9.76%
Tier-one capital adequacy ratio	11.53%	11.78%
Capital adequacy ratio	15.18%	16.03%

IX. CAPITAL MANAGEMENT (CONT'D)**9.1 Capital Adequacy Ratio (Cont'd)**

Corresponding relationship between regulatory capital items and balance sheet items (Cont'd)

As of the end of the Reporting Period, our capital adequacy ratio was 15.18%, representing a decrease of 0.85 percentage point as compared to the end of 2019; our tier-one capital adequacy ratio was 11.53%, representing a decrease of 0.25 percentage point as compared to the end of 2019; and our core tier-one capital adequacy ratio was 9.88%, representing an increase of 0.12 percentage point as compared to the end of 2019. The slight decrease in capital adequacy ratio was mainly due to the increase in risk assets along with business development, which resulted in a slight decrease in capital adequacy ratio indicators.

Unit: RMB million

Basis of the Bank	31 December 2020	31 December 2019
Core tier-one capital		
Share capital	5,980.1	4,971.2
Qualifying portion of capital reserve	4,955.2	3,120.0
Surplus reserve	1,225.7	1,089.1
General reserve	2,156.5	1,954.9
Other comprehensive income	(214.2)	(20.7)
Retained earnings	3,343.3	2,961.1
Qualifying portions of non-controlling interests	N/A	N/A
Total core tier-one capital	17,446.6	14,075.5
Core tier-one capital deductions	(689.0)	(688.9)
Net core tier-one capital	16,757.6	13,386.6
Other tier-one capital	2,999.7	2,999.7
Net tier-one capital	19,757.3	16,386.3
Tier-two capital	6,293.4	6,085.1
Total capital, net	26,050.7	22,471.4
Total risk-weighted assets	170,398.3	138,184.6
Including: Total credit risk-weighted assets	160,864.1	129,828.7
Total market risk-weighted assets	1,308.1	1,162.1
Total operational risk-weighted assets	8,226.1	7,193.7
Core tier-one capital adequacy ratio	9.83%	9.69%
Tier-one capital adequacy ratio	11.59%	11.86%
Capital adequacy ratio	15.29%	16.26%

IX. CAPITAL MANAGEMENT (CONT'D)

9.1 Capital Adequacy Ratio (Cont'd)

Corresponding relationship between regulatory capital items and balance sheet items (Cont'd)

As of the end of the Reporting Period, the Bank's capital adequacy ratio was 15.29%, representing a decrease of 0.97 percentage point as compared to the end of 2019, and its core tier-one capital adequacy ratio was 9.83%, representing an increase of 0.14 percentage point as compared to the end of 2019.

9.2 Leverage Ratio Analysis

Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks (《商業銀行槓桿率管理辦法》) issued by the former China Banking Regulatory Commission and became effective on 1 April 2015, a minimum leverage ratio 4% is required for commercial banks. As of the end of the Reporting Period, our leverage ratio was 7.13%, which was higher than the regulatory requirements of the CBIRC and decreased by 0.01 percentage point as compared to the end of 2019. The above leverage ratio is calculated in accordance with the formula promulgated by the CBIRC.

The following table sets forth the relevant leverage ratio as of the dates indicated.

	31 December 2020	30 September 2020	30 June 2020	31 March 2020
Leverage ratio	7.13%	6.25%	6.36%	7.00%
Net tier-one capital	21,461.8	18,621.0	18,324.1	18,374.91
Balance of on-and off-balance sheet assets after adjustment	301,066.3	297,710.6	288,169.3	262,411.9

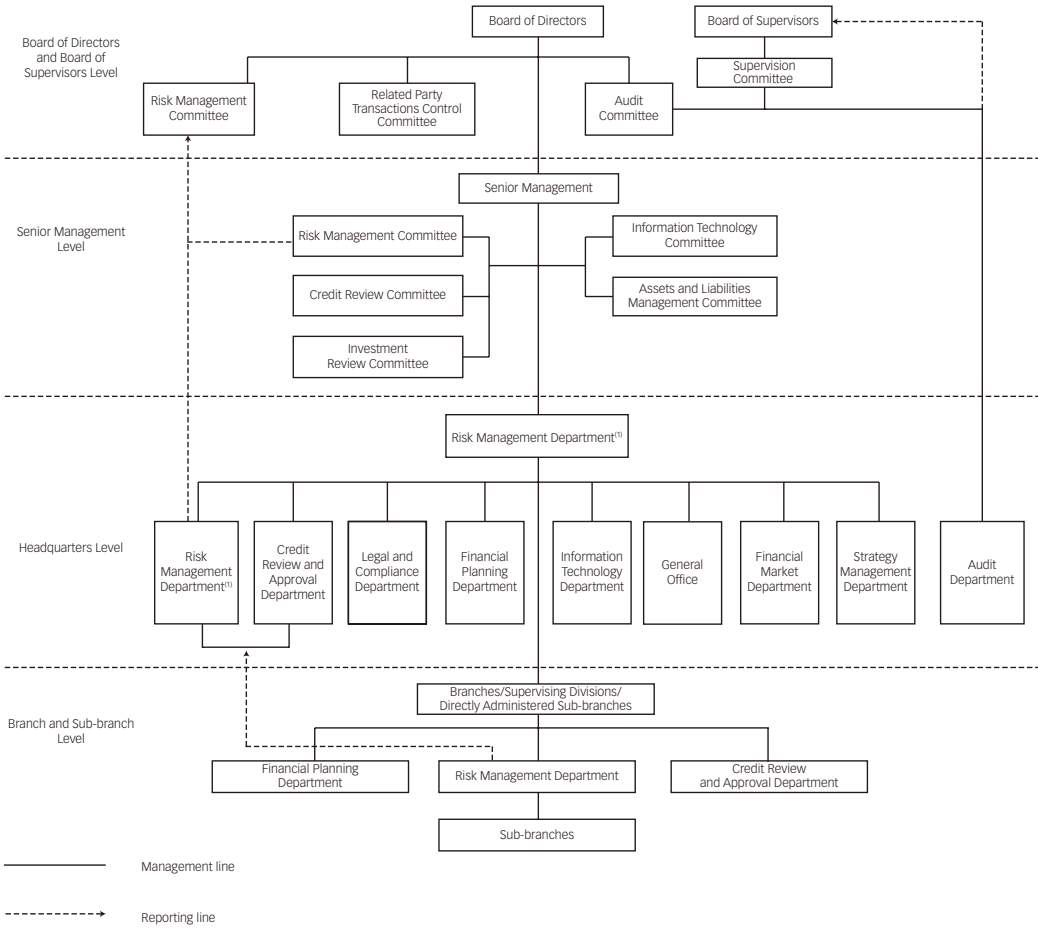
X. RISK MANAGEMENT

10.1 Organizational Structure and Management Functions of Risk Management System

The overall objective of the Bank’s risk management is to establish and maintain a centralized and vertical risk management system in line with the development strategy of establishing an international commercial bank, to regulate the interactions among the front, middle and back-offices and further to form a comprehensive risk management system covering various risks as a commercial bank and promote the sustainable and healthy development of the Bank’s business.

The Bank’s risk management follows the principles of comprehensive risk management, vertical management, linkage and checks and balances, professionalized management, and correlation between authority, responsibilities and rights to ensure the effectiveness of risk management.

The structure of the Bank’s risk management system is as follows:



Note:

(1) The Risk Management Department takes the lead in the overall risk management and is primarily responsible for the management of credit risks, market risks and information technology risks.

X. RISK MANAGEMENT (CONT'D)

10.1 Organizational Structure and Management Functions of Risk Management System (Cont'd)

The Board of Directors, the Board of Supervisors, the senior management and their respective special committees, the main risk management departments of the headquarters and the risk management departments of the branches, constitute the basic organizational structure of the Bank's risk management.

1. *Board of Directors and its special committees*

The Board of Directors performs risk management duties in accordance with the Articles of Association, mainly including formulating or approving the Bank's risk management policies and basic risk management systems, and supervising the implementation of such systems.

The Risk Management Committee, the Related Party Transactions Control Committee and the Audit Committee under the Board are the three most important special committees of the Board in terms of risk management.

2. *Board of Supervisors and its special committees*

The Board of Supervisors performs risk management duties in accordance with the Articles of Association and relevant regulatory guidelines, mainly including supervising the performance of duties by the Board and senior management, and inspecting and supervising risk management.

3. *Senior management and its special committees*

The senior management of the Bank is primarily responsible for implementing the risk management policies formulated by the Board of Directors, formulating risk management systems, procedures and procedures, and managing the risks of various businesses.

The Risk Management Committee, the Credit Review Committee, the Assets and Liability Management Committee, Information Technology Committee and the Investment Review Committee under the senior management are the five most important special committees of the senior management in terms of risk management.

4. *Departments relating to risk management at the Bank's headquarters*

The risk management departments mainly include the Risk Management Department, the Legal and Compliance Department, the Credit Review and Approval Department, the Financial Planning Department, the Information Technology Department, General Office, the Audit Department and other departments of the headquarters.

5. *Risk management of branches*

The president of each of our branches supervises risk management with the support of the risk management department established by the branches, and the risk management department of each branch is responsible for implementing the policies and procedures promulgated by the headquarters and submitting risk management reports to the relevant departments at our headquarters in accordance with internal procedures.

X. RISK MANAGEMENT (CONT'D)

10.2 Credit Risk

1. Credit risk management objectives: under the premise of meeting the requirements of regulatory authorities, depositors and other stakeholders for the stable operation of the Bank, the Bank will ensure the steady development of credit business and the safety of asset quality, properly assume credit risk and obtain risk and return corresponding to the level of risk commitment, so as to achieve the balance between risk and return.
2. Credit risk management policies and procedures: the Bank has established and continuously improved its comprehensive system of credit risk management policies and regulations, which comprise a broad range of basic policies, systems and methods and are prepared with clear categorization, in a scientific way and with comprehensive coverage. Its credit risk policy system comprises policies it developed in line with its development strategy and risk appetite, including policies in respect of credit, industries, regions, customers and products. It has formulated credit risk management rules and regulations, including credit approval, limit management, internal rating, credit authorization, credit management, collateral management, post-disbursement management, and disposal and written-off, to ensure that all risk management activities are carried out in accordance with relevant rules and regulations. In addition, the Bank continued to streamline and improve the specific administrative measures and operating procedures for various businesses, products and customer operations of various departments and business lines to ensure the implementation of credit risk management policies and systems.

The Bank implements business authorization and sub-authorization management for branch presidents based on their branches' risk management capabilities, and all businesses that bear credit risks shall operate according to the process and within the authority. Based on the scale, complexity and risk characteristics of different businesses, the basic processes of "marketing, acceptance, investigation, review, consider, approval by authorized persons, disbursement, post-disbursement management and disposal of non-performing loans" are designed and implemented in accordance with the basic principles of "separation of due diligence and approval, restriction of authority, clear and efficient division of authority and responsibility". By strengthening credit risk management and control, the Bank will ensure the sustainable and steady development of business and the safety of asset quality, so as to achieve the balance between risk and return.

X. RISK MANAGEMENT (CONT'D)

10.3 Market Risk

Market risk is the risk of losses to our on- and off-balance sheet businesses arising from movements in the market prices. The major types of market risks the Bank is exposed to include interest rate risk and exchange rate risk.

1. The goal of the Bank's market risk management: to maximize the risk-adjusted returns by controlling the market risk to a tolerable and reasonable level. Our market risk management is in compliance with the principle of prudence and independence.
2. The policies and procedures of market risk management: the Bank has established a full-process management system involving the identification, measuring, monitoring, control and reporting of such risks to ensure safe and stable operations at a reasonable market risk level; has established the classification standard, management requirements and adjustment procedures for bank accounts and trading accounts, and has adopted various methods for identification, measuring, control and monitoring of market risks according to the nature and characteristics of different accounts; uses the methods of duration analysis, foreign exchange exposure analysis, sensitivity analysis and value at risk analysis to measure different types of market risks in bank accounts and trading accounts; and implements limit management for market risks, formulates limit approval procedures and operating procedures, and sets and updates limits based on the nature, scale, complexity and risk tolerance of the business. In terms of market risk monitoring, the Bank has established and improved corresponding management procedures, to continuously monitor the risk position in overall market, risk level, profit or loss status, and the implementation of market risk limits. The market risk reporting system of the Bank defines the reporting scope, procedure and frequency of market risk reporting to be followed, and meets the diversified demand for market risk conditions by preparing different levels and types of market risk reports.

In respect of the specific management and control of market risks, firstly, the Bank has formulated and implemented relevant interest rate management policies, set the pricing of its deposit and loan products in accordance with relevant laws and regulations, used the PBOC benchmark interest rates, funding costs, asset risks and other indicators as the basis for pricing, and determined the prices of its products by considering the demand and business operations of customers, the industry in which its customers operate and the prices of its competitors' similar products as well as the business relationship between customers and the Bank; constantly follows the latest development of government economic policies, and continuously monitor and conduct in-depth research on the financial market conditions and macroeconomic conditions; makes timely adjustments to the size and structure of assets so that the maturities of its assets and liabilities can match. Secondly, given the size of the Bank's foreign exchange business, the Bank is exposed to limited exchange rate risks. The Bank have put together various policies and operational procedures regarding its foreign exchange businesses, such as foreign currency settlement, sales and payment and foreign currency trading.

As at the end of the Reporting Period, for all bonds of the Bank, the comprehensive duration was 4.68 years, and the value of basis points in trading accounts was RMB1.03 million. At the end of the month, the bond position in trading accounts did not exceed 50% of the total amount of bonds. The net market value of all bond assets in the trading account was not less than 5% of the amortized value, the net market value of individual bond assets was not less than 10% of the amortized value, and the position ratio to the cumulative foreign exchange exposure was not more than 20%. All the above indicators did not exceed the market risk limits for 2020 as determined by the Board, so that the market risk assumed by the Bank could be controlled within a tolerable and reasonable range.

X. RISK MANAGEMENT (CONT'D)

10.4 Operational Risk

Operational risk is the risk of losses arising from inadequate or defective internal procedures, personnel and information technology systems, as well as external events.

1. The goal of operational risk management: to continuously improve the operational risk management system, strengthen operational risk management, strengthen the identification, monitoring and evaluation of operational risks, and ensure that there are no material events and cases on operational risk.
2. The policies and procedures of operational risk management: the "Operational Risk Management Policy" of the Bank defines the preference and management structure of operational risk, and establishes the tone and direction for the implementation of bank-wide operational risk management; the "Operational Risk Management Procedures" regulates the management procedures of monitoring, identifying, controlling and reporting operational risk, and establishes a scientific operational risk management and control system.

The Bank has established the operational risk management procedures that are compatible with the bank-wide business scale and management and control requirements, covering major management procedures such as assessment on operational risk control and identification, information technology risk assessment, key risk indicators monitoring, business continuity management, outsourcing risk management and operational risk reporting, which has laid a foundation for the process to effectively identify, assess, monitor, control/mitigate and report the operational risks.

The Bank fully implemented the regulatory requirements on operational risk prevention and strictly implemented the regulations on rotation of important posts. The Bank actively carried out large-scale inspection on operation and management, quarterly compliance inspection, "Year of Deepening Industry Standardization Construction" and other activities, adhering to the problem-oriented principle, strictly rectifying the accountability and strengthening the knowledge test on swindle prevention. The Bank ranked the first in the centralized test on swindle prevention and compliance of institutions under its jurisdiction organized by Shandong Banking and Insurance Supervision Bureau among city commercial banks list for two consecutive years, and the management and control of operational risk in key links and areas has been further improved. During the Reporting Period, the Bank had no material operational risk loss event.

X. RISK MANAGEMENT (CONT'D)

10.5 Liquidity Risk Management

Liquidity risk is the risk of failure to obtain sufficient funds in a timely manner or at a reasonable cost to fulfill payment obligations when due.

1. The goal of liquidity risk management: to strengthen the capabilities of liquidity risk identification, monitoring, measuring and refined management and control in accordance with the business objectives and management order of liquidity, safety and profitability, so as to ensure sufficient funds at all times, timely fulfill payment obligations and provide funds for business operations.
2. The Policies and procedures of liquidity risk management: the Bank has established a governance structure on liquidity risk management in accordance with the relevant requirements of liquidity risk management, which clarifies the roles and responsibilities of the Board, the Board of Supervisors, senior management, special committees and relevant departments in terms of liquidity risk management, so as to improve the effectiveness of liquidity risk management.

During the Reporting Period, the Bank shall, in accordance with the management and control requirements of “liquidity risk follows market movements closely”, constantly follow the market liquidity changes, deploy and make a timely adjustment on liquidity management measures in advance based on changes in assets and liabilities business and liquidity gap, and reasonably adjust the maturity structure of assets and liabilities to ensure that liquidity risk is safe and controllable. The Bank strengthened liquidity risk management in the following aspects:

Firstly, strengthening liability management. The Bank strengthened the marketing of deposits and promoted the continuous growth of the deposit business; coordinated the use of market funds, reloans from the central bank, rediscounts and other funds, and flexibly arranged the source of funds for liabilities according to the business development and market changes.

Secondly, strengthening daily monitoring of liquidity. In accordance with the requirements of “monthly planning, ten-day monitoring, weekly scheduling and daily reporting”, combined with the trend of capital market and customers’ needs, the Bank allocates its capital position in a timely manner, and through the liquidity risk management system, to dynamically monitor the daytime liquidity status to ensure the safety of daytime fund payment.

Thirdly, strictly implementing liquidity limit management. The Bank sets liquidity limit indicators according to the regulatory requirements and the actual business of the Bank, and conducts dynamic monitoring to promote the continuous optimization of various liquidity indicators.

Fourthly, solidly carrying out liquidity stress tests and emergency drills. The Bank carries out the targeted liquidity stress tests on a quarterly basis, adjusts the structure of assets and liabilities in a timely manner according to the test results, and improves the stress test plan and emergency plan, to effectively prevent and control liquidity risks.

Fifthly, continuously enhancing the ability to support science and technology. The Bank applies liquidity risk management system to achieve forward-looking and all-round management of on-and off-balance sheet, assets and liabilities structure of the group and legal person, and the proportion of indicators, which has improved the refined management level of liquidity risk of the Bank.

X. RISK MANAGEMENT (CONT'D)

10.6 Bank Account Interest Rate Risk Management

1. The goal of bank account interest rate risk management: to maintain the basic stability of the overall income and economic value of the bank account under the most likely interest rate scenario.
2. The policies and procedures for bank account interest rate risk management: the Bank follows the macroeconomic situation, monetary policy and change in market interest rate, analyzes the trends of interest rates, and actively adjusts the structure of assets and liabilities and business interest rate executors, to effectively prevent interest rate risk. The Bank regularly measures and analyzes interest rate risk of bank accounts by means of interest rate sensitivity analysis, stress testing and other methods to guide the business development. In the process of sensitivity analysis, it is assumed that there is a parallel shift in the overall market interest rate, while the risk management activities that may be taken to reduce interest rate risk are not considered.

As at the end of the Reporting Period, the Bank's interest rate sensitivity analysis is as follows:

Unit: RMB million

	31 December 2020		31 December 2019	
	Net profit	Equity	Net profit	Equity
Increase by 100 basis points	167.2	302.3	295.3	382.1
Decrease by 100 basis points	(167.2)	(302.3)	(295.3)	(382.1)

X. RISK MANAGEMENT (CONT'D)

10.7 Information Technology Risk

Information technology risks include operational risk, legal risk, reputational risk and other types of risks caused by natural factors, human errors, technical loopholes and management failure arising from the Bank's use of information technology.

1. The goal of information technology risk management: through the establishment of an effective mechanism, to identify, measure, monitor and control the information technology risks, promote the safe, sustainable and stable operation of the Bank, promote business innovation, improve the use of information technology, and enhance the core competitiveness and sustainable development capability.
2. The policies and procedures of information technology risk management: the Bank has established systems and procedures such as information technology risk management system, technical standards and operating procedures, and has established the information technology risk management system covering the whole process including the organizational structure of information technology risk, risk identification, measuring, monitoring and control. It has formulated systems and procedures for information collection, processing, storage, transmission, distribution, backup, restoration, clearing and destruction, and established and implemented an information classification and protection system. The systems and procedures for the analysis, planning, procurement, development, testing, deployment, maintenance, upgrade and retirement of information system requirements have been established to ensure the integrity, confidentiality and availability of data in the process of the development, testing and maintenance of information system. The Bank has established risk management strategies for important information technology project evaluation, outsourcing risk evaluation, access control, physical security, personnel safety, business continuity planning and emergency response. In terms of information technology risk reporting, the scope, procedure and frequency of reporting should be clearly defined, to prepare the different levels and categories of information technology risk reports.

During the Reporting Period, the Bank continued to strengthen information technology risk management. Firstly, the Bank strengthened the maintenance, update and monitoring of information system, continuously optimized the operation and maintenance process, improved the operation and maintenance guarantee system, and established a sound problem response and handling mechanism, to ensure the safe and stable operation of bank-wide system. Secondly, the Bank conducted in-depth investigation of information technology risks, continuously strengthened the construction of emergency system and resource investment, and scientifically organized emergency drills for various business lines, to continuously improve the ability to respond to emergencies and disasters. Thirdly, the Bank carried out in-depth assessment and improvement of business continuity management and information technology outsourcing risk management, further improved the risk resistance capacity of the Bank's important information systems, to ensure the safe and stable operation of the Bank's various businesses.

X. RISK MANAGEMENT (CONT'D)

10.8 Strategic Risk

Strategic risk is the risk arising from inappropriate business strategies or changes in external operating environment.

1. The goal of strategic risk management: to continuously improve the strategic risk management system, improve the level of strategic risk management, and ensure that strategic risks are controllable.
2. The policies and procedures of strategic risk management: in strict compliance with regulatory requirements and combining with the risk management requirements of the Bank, the Bank enhanced the awareness of risk responsibility, improved the risk management mechanism and enhanced the risk management capability, effectively preventing strategic risks while steadily promoting the implementation of development strategies.

The Bank dynamically monitored changes in the external operating environment, constantly followed the progress of development strategies, carefully identified and evaluated the potential strategic risks, regularly reported the management of strategic risk, and timely adjusted the implementation measures of strategies to ensure that the strategies of the Bank are instructive, feasible and scientific for the bank-wide development.

10.9 Reputational Risk

Reputational risk refers to the risk of negative comments on the Bank from stakeholders, the public and the media due to the actions of operation, management and employees or external events, which may damage the brand value of the Bank, adversely affect the normal operation of the Bank, and even affect market stability and social stability.

1. Objectives of reputational risk management: the Bank takes its reputation seriously and has established a "7 days x 24 hours" reputational risk monitoring mechanism to monitor, identify, report, control and assess its reputational risk, and at the same time manages its reputational risk emergency handling, and reduces to the extent possible any loss and negative impact which the Bank may suffer due to such incidents.
2. Policies and processes of reputational risk management: the Bank has formulated measures on reputational risk management, clarified the responsibilities of Directors, Supervisors and senior management, and specified the responsibilities and authorities of the headquarters-branch-sub-branch; the Bank has established an organizational framework for reputational risk management that covers headquarters-branch-sub-branch levels, and established a team comprising leaders from various departments at its headquarters to deal with the reputational risk incidents. The Bank has set up reputational risk incidents emergency response teams at its branches and sub-branches, so that the headquarters can be promptly informed upon the occurrence of material and urgent incidents and takes appropriate actions accordingly. In addition, the Bank proactively utilizes the press communications and other publication platforms to promote its positive image and corporate values such as those reflecting its continued fulfillment of social responsibilities. Meanwhile, it proactively collects, organizes and analyzes information in relation to its reputation through newspapers, television, online media and other channels.

During the Reporting Period, the Bank had no significant reputational risk incidents, and the reputational risk was under control.

X. RISK MANAGEMENT (CONT'D)

10.10 Concentration Risk

Concentration risk refers to the risk exposure that arises directly or indirectly from the same or similar risk exceeding a certain percentage of net capital.

1. Objective of concentration risk management: the Bank continues to strengthen the ability of concentration risk management and control, so as to reduce the losses caused by the Bank's default in the same or related business areas, customers, products, etc., and ensure the steady and sound development of the Bank's credit business and the safety of asset quality.
2. Policy and process of concentration risk management: the Bank has established a concentration risk organizational structure, management system and process based on the scale and complexity of its business to effectively identify, measure, monitor and report concentration risk. The Bank manages and controls credit limits for concentration risk, and ensures that limits are followed in operation and management by formulating annual risk appetite, adjusting entry and exit criteria and implementing name-based management. The Bank regularly conducts stress tests on concentration risk to effectively identify potential risks and formulate corresponding disposal measures to ensure effective management and control of concentration risk. During the Reporting Period, the indicators related to concentration risk management and large risk exposure management of the Bank complied with the regulatory requirements.

10.11 Compliance Risk

Compliance risk refers to the risk of being subject to legal sanctions, regulatory penalties, significant financial losses and reputational losses as a result of failure to comply with laws, rules and standards.

1. Objectives of compliance risk management: by establishing and improving the compliance risk management framework, the Bank can effectively identify and manage compliance risks, promote the construction of a comprehensive risk management system, and ensure legal and compliant operations.
2. Policy and process of compliance risk management: the Compliance Policy of the Bank specifies the management structure and division of responsibilities for compliance risk; the Compliance Risk Management Procedure regulates the management process of monitoring, identifying, controlling and reporting compliance risks, and establishes a scientific compliance risk management and control system.

The Bank has established a compliance risk management process that is compatible with the Bank's business scale and management and control requirements to monitor, analyze, identify, control and report compliance risks. The Bank has organized compliance training to provide compliance management training for compliance management personnel professional skills training for business operation personnel to enhance compliance awareness.

X. RISK MANAGEMENT (CONT'D)

10.11 Compliance Risk (Cont'd)

The Bank has established a series of measures to manage and control the compliance risks faced by the Bank and a mechanism to review system compliance. During the Reporting Period, the Bank has sorted out and revised relevant rules and regulations and operating procedures in accordance with the new regulatory rules to ensure the compliance of operation management and business development. The Bank has organized quarterly compliance inspection and the "Year of Deepening Industry Standardization Construction" activities to strengthen compliance training and compliance warning education and continuously improve employees' compliance awareness.

10.12 Money Laundering and Terrorist Financing Risk

Money laundering risk refers to the risk that the Bank is exposed to the use of illegal and criminal activities such as money laundering and terrorist financing in the process of business operation and management.

1. Objective of money laundering risk management: by adopting money laundering risk management measures, the Bank aims to avoid serious reputational risk and legal risk as well as loss of customers, business and financial due to the occurrence of money laundering risk events or cases.
2. Policy and process of money laundering risk management: money Laundering and Terrorist Financing Risk Management Risk Evaluation and Customer Classification Procedure of Weihai City Commercial Bank Co., Ltd.(《威海市商業銀行洗錢和恐怖融資風險管理政策》) clearly defines the structure, strategies, methods and measures of money laundering risk management, reasonably allocates resources according to the risk-based approach, continuously identifies, carefully evaluates, effectively controls and manages money laundering risks throughout the organization, and effectively prevents money laundering risks.

The Bank has established a sound internal control system for anti-money laundering, which specifies anti-money laundering work procedures such as customer identification, customer identity information and transaction record keeping, large transaction and suspicious transaction reporting, list monitoring, freezing of terrorism-related assets, and money laundering risk assessment. Each business line department further incorporates anti-money laundering regulations into the business line rules and operational procedures based on the actual business situation, laying a process foundation for money laundering risk management.

Money laundering risk administrative measures: the Bank has established a sound anti-money laundering organizational system, earnestly implemented the anti-money laundering regulatory policies and work requirements, continuously improved the anti-money laundering internal control measures and optimized the anti-money laundering monitoring system. The Bank actively fulfilled the obligations of customer identification and preservation of customer identity information and transaction records, strengthened the assessment of money laundering risks of business and products, effectively incorporated anti-money laundering compliance requirements into business processes and systems, improved the technical support ability of the anti-money laundering monitoring system, continuously improved the accuracy of identification of suspicious customers and the quality and efficiency of suspicious monitoring and analysis, submitted reports on large and suspicious transactions as required, and strengthened the publicity and inspection of anti-money laundering training to effectively prevent various money laundering risks. During the Reporting Period, no institutions and employees of the Bank were identified to be involved in or suspected of money laundering and terrorist financing activities.

X. RISK MANAGEMENT (CONT'D)

10.13 Legal Risk

Legal risks include but not limited to the following risks: the contracts signed may be legally revoked or confirmed invalid due to violation of laws or administrative regulations; a person may be legally liable for compensation if he is sued or applied for arbitration due to breach of contract, infringement or other reasons; the Bank may be legally to administrative liabilities or criminal liabilities if its business activities in violation of laws or administrative regulations.

1. Objectives of legal risk management: to standardize the Bank's legal work, improve the legal risk management framework system, improve the quality of legal work, integrate legal risk management, prevention and other risk management activities, improve the overall efficiency and effectiveness of risk management, improve the legal risk prevention and control mechanism, and promote legal operation.
2. Policy and process of legal risk management policies and procedures: the Administrative Measures for Legal Work and Legal Risk Management of Weihai City Commercial Bank (《威海市商業銀行法律工作及法律風險管理辦法》) requires legal risk management to follow the principles of legal efficiency, unified standardization, division of work and coordination, and hierarchical responsibility, clarify the management structure of legal risks, standardize the management processes of identification, evaluation, analysis and response of legal risks, and establish a sound legal risk management and control system.

The Bank has established a legal risk management process that is compatible with the Bank's business scale and management and control requirements, covering major management processes such as legal review management of contractual documents, legal dispute handling, external law firm management, legal counsel management and legal consulting service management, laying a process foundation for effective identification, evaluation, analysis and response to legal risks.

The Bank has formulated relevant management measures for legal risks, strictly carried out the management of legal work in accordance with the rules and regulations, improved the legal risk management framework system, improved the quality of legal work, continuously strengthened the identification, analysis, evaluation and response to legal risks, strengthened the supervision and management of law institutions, achieved online review of legal documents, followed the principle of legal efficiency, unified standardization, division of work and cooperation, and hierarchical responsibility, integrated the management and prevention of legal risks with other risk management activities, improved the legal risk prevention and control mechanism, and promoted legal operation.

XI. IMPACT ASSESSMENT TOWARDS COVID-19

Since the outbreak of COVID-19, various prevention and control measures have been going on, and the prevention and control situation in China has gradually improved. The Bank earnestly implemented the requirements of the Notice on Further Strengthening Financial Support for Prevention and Control of COVID-19, which was issued by the PBOC, the Ministry of Finance, the CBIRC, the China Securities Regulatory Commission and the SAFE, and strengthened financial support for epidemic prevention and control.

Notwithstanding the outbreak of pandemic, we confirm that there has been no material adverse impact to our business operations, liquidity position, asset quality and maturity profile of our loan portfolio, and our impairment losses have not experienced any significant increase due to the COVID-19 Pandemic, taking into account various factors, including our branch network, strong technical capability to deliver convenient online financial products and services, sound customer portfolio, stable asset quality, and the fact that the COVID-19 Pandemic has become less severe in Shandong and Tianjin.

XII. FUTURE PROSPECTS

12.1 Analysis of the Operating Situation in the New Year

At present, China is in an important period of strategic opportunities, the fundamentals of stable and positive economic development remain unchanged. In 2021, China's solid material foundation in industrial, agricultural, transportation, energy and other fields will strongly support economic recovery and people's livelihood; strong technological capabilities and abundant human resources will also bring continuous innovation momentum to high-quality economic development; the complete industrial system and broad market space will form a positive interaction and a good performance, which will release a strong and sustainable development momentum. The macro policies will maintain continuity, stability and sustainability. China will continue to implement proactive fiscal policies and prudent monetary policies, maintain necessary support for economic recovery, make the policy more accurate and effective, actively carry out fiscal policies with improved quality and efficiency, more sustainable and prudent monetary policies with flexibility, accuracy, reasonableness and appropriateness. China will accelerate the establishment of a "dual circulation" development pattern in which domestic economy cycle plays a leading role while international economic cycle remains its extension and supplement.

The economic development of Shandong Province can be summarized into the following three characteristics: firstly, it is large in scale. From 1999 to 2020, Shandong Province's GDP ranked among the top three in China for 22 consecutive years, with RMB7,312.9 billion in 2020, representing a year-on-year increase of 3.6% despite the impact of the pandemic. Secondly, it is of full momentum. In recent years, having been supported by the "eight major strategies" layout and guaranteed by the comprehensive deepening reform, Shandong Province has accelerated its "four new" economic ("四新"經濟) growth and improved its innovation capability significantly. During the "14th Five-Year Plan" period, Shandong Province has set the goals of "Taking Lead in Seven Priority Areas (七個走在前列)" and "Making Breakthroughs in Nine Aspects (九個強省突破)", and clarified 14 strategic tasks such as the replacement of old growth drivers with new ones, digital transformation and the construction of a high-level innovative province, which will inject new impetus into the economic development. Thirdly, it is wide in space. Shandong Province has a unique national strategic superiority, including the Comprehensive Experimental Area for Replacing Old Economic Growth Drivers with New Ones (新舊動能轉換綜合試驗區), China (Shandong) Pilot Free Trade Zone (中國(山東)自由貿易試驗區), and China-Shanghai Cooperation Organization Demonstration Zone for Local Economic and Trade Cooperation (中國-上海合作組織地方經貿合作示範區), etc.. The integrated effects and common resonance of multiple national strategies have provided a broad space for high-quality development in Shandong Province.

XII. FUTURE PROSPECTS (CONT'D)

12.2 New Year Development Strategy and Major Work Measures

Guiding ideas

Guided by the spirit of the 19th CPC National Congress and the 2nd, 3rd, 4th and 5th Plenary Session of the 19th CPC Central Committee and the Central Economic Work Conference, we will adhere to the general principle of seeking progress while maintaining stability, follow the macro trend, implement regulatory requirements, conduct in-depth reform and innovation, comply with the Listing Rules, promote the implementation of strategies, implement the “five aspects” development concept of “Bi-Focus transformation, precise management, platform marketing, skilled risk management and service networking” in accordance with the “specific” method, unswervingly develop “digitalization – driven” “Bi-Focus Retail Banking (兩端型零售銀行)” business model, continue to build an excellent listed bank with faith, responsibility and value, and pay tribute to the 100th anniversary of the Party with excellent performance.

Work concepts

Our working principle is “Stability, Accuracy, and Transcendence”. “Stability” means “stable and rising” in performance, “stable and controlling” in risk and “stable and managing” in market value; “Accuracy” means accurate policy, accurate supply and accurate implementation; “Transcendence” means self transcendence, standard transcendence and value transcendence.

Work measures

Firstly, “steady and rising” in performance. We will focus on “nine steady and nine rising”, namely “steady and rising in Party building, steady and rising in thinking, steady and rising in Bi-Focus, steady and rising in deposits and loans, steady and rising in efficiency, steady and rising in service, steady and rising in management, steady and rising in talent, steady and rising in culture”.

Secondly, “stable and controlling” in risk. We should properly handle the relationship between stable development and risk control, continuously promote the “skill” of risk control, and improve the effect of risk control.

Thirdly, “stable and managing” in market value. We should adhere to information disclosure in accordance with laws and regulations, effectively carry out investor relationship management, and enhance the value of the Bank’s capital market.

Fourthly, “accurate policy” in reform. We should continue to deepen the reform of business system, management system, personnel system, remuneration system and other aspects, and liberate and develop the productive forces through reform.

XII. FUTURE PROSPECTS (CONT'D)

12.2 New Year Development Strategy and Major Work Measures (Cont'd)

Work measures (Cont'd)

Fifthly, “accurate supply” in model. In accordance with the principle of “establishing a system, building a team and forming a model”, we should establish an expert system, cultivate professional talents, and form a model of “simulation, concretization, rehearsal, accuracy and vertical” to enhance our market competitiveness.

Sixthly, “accurate implementation” in linkage. The key point is to strengthen the linkage of “three lines”, that is, to balance the “asset line, liability line and income line”, and continuously improve the “profit point”; to strengthen the linkage of “three points”, that is, to identify the “entry point, power point and linkage point” to form a “growth line” of business.

Seventhly, self “transcendence”. It refers to the transcendence of knowledge, level and ability.

Eighthly, standard “transcendence”. We will adhere to a high benchmark, adapt to the listing requirements, and carry out work in a more advanced manner with higher and stricter requirements.

Ninthly, value “transcendence”. It refers to achieving the re-transcendence of employee value, customer value, shareholder value, social value and bank value.

CHAPTER 6 CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

On October 12, 2020, the Bank was listed on the Main Board of the Hong Kong Stock Exchange, with an initial public offering of 877,271,000 H shares with a par value of RMB1 each. In addition, the over-allotment option described in the prospectus of the Bank was fully exercised in respect of an aggregate of 131,590,000 H Shares, which were listed on the Main Board of the Hong Kong Stock Exchange on November 10, 2020. A total of 1,008,861,000 H shares were issued during the Reporting Period.

As at the end of the Reporting Period, the total number of issued Shares of the Bank was 5,980,058,344 Shares, including 4,971,197,344 Domestic Shares and 1,008,861,000 H Shares.

	31 December 2019		Changes during the Reporting Period	31 December 2020	
	Number of shares (Shares)	Percentage of total shares (%)	Number of shares (Shares)	Number of shares (Shares)	Percentage of total shares (%)
Domestic State Shares	919,671,509	18.50	–	919,671,509	15.38
Domestic state-owned legal person shares	3,167,539,669	63.72	(5,298,517)	3,162,241,152	52.88
Domestic social legal person shares	805,020,866	16.19	5,298,517	810,319,383	13.55
Domestic natural person shares	78,965,300	1.59	–	78,965,300	1.32
H Shares	–	–	1,008,861,000	1,008,861,000	16.87
Total number of Shares	4,971,197,344	100.00	1,008,861,000	5,980,058,344	100.00

II. INFORMATION ON SHAREHOLDERS

2.1 Total Number of Holders of Domestic Shares

As at the end of the Reporting Period, the total number of holders of Domestic Shares of the Bank was 1,038.

Chapter 6 Changes in Share Capital and Information on Shareholders

II. INFORMATION ON SHAREHOLDERS (CONT'D)

2.2 Particulars of the Top Ten Shareholders of Domestic Shares

No.	Name of shareholders	Shareholder Nature	Total number of shares held as at the end of the Reporting Period (shares)	Percentage of total shares as at the end of the Reporting Period (%)	Pledging or freezing status of shares	Quantity
1	Shandong Hi-Speed Group Company	State-owned legal person shares	2,216,423,498	37.06	Normal	–
2	Weihai Municipal Finance Bureau	State-owned Shares	919,671,509	15.38	Normal	–
3	Shandong Hi-Speed	State-owned legal person shares	693,957,987	11.60	Normal	–
4	CNHTC	State-owned legal person shares	243,084,607	4.06	Normal	–
5	Weihai Tianan Real Estate Development Co., Ltd. (威海天安房地產開發有限公司)	Social legal person shares	164,163,991	2.75	Normal	–
6	Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd. (山東環球漁具股份有限公司)	Social legal person shares	83,157,762	1.39	Normal	–
7	Shandong Homey Aquatic Development Co., Ltd. (山東好當家海洋發展股份有限公司)	Social legal person shares	71,463,546	1.20	Normal	–
8	Wendeng City Senlu Tanning Co., Ltd. (文登市森鹿制革有限公司)	Social legal person shares	69,253,090	1.16	Normal	–
9	Weihai Xinghai Trading Co., Ltd. (威海興海貿易有限公司)	Social legal person shares	60,054,251	1.00	Normal	–
10	Hongan Group Co., Ltd. (宏安集團有限公司)	Social legal person shares	59,828,711	1.00	Normal	–

II. INFORMATION ON SHAREHOLDERS (CONT'D)

2.3 Interests and Short Positions in Hong Kong in Accordance with the SFO

As at the end of the Reporting Period, pursuant to the register entered by the Bank under Section 336 of the SFO, and to the best knowledge of the Bank, the following persons (other than the Bank's Directors, Supervisors and chief executive) had or were deemed or taken to have interests and/or short positions in the Shares or underlying Shares of the Bank which would fall to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of shares of the Bank carrying rights to vote in all circumstances at general meetings of any other member of the Bank:

Name of Shareholders	Class of Shares	Nature of interest	Number of Shares directly or indirectly held (Shares)	Long position/ Short position	Approximate % of interest in the Bank (%)	Approximate % of the relevant class of Shares of the Bank (%)
Shandong Hi-Speed Group Company ⁽¹⁾	Domestic Shares	Beneficial owner and interest in controlled corporation	2,910,381,485	Long position	48.67	58.54
Weihai Municipal Finance Bureau	Domestic Shares	Beneficial owner	919,671,509	Long position	15.38	18.50
Shandong Hi-Speed ⁽¹⁾	Domestic Shares	Beneficial owner	693,957,987	Long position	11.60	13.96
Shenzhen Shengqiu Investment Co., Ltd. (深圳市盛秋投資有限公司)	H Shares	Beneficial owner	137,305,000	Long position	2.30	13.61
China Hongqiao Group Limited	H Shares	Beneficial owner	137,243,000	Long position	2.30	13.60
Silverlight Asia Investment Fund	H Shares	Beneficial owner	138,802,000	Long position	2.32	13.75
Jinan Licheng Holdings Group Co., Ltd. (濟南曆城控股集團有限公司)	H Shares	Beneficial owner	111,852,000	Long position	1.87	11.09
Shandong Lulong Construction Co., Ltd. (山東魯龍建設有限公司) ⁽²⁾	H Shares	Beneficial owner	71,003,000	Long position	1.19	7.04
Yang Shulan (楊淑蘭) ⁽²⁾	H Shares	Interest in controlled corporation	71,003,000	Long position	1.19	7.04
Xindu Group Limited (鑫都集團有限公司) ⁽²⁾	H Shares	Interest in controlled corporation	71,003,000	Long position	1.19	7.04
GMK Holdings Group Co., Ltd. ⁽³⁾	H Shares	Beneficial owner	68,712,000	Long position	1.15	6.81
Liu Xuejing (劉學景) ⁽³⁾	H Shares	Interest in controlled corporation	68,712,000	Long position	1.15	6.81
Zhang Xiuying (張秀英) ⁽³⁾	H Shares	Interest of spouse	68,712,000	Long position	1.15	6.81
JIN JIANG INVESTMENT LIMITED	H Shares	Beneficial owner	68,577,000	Long position	1.15	6.80
Tianjin Guangcheng Investment Group Co., Ltd. (天津廣成投資集團有限公司) ⁽⁴⁾	H Shares	Interest in controlled corporation	67,040,000	Long position	1.12	6.65

Chapter 6 Changes in Share Capital and Information on Shareholders

II. INFORMATION ON SHAREHOLDERS (CONT'D)

2.3 Interests and Short Positions in Hong Kong in Accordance with the SFO (Cont'd)

Name of Shareholders	Class of Shares	Nature of interest	Number of Shares directly or indirectly held (Shares)	Long position/ Short position	Approximate % of interest in the Bank (%)	Approximate % of the relevant class of Shares of the Bank (%)
Tianjin Jizhou Xincheng Agricultural Development Co. Ltd. (天津薊州新城農業發展有限公司) ⁽⁴⁾	H Shares	Beneficial owner	67,040,000	Long position	1.12	6.65
Tianjin Jizhou Xincheng Construction Investment Co., Ltd. (天津薊州新城建設投資有限公司) ⁽⁴⁾	H Shares	Interest in controlled corporation	67,040,000	Long position	1.12	6.65
Global Miles International Holdings Limited ⁽⁵⁾	H Shares	Beneficial owner	62,472,000	Long position	1.04	6.19
Liu Zhiming (劉志明) ⁽⁵⁾	H Shares	Interest in controlled corporation	62,472,000	Long position	1.04	6.19

Notes:

- (1) Shandong Hi-Speed Group Company is the controlling shareholder of our Bank and is directly held by Shandong SASAC, Shandong Guohui Investment Co., Ltd. (山東國惠投資有限公司), a wholly-owned subsidiary of Shandong SASAC, and Shandong Provincial Council for Social Security Fund (山東省社會保障基金理事會) as to 70%, 20% and 10%, respectively.

Shandong Hi-Speed is owned by Shandong Hi-Speed Group Company as to approximately 70.91%. Therefore, Shandong Hi-Speed Group Company is deemed to be interested in all the Shares held by Shandong Hi-Speed for the purpose of the SFO.

- (2) Xindu Group Co., Ltd. indirectly holds 71,003,000 H Shares through its subsidiary, Shandong Lulong Construction Co., Ltd.. Ms. Yang Shulan is interested in approximately 56% of the interests in Xindu Group Limited. Accordingly, Xindu Group Limited and Ms. Yang Shulan are deemed to be interested in 71,003,000 H Shares for the purpose of the SFO.
- (3) Mr. Liu Xuejing holds approximately 51% of the interests in GMK Holdings Group Co., Ltd.. Ms. Zhang Xiuying is the spouse of Mr. Liu Xuejing. Accordingly, Mr. Liu Xuejing and Ms. Zhang Xiuying were deemed to be interested in the 68,712,000 H Shares held by GMK Holdings Group Co., Ltd for the purpose of the SFO.
- (4) Tianjin Guangcheng Investment Group Co., Ltd. wholly owns Tianjin Jizhou Xincheng Agricultural Development Co., Ltd. through its wholly-owned subsidiary, Tianjin Jizhou Xincheng Construction Investment Co., Ltd.. Accordingly, Tianjin Guangcheng Investment Group Co., Ltd. and Tianjin Jizhou Xincheng Construction Investment Co., Ltd. are deemed to be interested in the 67,040,000 H Shares held by Tianjin Jizhou Xincheng Agricultural Development Co., Ltd. for the purpose of the SFO.
- (5) Mr. Liu Zhiming wholly owns Global Miles International Holdings Limited. Therefore, Mr. Liu Zhiming is deemed to be interested in the 62,472,000 H Shares held by Global Miles International Holdings Limited for the purpose of the SFO.

Saved as disclosed above, the Bank is not aware of any other parties (other than the Directors, Supervisors or chief executives of the Bank) who had any interests or short positions in the shares of the Bank which were recorded in the register required to be maintained by the Bank pursuant to section 336 of the SFO as at the end of the Reporting Period.

III. MAJOR SHAREHOLDERS OF DOMESTIC SHARES DURING THE REPORTING PERIOD

According to the Interim Measures for Management of Commercial Bank Equity (《商業銀行股權管理暫行辦法》) promulgated by the CBIRC, major shareholders of a commercial bank refer to shareholders who hold or control 5% or more of the shares or voting rights of the commercial bank, or who hold less than 5% of the total capital or total shares of the commercial bank but have a significant impact on the operation and management of the commercial bank. The above “significant influence” includes, but is not limited to, dispatching directors, supervisors or senior management to the commercial bank, affecting the financial and operational management decisions of the commercial bank through agreements or other means, and other circumstances identified by the CBRC or its local offices.

3.1 Shareholders Holding 5% or More of the Shares

For major shareholders holding 5% or more of the Shares of the Bank, please refer to “II. Information on Shareholders”.

Name of shareholders	Controlling shareholders	De facto controller	Persons acting in concert	Ultimate beneficiary
Shandong Hi-Speed Group Company	Shandong SASAC	Shandong SASAC	Shandong Hi-Speed	Shandong SASAC
Weihai Municipal Finance Bureau	N/A	N/A	Nil	Weihai Municipal Finance Bureau
Shandong Hi-Speed	Shandong Hi-Speed Group Company	Shandong SASAC	Shandong Hi-Speed Group Company	Shandong SASAC

3.2 Other Major Shareholders

Save for Shandong Hi-Speed Group Company, Shandong Hi-Speed and Weihai Municipal Finance Bureau as disclosed above, CNHTC, Weihai Tianan Real Estate Development Co., Ltd., Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd. and Shandong Homey Aquatic Development Co., Ltd. hold less than 5% of the Bank’s shares but have appointed directors or supervisors to the Bank.

Shandong Heavy Industry Group Co., Ltd., the controlling shareholder of CNHTC, Shandong SASAC as de facto controller, no persons acting in concert, CNHTC as ultimate beneficiary. (According to the announcement of CNHTC (SZ000951) published on the Shenzhen Stock Exchange, the controlling shareholder of CNHTC will be changed from SASAC of Jinan Municipal People’s Government to Shandong Heavy Industry Group Co., Ltd. after a series of equity transfers. As at the date of this annual report, the relevant parties are in the process of completing the relevant procedures including the change of business registration in accordance with the laws.)

Weihai Tianan Real Estate Development Co., Ltd. (威海天安房地產開發有限公司), Weihai Tianan Construction Group Co., Ltd. (威海天安建設集團有限公司) as controlling shareholder, Gai Bo (蓋波) as de facto controller, no persons acting in concert, Gai Bo as ultimate beneficiary.

Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd., Zhou Xinliang (周新良) as controlling shareholder and de facto controller, no persons acting in concert, Zhou Xinliang as ultimate beneficiary.

Shandong Homey Aquatic Development Co., Ltd., Homey Group Co., Ltd. (好當家集團有限公司) as controlling shareholder, Tang Chuanqin (唐傳勤) as de facto controller, no persons acting in concert, Tang Chuanqin as ultimate beneficiary.

IV. NOMINATION OF DIRECTORS AND SUPERVISORS BY SHAREHOLDERS

- (1) Shandong Hi-Speed Group Company nominated Mr. TAN Xianguo and Mr. LI Hang as Directors of the Bank;
- (2) Weihai Municipal Finance Bureau nominated Mr. WANG Song as a Director of the Bank;
- (3) Shandong Hi-Speed nominated Mr. YI Jijun as a Director of the Bank;
- (4) CNHTC nominated Mr. SUN Chenglong as a Director of the Bank;
- (5) The former Qilu Transportation (now incorporated into Shandong Hi-Speed Group Company) nominated Mr. WANG Qixiang as a Director of the Bank;
- (6) Weihai Tianan Real Estate Development Co., Ltd. nominated Ms. ZHAO Lijie as a Supervisor of the Bank;
- (7) Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd. nominated Mr. ZHOU Hao as a Supervisor of the Bank;
- (8) Shandong Homey Aquatic Development Co., Ltd. nominated Mr. FENG Yongdong as a Supervisor of the Bank.

V. PURCHASE, SALE AND REDEMPTION OF THE BANK'S LISTED SECURITIES

During the Reporting Period, the Bank was listed on the Main Board of the Hong Kong Stock Exchange on 12 October 2020, with a total of 1,008,861,000 H Shares issued. During the period from the Listing Date to the date of this annual report, neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of the Bank's listed securities.

CHAPTER 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1.1 Directors

The Board consists of 15 Directors, including 5 executive Directors, 5 non-executive Directors and 5 independent non-executive Directors. Our Directors are elected for a term of three years and are subject to renewable, provided that the cumulative term of an independent non-executive Director shall not exceed six years in accordance with PRC laws and regulations. The following table sets forth certain information regarding our Directors.

Name	Age	Position	Date of appointment ⁽¹⁾
Mr. TAN Xianguo	54	Executive Director and Chairman	September 2004
Mr. MENG Dongxiao	49	Executive Director and President	April 2016
Mr. ZHANG Renzhao	49	Executive Director and Vice President	April 2013
Mr. BI Qiubo	57	Executive Director and Secretary of the Board	July 2011
Ms. TAO Zunjian	51	Executive Director and Chief Accountant	January 2019
Mr. LI Hang	51	Non-executive Director	April 2008
Mr. WANG Song	58	Non-executive Director	June 2015
Mr. SUN Chenglong	50	Non-executive Director	July 2018
Mr. YI Jijun	56	Non-executive Director	June 2015
Mr. WANG Qixiang	58	Non-executive Director	June 2020
Mr. LIU Xue	58	Independent Non-executive Director	July 2016
Mr. LU Qing	54	Independent Non-executive Director	July 2016
Mr. SUN Guomao	60	Independent Non-executive Director	September 2017
Mr. ZHANG Guanghong	64	Independent Non-executive Director	January 2019
Mr. FAN Chi Chiu	35	Independent Non-executive Director	June 2020

Note: The date of appointment as a Director stated herein refers to the date on which the relevant Director obtained the qualification approval from the relevant and appropriate banking supervisory and regulatory bodies.

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONT'D)

1.2 Supervisors

The PRC Company Law requires a joint stock limited company to establish a board of supervisors that is responsible for supervising the performance of the board of directors and senior management, financial operation, internal control and risk management of the company. The board of Supervisors consists of nine Supervisors, including three employees' representative Supervisors, three Shareholders' representative Supervisors and three external Supervisors. Our Supervisors are elected for a term of three years and are subject to re-election, and the cumulative term of an external Supervisor shall not exceed six years. The following table sets forth certain information regarding our Supervisors.

Name	Age	Position	Date of appointment ⁽¹⁾
Mr. DENG Wei	56	Chairman of the Board of Supervisors and Employees' Representative Supervisor	April 2015
Ms. ZHAO Lijie	46	Shareholders' Representative Supervisor	May 2011
Mr. ZHOU Hao	41	Shareholders' Representative Supervisor	May 2011
Mr. FENG Yongdong	55	Shareholders' Representative Supervisor	April 2015
Mr. LIU Changjie	56	Employees' Representative Supervisor	May 2011
Ms. ZHANG Xuening	48	Employees' Representative Supervisor	April 2015
Mr. TAN Degui	56	External Supervisor	March 2016
Ms. TENG Bo	66	External Supervisor	July 2017
Ms. LI Yuanfen	56	External Supervisor	April 2015

Note: Term of office of Supervisors shall commence from the date of approval by the general meeting and the employees' representative meeting and term of office of re-elected Supervisors shall commence from the date of first election at the general meeting.

1.3 Senior Management

Name	Age	Position	Date of appointment
Mr. MENG Dongxiao	49	Executive Director and President	March 2016
Mr. ZHANG Renzhao	49	Executive Director and Vice President	July 2005
Mr. BI Qiubo	57	Executive Director and Secretary of the Board	January 2006
Ms. TAO Zunjian	51	Executive Director and Chief Accountant	November 2018
Mr. LIU He	58	Chief Audit Officer	December 2008
Mr. ZHANG Xiaodong	51	Vice President	November 2018

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

During the Reporting Period, the Directors, Supervisors and senior management of the Bank underwent the following changes.

2.1 Changes in Directors

On 5 June 2020, the directorship qualification of Mr. WANG Qixiang was approved by CBIRC Shandong Office.

On 5 June 2020, the independent directorship qualification of Mr. FAN Chi Chiu was approved by CBIRC Shandong Office.

On 29 February 2020, Mr. WANG Shouhua tendered his resignation as a non-executive Director, a member of the Related Party Transactions Control Committee, the Nomination and Remuneration Committee and the Consumer Rights Protection Committee of the Bank due to personal reasons.

On 29 February 2020, Ms. MA Ya tendered her resignation as an independent non-executive Director, a member of the Nomination and Remuneration Committee and the chairman of the Related Party Transactions Control Committee of the Bank due to personal reasons.

2.2 Changes in Supervisors

There was no change in Supervisors of the Bank during the Reporting Period.

2.3 Changes in Senior Management

Save as disclosed above, during the Reporting Period, there was no other relevant information of the Directors, Supervisors or senior management required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

2.4 Changes in Joint Company Secretaries

Mr. BI Qiubo and Ms. TAM Pak Yu, Vivien have been the joint company secretaries of the Bank since 10 April 2020.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD

3.1 Biographies of Directors

1. *TAN Xianguo (譚先國), Executive Director*

Mr. Tan Xianguo, aged 54, is an executive Director and the chairman of the Board and a senior accountant. Mr. Tan has been the chairman of the Bank since July 2011 and the secretary of the party committee of our Bank since May 2011. He served as the vice chairman and president of the Bank from September 2004 to July 2011, the deputy secretary of the party committee of our Bank from July 2001 to May 2011 and the chairman of the board of Supervisors of our Bank from July 2001 to August 2004. Prior to that, he served as a vice president and a member of the party committee of Weihai City Cooperative Bank (威海城市合作銀行) (the predecessor of our Bank) and our Bank from July 1997 to April 1998 and from April 1998 to July 2001, respectively. From July 1993 to July 1997, he successively served as an accountant, a section chief (科長), a deputy director (副主任) and a director (主任) of Weihai City Xinghai Urban Credit Cooperative (威海市興海城市信用合作社).

Mr. Tan obtained a master's degree in laws from Tsinghua University in 2006, majoring in Marxism theory and ideological and political education. He also obtained a master's degree from Peking University in 2010, majoring in senior management business administration.

2. *MENG Dongxiao (孟東曉), Executive Director*

Mr. Meng Dongxiao, aged 49, is an executive Director and the President. Mr. Meng has been the president of our Bank since February 2018. Mr. Meng joined our Bank in March 2016 as an executive Director, vice president and a member of the party committee of the Bank. He has been the deputy secretary of the party committee of the Bank since December 2017. Prior to joining our Bank, he worked at China Minsheng Bank (中國民生銀行) from October 2003 to February 2016, and successively served as the assistant to the president of the eastern sub-branch of the Shanghai branch, the general manager of the quality management center of the commercial enterprise finance division, the general manager of compliance and quality management center of the SME finance division and the general manager of the Shanghai branch of the health finance division. He studied a doctoral degree in finance at Fudan University from September 2000 to June 2003. Mr. Meng was a lecturer at Shanghai Customs College (上海海關專科學校) (currently known as Shanghai Customs College (上海海關學院)) from August 1996 to September 2003.

Mr. Meng obtained a doctoral degree in economics from Fudan University in 2003, majoring in finance.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.1 Biographies of Directors (cont'd)

3. ZHANG Renzhao (張仁釗), Executive Director

Mr. Zhang Renzhao, aged 49, is an executive Director and the vice president and an accountant. Mr. Zhang has served as a vice president and a member of the party committee of the Bank since July 2005. He has been the chairman of the board of directors of Tongda Financial Leasing Co., a non-wholly owned subsidiary of our Bank, since April 2018, its president (總裁) from February 2017 to June 2019 and the secretary to its Party Committee from June 2017 to July 2019. Mr. Zhang served as the financial controller (財務負責人) of our Bank from March 2003 to November 2018. He also served as the president of the Jinan branch of our Bank from October 2009 to February 2015 and as a director of the planning and finance department (計劃財務部主任) from March 2003 to May 2006. He served as the director of the financial accounting department (財務會計部主任) of our Bank from November 1998 to March 2003. Prior to that, he served as a deputy director of the accounting and cashier department (會計出納部副主任) of Weihai City Cooperative Bank (威海城市合作銀行) (the predecessor of our Bank) from August 1997 to November 1998, and a deputy chief (副科長) and then the chief of accounting (會計科長) of Weihai City Xinghai Urban Credit Cooperative (威海市興海城市信用合作社) from April 1994 to August 1997. Prior to joining our Bank, Mr. Zhang worked at the Luojiang office, Deyang branch of the Bank of China (中國銀行德陽分行羅江分理處).

Mr. Zhang graduated from Shandong University of Finance (山東財政學院) in January 2007, majoring in accounting.

4. BI Qiubo (畢秋波), Executive Director

Mr. Bi Qiubo, aged 57, is an executive Director and the secretary of the Board and a political officer. Mr. Bi joined our Bank in July 1997. He has been the secretary of the Board and a member of the party committee of the Bank since March 2014, and successively served as the director (主任) of the office of the Board and the secretary of the Board from January 2006 to March 2014. From December 1998 to January 2006, he successively served as an officer (幹事) and a deputy director (副主任) of the human relationship and labour department (人事勞資部) and a director (主任) of the general office of our Bank. From July 1996 to December 1998, he worked as a general secretary (綜合秘書) of Weihai City Xinghai Urban Credit Cooperative (威海市興海城市信用合作社) and then a general secretary (綜合秘書) of Weihai City Cooperative Bank (威海城市合作銀行) (the predecessor of our Bank) and our Bank. Prior to joining our Bank, Mr. Bi worked at Wendeng Textile Industry Company (文登市紡織工業公司) as a secretary, a deputy secretary (副書記) of the youth league committee (團委) and the secretary (書記) of the youth league committee (團委).

Mr. Bi graduated from the accounting programme jointly organized by the China Central Radio and TV University (中央廣播電視大學) (currently known as The Open University of China) and Beijing Technology and Business University (北京工商大學) in Beijing, the PRC in 2007.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.1 Biographies of Directors (cont'd)

5. TAO Zunjian (陶遵建), Executive Director

Ms. Tao Zunjian, aged 51, is an executive Director, the chief accountant and a senior accountant. Ms. Tao joined Weihai Xinwei City Credit Cooperatives (威海市新威城市信用社) in July 1990. She has been a member of the party committee of our Bank and the chief accountant (總會計師) of the Bank since October and November 2018, respectively and served as the chief financial officer (首席財務官) and the general manager of the planning and finance department of the Bank from October 2014 to October 2018. Ms. Tao successively served as the deputy manager and the deputy manager (in-charge) of the planning and finance department (計劃財務部) of the Bank from September 2008 to June 2010, and the general manager of the planning and finance department of the Bank from June 2010 to October 2018. She worked as a deputy director (副主任) of the customer business department (客戶業務部) from November 2006 to September 2008, and a staff at the technology department of Weihai Xinwei City Credit Cooperatives (威海市新威城市信用社) and a staff at the credit management department of Weihai City Cooperative Bank (威海城市合作銀行) (the predecessor of our Bank) and our Bank from July 1990 to November 2006.

Ms. Tao graduated from the Correspondence Institute of the Central Party School of C.P.C. (中共中央黨校函授學院) in the PRC in 1997, majoring in economic management.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.1 Biographies of Directors (cont'd)

6. *Li Hang (李航), Non-executive Director*

Mr. Li Hang, aged 51, is a non-executive Director, a professorate senior accountant and an international accountant. He has been the deputy general manager of Shandong Hi-Speed Group Company since July 2020, a director of Shandong Hi-Speed Group Company from May 2017 to July 2020 and a director of Shandong Hi-Speed from March 2006 to March 2020. He worked at Shandong Hi-Speed Group Company for more than 14 years. He served as the chairman of Shandong Hi-Speed Everbright Industrial Investment Fund Management Co., Ltd. from April 2013 to April 2020. He was the chief accountant (總會計師) of Shandong Hi-Speed Group Company from February 2012 to August 2017. From November 2007 to February 2012, he has consecutively served as a deputy director (in charge) (副部長(主持工作)) and the director (部長) of the finance department, and the director (部長) of the planning and finance department of Shandong Hi-Speed Group Company. He was a director of Shandong Hi-Speed from March 2006 to March 2020. He was a deputy middle-level management of Shandong Hi-Speed Group Company from June 2005 to November 2007, a director of Pakistan Siegel-Qingqi Motorcycle Co., Ltd. (巴基斯坦賽格爾-輕騎摩托車有限公司) from September 2002 to June 2005. Mr. Li successively served as a director and a supervisor of Jinan Qingqi Motorcycle Co., Ltd. (濟南輕騎摩托車股份有限公司) from April 2001 to June 2005, and a deputy director (副部長) of the finance department of China Qingqi Group Co., Ltd. (中國輕騎集團有限公司) from January 2000 to June 2005. He was the deputy director (副部長) of the finance department of China Qingqi Group Jinan Foreign Trade Co., Ltd. (中國輕騎集團濟南對外貿易有限公司) from May 1998 to January 2000. Mr. Li served as the financial manager (財務經理) and financial director (財務總監) of Pakistan Siegel-Qingqi Motorcycle Co., Ltd. (巴基斯坦賽格爾-輕騎摩托車有限公司) from April 1996 to May 1998. He consecutively served as a financial manager (財務經理) of Sri Lankan Oriental Qingqi Lanka Company (斯里蘭卡東方輕騎蘭卡公司), Pakistan New-oriental International Trading Company (巴基斯坦新東方國際貿易公司), and Qingqi Uganda-Kenya Trading Company (輕騎烏干達-肯尼亞貿易公司) from July 1995 to April 1996. Mr. Li served as the secretary of the office and a staff member of financial department (財務部) of China Qingqi Motorcycle Group Corporation (中國輕騎摩托車集團總公司) from July 1994 to July 1995.

Mr. Li graduated from Shandong University of Finance (山東財政學院) in 1994, majoring in finance, and graduated from Nankai University in 1998, majoring in accounting. He graduated from Tongji University in 2003 and then obtained a master's degree in Management Science and Engineering. He obtained a doctoral degree in business management from Tongji University in 2008. From 2014 to 2017, he worked as a post-doctoral researcher in the applied economics discipline of Baoshang Bank.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.1 Biographies of Directors (cont'd)

7. WANG Song (王松), Non-executive Director

Mr. Wang Song, aged 58, is a non-executive Director and a senior accountant. Mr Wang has been serving as external directors of municipal state-owned enterprises as accredited by Weihai State-Owned Enterprise External Directors Talent Management Center(威海市國有企業外部董事人才管理中心) since August 2019. He served as chairman of the supervisory boards of the municipal state-owned enterprises as accredited by Weihai State-owned Enterprise Directors and Supervisors Work Management Center (威海市國有企業董事監事工作管理中心) from July 2014 to August 2019. He served as the vice principal and a party committee member of Shandong Provincial Accounting Cadre Secondary Professional School Weihai Branch (山東省會計幹部中等專業學校威海分校, currently known as Weihai City Vocational Secondary Professional School (威海市職業中等專業學校) from December 2009 to July 2014. From January 1997 to December 2009, he consecutively served as the head (科長) of the social security section (社會保障科) and the head (科長) of the liberal arts (教科文科) section of the Weihai City Finance Bureau (威海市財政局). From January 1989 to January 1997, Mr. Wang consecutively served as a staff member (科員), a deputy director (副主任) and the director (主任) of the office of Leading Group for Controlling Purchasing Power of Social Groups of Weihai City Finance Bureau (威海市財政局控制社會集團購買力領導小組辦公室).

As at the end of the Reporting Period, Mr. Wang was a full-time external director of various companies including Weihai City Investment Group Co., Ltd. (威海城市投資集團有限公司), Weihai Urban Construction Group Co., Ltd. (威海城建集團有限公司), Weihai Cultural Tourism Development Group Co., Ltd. (威海文旅發展集團有限公司), Weihai Traffic Station Management Co., Ltd. (威海交通場站管理有限公司), Weihai Dongshan Hotel Co., Ltd. (威海市東山賓館有限公司).

Mr. Wang graduated from the Correspondence College of the Party School of the Central Committee of the Communist Party of China in Shandong, the PRC in 1995, majoring in economic management. He obtained a master's degree from China Communist Party Shandong Provincial Committee Party School (中共山東省委黨校) in Shandong, the PRC in 2011, majoring in economic management.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.1 Biographies of Directors (cont'd)

8. SUN Chenglong (孫成龍), Non-executive Director

Mr. Sun Chenglong, aged 50, is a non-executive Director and a senior accountant. He has been working for CNHTC (中國重汽) (together with its subsidiaries, the "CNHTC Group (中國重型汽車集團)"), as a deputy general manager (副總經理) since January 2020, a financial deputy chief officer (財務副總監) and the chief officer of financial risk control (金融風控總監) since December 2018 and the general manager of the finance department (財務部總經理) from June 2017 to December 2018. Mr. Sun has taken various finance-related and managerial positions within the CNHTC Group. He was the deputy general manager (副總經理) and the chief accountant (總會計師) of Sinotruk Ji'nan Commercial Truck Co., Ltd. (中國重汽集團濟南商用車有限公司) from April 2015 to June 2017. He was the financial controller (chief accountant) (財務總監(總會計師)) of Sinotruk Jinan Special Vehicle Co., Ltd. (中國重汽集團濟南特種車有限公司) from June 2013 to April 2015. He was the director, the chief accountant (總會計師), the chief accountant (總會計師) of the youth department (青專事業部) and the chief accountant of the Haidou business department (海門事業部總會計師) of China National Heavy Duty Truck Group Qingdao Heavy Industry Co., Ltd. (中國重汽集團青島重工有限公司) from July 2011 to June 2013. He was the financial controller (chief accountant) (財務總監(總會計師)) of Sinotruk Special Purpose Vehicle Company (重汽集團專用汽車公司) from January 2009 to July 2011. He was a managing director (專務) of the financial department of Sinotruk (Hong Kong) Limited (中國重汽(香港)有限公司) from April 2007 to January 2009. He worked for Sinotruk Sales Company (中國重汽銷售公司) from July 1994 to April 2007, consecutively as an accountant, a deputy manager and a manager of the finance department.

As at the end of the Reporting Period, Mr. Sun was an executive director, the legal representative and the general manager of CNHTC Ji'nan Investment Co., Ltd. (中國重汽集團濟南投資有限公司), a director, the chairman of the board and the legal representative of Shandong HOWO Auto Finance Co., Ltd. (山東豪沃汽車金融有限公司), a director and the general manager of Sinotruk Global Village Investment Limited (中國重汽地球村投資有限公司), an executive director and the financial controller of Sinotruk (Hong Kong) Limited (中國重汽(香港)有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 3808), and a director of Sinotruk Jinan Power Co., Ltd. (中國重汽集團濟南動力有限公司), Sinotruk Group Insurance Broker Co., Ltd. (重汽集團保險經紀有限公司) and Sinotruk (Hong Kong) International Investment Limited (中國重汽(香港)國際資本有限公司).

Mr. Sun graduated from the Shandong University of Finance (山東財政學院) in 1997, majoring in accountancy.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.1 Biographies of Directors (cont'd)

9. Yi Jijun (伊繼軍), Non-executive Director

Mr. Yi Jijun, aged 56, is a non-executive Director and a professorate senior accountant. He has been a director and a deputy secretary (副書記) of the party committee of Shandong Hi-Speed (a company listed on the Shanghai Stock Exchange, stock code: 600350) since April 2013 and November 2018, respectively. From April 2013 to November 2018, he was a deputy general manager (副總經理) and the chief accountant (總會計師) of Shandong Hi-Speed. From July 2001 to March 2013, he consecutively served as deputy director (副處長) and director (處長) of the finance department of the Highway Bureau of Shandong Provincial Communications Department (山東省交通廳公路局). Prior to that, he served in the finance department of the Shandong Provincial Communications Department (山東省交通廳) from September 1994 to July 2001. From July 1987 to September 1994, Mr. Yi worked as a teacher at the economics teaching and research office of Shandong Provincial Communications Cadre School (山東省交通幹部學校經濟教研室).

Mr. Yi obtained a bachelor's degree from Xi'an Highway College (西安公路學院) in 1987, majoring in financial accounting (財務會計).

10. WANG Qixiang (王啟祥), Non-executive Director

Mr. Wang Qixiang, aged 58, is a non-executive Director and a professorate senior accountant. He has been an executive officer of Shandong Hi-Speed Group Company since July 2020, a chief financial officer (財務首席官) and a member of the party committee of Qilu Transportation since February 2016 and January 2018, respectively. He was the general counsel (總法律顧問) of Qilu Transportation from June 2016 to January 2018. He was also an executive director and the general manager of Qilu Transportation Investment Co., Ltd. (齊魯交通投資有限公司) from February 2016 to May 2018. He also served as an executive director of Qilu Transportation Investment Co., Ltd. from June 2018 to September 2019. From March 2011 to February 2016, he served as a director, deputy general manager (副總經理) and member of the party committee of Taishan Property Insurance Co., Ltd. (泰山財產保險有限公司). Mr. Wang served as the chief financial officer of Shandong Luxin Investment Holding Group Co., Ltd. (山東省魯信投資控股集團有限公司) and Shandong Hi-Speed Group Company from August 2009 to November 2011 and from June 2006 to July 2009, respectively. Prior to that, Mr. Wang worked at Yankuang Group Co., Ltd. (兗礦集團有限公司), a company mainly engaged in exploration and development of mineral resources, from August 1986 to November 2005, serving as a deputy chief accountant (副總會計師) from November 2005 to May 2006, the director (部長) of the finance department (財務處) from June 2002 to May 2006, and a deputy chief (副處長) of the finance department from December 1996 to June 2002. From August 1986 to December 1996, he consecutively worked as an accountant (會計), deputy section chief (副科長), section chief (科長), chief accountant (deputy level) (主任會計師(副處級)) of the Financial Settlement Center of the Finance Division (財務處財務結算中心會計) of Yankuang Group Co., Ltd.

Mr. Wang has been a director of Lai Shang Bank Co., Ltd. (萊商銀行股份有限公司) since November 2017.

Mr. Wang graduated from Correspondence Institute of the Central Party School of C.P.C (中共中央黨校函授學院) in 1997, majoring in economic management (經濟管理), and from Shandong Normal University (山東師範大學) in 2002, majoring in jurisprudence (法學), and obtained a master's degree from Shandong Provincial Party School of C.P.C (中共山東省委黨校) in 2007, majoring in economic management (經濟管理).

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.1 Biographies of Directors (cont'd)

11. *LIU Xue (劉學), Independent Non-executive Director*

Mr. Liu Xue, aged 58, is an independent non-executive Director. He has been working at Peking University since March 2001, has been professor of Guanghua School of Management of Peking University since August 2004. Mr. Liu was the chairman (理事長) of the Institute of Strategy (戰略研究所) of Peking University from December 2014 to July 2017, and was the deputy dean (副院長) of Guanghua School of Management (光華管理學院) and director (主任) of Senior Management Education Center (高層管理教育中心) of Peking University from December 2010 to July 2015. He served as the director (所長) of the Institute of Strategy (戰略研究所) of Peking University from July 2009 to December 2014, and was a professor and a deputy department head (系副主任) of Guanghua School of Management (光華管理學院) from August (as a professor) and September 2004 (as a deputy department head) to December 2010 and an associate professor of Guanghua School of Management (光華管理學院) of Peking University from March 2001 to July 2004. He engaged in postdoctoral research in Guanghua School of Management of Peking University from July 1999 to March 2001. Prior to joining Peking University, Mr. Liu has served consecutively as a lecturer, an associate professor (副教授) and a professor (教授) of School of Management, Shenyang Pharmaceutical University (瀋陽藥科大學管理學院) from August 1988 to August 1996, mainly responsible for teaching and research.

As at the end of the Reporting Period, Mr. Liu served as an independent director of three companies, namely China Etek Service & Technology Co., Ltd., Chutian Dragon Co., Ltd. and SMO Clinplus Co., Ltd.

Mr. Liu obtained a bachelor's degree from Shenyang Pharmaceutical University (瀋陽藥科大學) in 1985, majoring in chemical and pharmaceutical (化學製藥). He graduated from Peking University in Beijing and obtained a master's degree in economics in 1988. He obtained a doctoral degree in economics from Guanghua School of Management of Peking University in 1999. From 1999 to 2001, Mr. Liu was engaged in postdoctoral research in Guanghua School of Management of Peking University.

12. *LU Qing (路清), Independent Non-executive Director*

Mr. Lu Qing, aged 54, is an independent non-executive Director and a senior accountant. He has been a partner of ShineWing CPA (信永中和會計師事務所) (consolidated with Zhonghe Zhengxin Certified Public Accountants (中和正信會計師事務所)) since October 2009. Prior to that, he was a partner of Zhonghe Zhengxin Certified Public Accountants (中和正信會計師事務所) from September 2003 to October 2009 and Tianyi Certified Public Accountants (天一會計師事務所) from July 2001 to September 2003, respectively. Mr. Lu served as an independent non-executive director of Hisense Kelon Electrical Holdings Company Limited (currently known as Hisense Home Appliances Group Co., Ltd.), the shares of which are listed on the Hong Kong Stock Exchange (stock code: 921) from June 2006 to July 2010.

As at the end of the Reporting Period, Mr. Lu served as an independent director of two companies including Shandong Dong-e E-jiao Co., Ltd. (山東東阿阿膠股份有限公司) and Qingdao Weiao Rail Co., Ltd. (青島威奧軌道股份有限公司).

Mr. Lu graduated from Shandong University of Economics (山東經濟學院) (currently known as Shandong University of Finance and Economics (山東財經大學)) in 1989, majoring in accounting. He obtained a master's degree from Capital University of Economics and Business (首都經濟貿易大學) in 2003, majoring in finance.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.1 Biographies of Directors (cont'd)

13. SUN Guomao (孫國茂), Independent Non-executive Director

Mr. Sun Guomao, aged 60, is an independent non-executive Director. He has been a professor and PhD tutor (博士生導師) of School of Economics, Qingdao University (青島大學經濟學院) since September 2016. Mr. Sun was the chief expert (首席專家) of Collaborative Innovation Centre for Innovation and Development of Capital Market of Shandong Province (山東省資本市場創新發展協同創新中心) and Institute of Finance, Jinan University (濟南大學金融研究院), respectively, from April 2016 to January 2018. Mr. Sun has been working for Jinan University (濟南大學) consecutively as a director (主任) and a professor of the Corporate Finance Research Centre (公司金融研究中心) from October 2011 to January 2018, and as a professor of business school (商學院) from December 2015 to January 2018. Prior to that, Mr. Sun was the chairman of the board of Wanjia Fund Management Co., Ltd. (萬家基金管理有限公司) from December 2009 to May 2011 and was registered as a securities practitioner in Qilu Securities Co., Ltd. (齊魯證券有限公司, currently known as Zhongtai Securities Co., Ltd. 中泰證券有限公司) from July 2004 to December 2008. Mr. Sun was awarded the titles as a “Top-tier Financial Talent of Shandong Province” (山東省金融高端人才) by Shandong Provincial Financial Office (山東省金融工作辦公室) and a “Taishan Industry Leader” (泰山產業領軍人才) by People’s Government of Shandong Province in May 2018 and December 2017, respectively.

As at the end of the Reporting Period, Mr. Sun was a director of Shandong Luxin Investment Holdings Group Co., Ltd. (山東省魯信投資控股集團有限公司) and an independent director of two companies, namely Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司) and Qingdao Rural Commercial Bank Co., Ltd. (青島農村商業銀行股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002958).

Mr. Sun obtained a bachelor’s degree of light chemical (輕化工) from Northwest Institute of Light Industry (西北輕工業學院) in 1982, majoring in ceramic specialty (陶瓷專業). Mr. Sun obtained a doctoral degree from Central University of Finance and Economics (中央財經大學) in 2002, majoring in national economics (國民經濟學). He was certified as a professor of Jinan University (濟南大學) by the Senior Evaluation Committee of Teachers in Shandong Province (山東省高等學校教師職務高級評審委員會) in 2014.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.1 Biographies of Directors (cont'd)

14. ZHANG Guanghong (張廣鴻), Independent Non-executive Director

Mr. Zhang Guanghong, aged 64, is an independent non-executive Director and a senior economist. He was an executive vice president (常務副總裁) of Beijing Financial Assets Exchange (北京金融資產交易所) from July 2012, and a deputy director (director level) (副主任(正主任級)) of Qingdao State-owned Assets Management Committee (青島市國有資產管理委員會) from November 2009 to April 2012. Mr. Zhang was the chairman of the board and the secretary of the party committee of Bank of Qingdao (青島銀行) from July 2006 to November 2009. He was the president of Qingdao City Commercial Bank (青島市商業銀行) from March 1999 to July 2006. Prior to abovementioned, Mr. Zhang had hold positions in various government departments, including the deputy director (副局長) of Qingdao Municipal Bureau of Domestic Trade (青島市國內貿易局) and a deputy director (副主任) of Qingdao Finance and Trade Commission (青島市財貿委員會).

As at the end of the Reporting Period, Mr. Zhang was an independent director of Lujiazui International Trust Co., Ltd. (陸家嘴國際信託公司) and an external supervisor of Bank of Suzhou Co., Ltd. (蘇州銀行有限公司).

Mr. Zhang obtained a bachelor's degree in electronic engineering (電子工程) from Chongqing Institute of Architectural and Engineering (now known as Chongqing University) in 1982. He obtained a master's degree in economics from Southwestern University of Finance and Economics (西南財經大學) in 1987.

15. FAN Chi Chiu (范智超), Independent Non-executive Director

Mr. Fan Chi Chiu, aged 35, is an independent non-executive Director and a certified public accountant of Hong Kong. He has been an executive director of Grace Wine Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 8146), since July 2017. Mr. Fan joined ELL Environmental Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1395), in April 2015 as the chief financial controller and is currently the chief financial officer since June 2015. Mr. Fan worked as an analyst in Barclays Investment Bank from July 2011 to February 2014 and a senior associate at PricewaterhouseCoopers from October 2007 to June 2011.

As at the end of the Reporting Period, Mr. Fan was an independent non-executive director of each of Hevol Services Group Co. Limited, the shares of which are listed on the Stock Exchange (stock code: 6093) and Shinelong Automotive Lightweight Application Limited, the shares of which are listed on the Stock Exchange (stock code: 1930).

Mr. Fan obtained a bachelor's degree in professional accountancy from the Chinese University of Hong Kong in 2007.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.2 Biographies of Supervisors

1. *DENG Wei (鄧衛), Employee's Representative Supervisor*

Mr. Deng Wei, aged 56, is an employees' representative Supervisor and the chairman of the Board of Supervisors. He joined our Bank as chief to the planning department in July 1997 and has been the chairman of the Board of Supervisors since April 2015 and a member of the party committee of our Bank since August 2001. Prior to joining the Bank, Mr. Deng was with Industrial and Commercial Bank of China Limited from May 1985 to July 1997, during which he successively served as a staff member (科員) of credit and loan department, the deputy section chief (副科長) and the section chief (科長) of the planning department of Weihai Branch, and the vice president of Weihai High-tech Development Zone Sub-Branch. From November 1980 to May 1985, he was with PBOC Weihai Branch as an accountant.

Mr. Deng obtained a diploma in economic management from China Communist Party Shandong Provincial Committee Party School (中共山東省委黨校) in 2001. He graduated from China Communist Party Shandong Provincial Committee Party School (中共山東省委黨校) in 2004, majoring in economic management.

2. *LIU Changjie (劉昌傑), Employees' Representative Supervisor*

Mr. Liu Changjie, aged 56, is an employees' representative Supervisor and an economist. He joined our Bank as chief (主任) of Xinghai Credit Cooperative of Weihai City Cooperative Bank (威海市城市合作銀行興海信用社) in July 1997 and has been the president of employees' union and a member of the party committee of our Bank since January 2006, and he is primarily responsible for the overall management of the employees' union of our Bank. Prior to joining our Bank, from August 1995 to July 1997, Mr. Liu was a deputy director (副主任) at Shandong Fund Financing Center Weihai Office (山東資金融通中心威海辦事處). He was with PBOC Weihai Branch as a staff member of planning department from July 1988 to August 1995.

Mr. Liu obtained a bachelor's degree in economics from Jilin Finance and Trade College (吉林財貿學院) (currently known as Jilin University of Finance and Economics) in 1988.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.2 Biographies of Supervisors (cont'd)

3. *ZHANG Xuening (張雪凝), Employees' Representative Supervisor*

Ms. Zhang Xuening, aged 48, is an employees' representative Supervisor and an economist. She joined our Bank in July 1997 and has been the chief of the disciplinary office since November 2018. Prior to joining our Bank, Ms. Zhang was with Weihai Xinwei City Credit Cooperatives (威海市新威城市信用合作社) from August 1996 to July 1997.

Ms. Zhang obtained a bachelor's degree in economic management from Inner Mongolia Agriculture and Animal Husbandry College (內蒙古農牧學院) (currently known as Inner Mongolia Agricultural University) in 1996.

4. *ZHAO Lijie (趙麗傑), Shareholders' Representative Supervisor*

Ms. Zhao Lijie, aged 46, is a Shareholders' representative Supervisor and a senior accountant. She joined Weihai Tianan Real Estate Development Co., Ltd. (威海天安房地產開發有限公司) in September 2001 and has been the manager of finance department and deputy general manager since May 2004.

Ms. Zhao graduated from Shandong Economic University (山東經濟學院) (currently known as Shandong University of Finance and Economics) in 2010, majoring in accounting.

5. *ZHOU Hao (周浩), Shareholders' Representative Supervisor*

Mr. Zhou Hao, aged 41, is a Shareholders' representative Supervisor and a senior economist. He joined Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd. (山東環球漁具股份有限公司) in September 2002 and has been the general manager since August 2018.

As at the end of the Reporting Period, Mr. Zhou was an executive director of two companies, namely Weihai Ailan Fishing Gear Technology Development Co., Ltd. (威海愛藍漁具科技發展有限公司) and Weihai Global Property Co., Ltd. (威海環球置業有限公司).

Mr. Zhou obtained a bachelor's degree in corporate management from Chongqing Business College (重慶商學院) (currently known as Chongqing Technology And Business University) in 2001. He obtained a master's degree in business administration from Ecole des Dirigeants et Createurs d'entreprise in Paris, France in 2002. He also obtained a master's degree in law and a doctor's degree in western economics from Shandong University in 2008 and 2018, respectively. He also obtained the PRC legal professional qualification granted by the Ministry of Justice of the PRC in 2008. He was awarded as the Weihai Labor Model by China Communist Party Committee of Weihai and People's Government of Weihai in 2019.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.2 Biographies of Supervisors (cont'd)

6. *FENG Yongdong (馮永東), Shareholders' Representative Supervisor*

Mr. Feng Yongdong, aged 55, is a Shareholders' representative Supervisor and an intermediate accountant. He joined Homey Group Co., Ltd. (好當家集團有限公司) as a chief accountant in finance department in January 1983 and has been a director of the company since April 2016. From January 2001 to present, Mr. Feng successively served as a financial controller and a deputy general manager in Shandong Homey Aquatic Development Co., Ltd. (山東好當家海洋發展股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600467).

As at the end of the Reporting Period, Mr. Feng was a director of Homey Group Co., Ltd.

Mr. Feng obtained a bachelor's degree in corporate management from Renmin University of China in July 1996.

7. *TAN Degui (譚德貴), External Supervisor*

Mr. Tan Degui, aged 56, is an external Supervisor. He has been a researcher of the world religion research institute of Chinese Academy of Social Sciences since September 2009 and currently worked as a researcher in Taoism and folklore religion research office. Mr. Tan has been a doctoral supervisor of the Graduate School of Chinese Academy of Social Sciences since October 2018. From September 1989 to August 2009, Mr. Tan was with the Institute of Philosophy of Shandong Academy of Social Sciences (山東社會科學院).

Mr. Tan obtained a bachelor's degree in philosophy and a master's degree in philosophy from Shandong University in 1986 and 1989, respectively. He also obtained a doctor's degree in Chinese philosophy from Beijing Normal University in 2009.

8. *TENG Bo (滕波), External Supervisor*

Ms. Teng Bo, aged 66, is an external Supervisor. She has been the chairwoman of board of supervisors of Zhejiang Wencheng BOB Rural Bank Co., Ltd. (浙江文成北銀村鎮銀行股份有限公司) since July 2017. From 1996 to 2014, Ms. Teng was with Bank of Beijing Co., Ltd., the shares of which are listed on the Shanghai Stock Exchange (stock code: 601169), during which she successively served as deputy general manager of human resources department, general manager of the institute management department and chief representative of Hong Kong representative office.

Ms. Teng obtained a diploma in medical science from Beijing Medical College (北京醫學高等專科學校) in 1996. She obtained an executive master's degree of business administration from Xiamen University in 2010. Ms. Teng was accredited as a chief nurse by General Political Department of Chinese People's Liberation Army (中國人民解放軍總政治部) in June 1990. Ms. Teng was appointed as a member of the eleventh session of council of China International Economic Relations Association in November 2016.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.2 Biographies of Supervisors (cont'd)

9. *Li Yuanfen (李元芬), External Supervisor*

Ms. Li Yuanfen, aged 56, is an external Supervisor and a senior accountant. She was the chairwoman of board of supervisors assigned to municipal state-owned enterprises by Weihai State-owned Assets Supervision and Administration Commission (威海市國有資產監督管理委員會) from July 2014 to May 2019. From December 2012 to August 2014, Ms. Li was a vice president of Shandong Accounting Cadre Secondary Vocational School Weihai Branch (山東省會計幹部中等專業學校威海分校) (currently known as Weihai Secondary Vocational School (威海市職業中等專業學校)). Ms. Li was with Weihai Municipal Finance Bureau from July 1993 to December 2012, during which she successively served as a staff member (科員), a deputy chief member (副主任科員) of general office, the section chief (科長) of accounting department, the section chief (科長) of liability finance department, the section chief (科長) of grassroots finance management department and the section chief (科長) of administration and law department.

Ms. Li obtained a bachelor's degree in economics from Shanghai University of Finance and Economics in 1989. She obtained a master's degree in accounting from the Chinese University of Hong Kong in 2008.

3.3 Biographies of Senior Management

For biographical details of Mr. Meng Dongxiao (孟東曉), Mr. Zhang Renzhao (張仁釗), Mr. Bi Qiubo (畢秋波) and Ms. Tao Zunjian (陶遵建), please see "Biographies of Directors" in this section.

1. **Mr. Liu He (劉河)**, aged 58, is a chief audit officer and an economist. He joined our Bank as chief of audit department in October 1997 and has been the chief audit officer and a member of the party committee of our Bank since December 2008. Prior to joining our Bank, Mr. Liu was with PBOC Weihai Branch from November 1979 to August 1983 and from December 1986 to May 1996, during which he successively served as a staff member and deputy chief of audit department.

Mr. Liu completed the undergraduate programme in finance and graduated from Jingan College Continuing Education School (京安學院繼續教育學院) in 2006.

2. **Mr. Zhang Xiaodong (張曉東)**, aged 51, is a vice president and an economist. He joined our Bank as a staff of development and renovation department in September 2005 and has been a vice president and a member of the party committee since November 2018. Prior to joining our Bank, Mr. Zhang was with the business development department of Huaxia Bank Co., Ltd. Jinan Branch from December 2003 to September 2005. From October 2002 to October 2003, he served as an assistant to the general manager at Weigao Group Co., Ltd. (威高集團有限公司). From July 1993 to May 2001, Mr. Zhang was the leader of import team of settlement business department at Bank of China Weihai Branch.

Mr. Zhang obtained a master's degree in finance from Royal Melbourne Institute of Technology in Australia in 2002.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.4 Joint Company Secretaries

Mr. Bi Qiubo (畢秋波), was appointed as one of the joint company secretaries of our Bank on April 10, 2020. For biographical details of Mr. Bi Qiubo, please see “Biographies of Directors” in this section.

Ms. Tam Pak Yu, Vivien (譚栢如), was appointed as one of the joint company secretaries of the Bank on April 10, 2020, which will become effective from listing of the H Shares of our Bank. Ms. Tam serves as an assistant manager of SWCS Corporate Services Group (Hong Kong) Limited (方圓企業服務集團(香港)有限公司), a professional services provider specializing in corporate services, and has over five years of experience in corporate secretarial field. Ms. Tam has been admitted as an associated member of both The Hong Kong Institute of Chartered Secretaries and Chartered Governance Institute in 2018.

Ms. Tam obtained a bachelor’s degree in China Studies from Hong Kong Baptist University in 2014 and a master’s degree in Professional Accounting and Corporate Governance from City University of Hong Kong in 2017.

3.5 Confirmation of Independence of Independent Non-executive Directors

The Bank has received the annual confirmation of independence from each of its independent non-executive Directors and considered that all the independent non-executive Directors are independent in accordance with the relevant guidelines set out in Rule 3.13 of the Listing Rules.

3.6 Information on Remuneration Paid to Directors, Supervisors and Senior Management

Please refer to note 9 to the financial statements of this annual report for the total remuneration of the Directors and Supervisors during the Reporting Period. As at the end of the Reporting Period, no remuneration was paid by the Bank to any of the Directors, Supervisors or the five highest paid individuals (including Directors, Supervisors and employees) as inducement to join or upon joining the Bank or as a compensation for loss of office.

3.7 Number of Employees, Remuneration Policy, Equity Incentive Plans and Training Scheme

1. Number of employees

As at the end of the Reporting Period, the total number of our regular employees reached 2,981, of which 30.1% were employees aged 30 or below, and 93.1% were employees with bachelor’s degree or above. An excellent team of professionals helps to cultivate a corporate culture of active innovation and strengthen the ability to respond to market changes and seize market opportunities.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND EMPLOYEES DURING THE REPORTING PERIOD (CONT'D)

3.7 Number of Employees, Remuneration Policy, Equity Incentive Plans and Training Scheme (cont'd)

2. *Remuneration policy*

In accordance with the PRC laws and regulations, we contribute to our employees' social insurance and other benefits program including pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing provident fund and corporate annuity. We have a labor union established in accordance with PRC laws and regulations, which represents the interests of our employees and works closely with our management on labor-related issues.

In order to give full play to the initiative, enthusiasm and creativity of all employees, the Bank has established a remuneration system of "determining one's income based on his/her position, ability and performance and referring to the market" in accordance with regulatory requirements, laws and regulations and the governance requirements of the Bank. The Bank's remuneration mainly includes basic salary, performance-based salary and medium and long-term incentives. Among them, performance-based remuneration and medium and long-term incentives are variable remuneration, which are distributed based on factors such as current and long-term performance contribution and risk condition, and different lock-up periods are set for medium and long-term incentives based on the length of service of employees in the Bank. In accordance with the requirements under the Guidelines for the Supervision of Stable Remuneration of Commercial Banks (《商業銀行穩健薪酬監管指引》), the Bank delayed the payment of performance-based remuneration for personnel with significant risk impact.

The Bank has 657 senior management and employees in total whose positions have significant impact on risks. During the Reporting Period, the fixed remuneration of senior management and employees whose positions have significant impact on risks of the Bank was RMB81.88 million, the variable remuneration before the appraisal was RMB168.61 million, and the actual variable remuneration after the appraisal was RMB147.51 million, of which the deferred remuneration was RMB62.23 million.

3. *Training scheme*

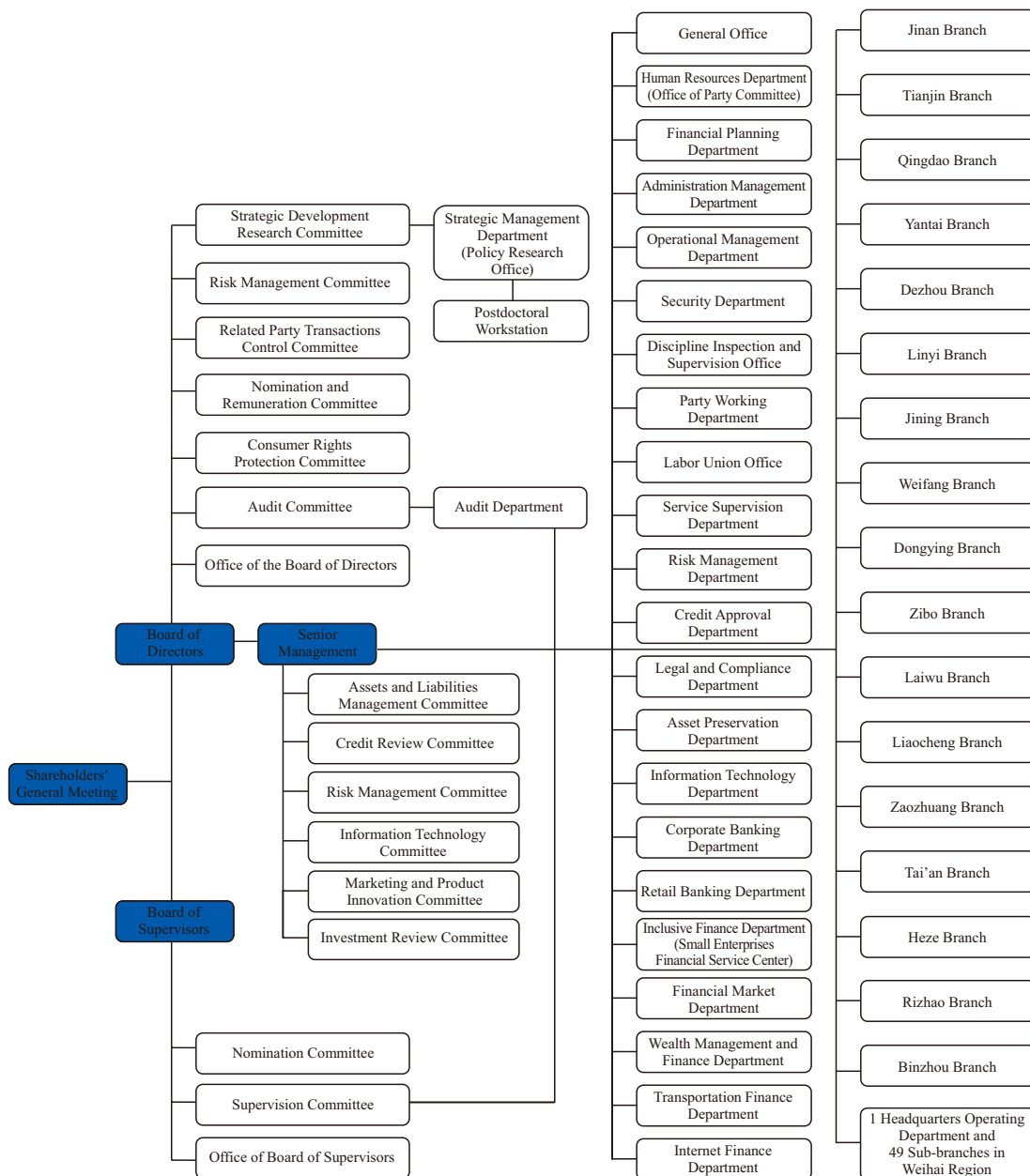
The Bank's management attaches great importance to talent cultivation, and takes talent selection and employment as the foundation of the Bank's development, and has established a professional team with good execution ability. In 2020, following the Bank's development strategies of "Bi-Focus Retail Banking" ("兩端型零售銀行") and combining with the development ideas of the Bank's training institute, the annual training is guided by the principle of "from theory to practice, from quality to ability, from professionalism to performance", focusing on the three tasks of "strengthening foundation, improving capability and emphasizing on practical work". During the Reporting Period, the Bank successively organized trainings for newly established branches, new college students, internal trainers, Huawei leadership training, and job qualification examinations, etc., to improve the overall competitiveness of the team and provide talent guarantee for the rapid development of the Bank through trainings of different professions, categories and levels.

4. *Share incentive plans*

During the Reporting Period, the Bank did not implement any share incentive plans.

CHAPTER 8 CORPORATE GOVERNANCE REPORT

I. ORGANIZATIONAL STRUCTURE FOR CORPORATE GOVERNANCE



II. CORPORATE GOVERNANCE CODE

During the Reporting Period, the Bank continued to improve the transparency and accountability of its corporate governance and ensured a high standard of corporate governance practices to protect the interests of Shareholders and enhance corporate value and commitment.

The Bank has established a relatively comprehensive corporate governance structure in accordance with the requirements of the Listing Rules. The composition of the Board and the special committees under the Board are in compliance with the requirements of the Listing Rules. The Bank has clearly defined the responsibilities of the Shareholders' general meeting, the Board, the Board of Supervisors and the senior management. The Shareholders' general meeting is the highest authority of the Bank. The Board is accountable to the Shareholders' general meeting. The Board has established six special committees, which operate under the leadership of the Board and provide advice on the decisions of the Board. The Board of Supervisors supervises the performance of duties by the Board and senior management as well as the Bank's financial activities, risk management and internal control. Under the leadership of the Board, the senior management is responsible for implementing the resolutions of the Board and for the daily operation and management of the Bank, and reports to the Board and the Board of Supervisors on a regular basis. The president of the Bank is appointed by the Board and is responsible for the overall business operation and management of the Bank.

The Bank has adopted the Corporate Governance Code and met the requirements of the administrative measures and corporate governance for domestic commercial banks, and has established a sound corporate governance system. Since the listing of the Bank on the Hong Kong Stock Exchange (i.e., October 12, 2020), the Bank has complied with all applicable code provisions set out in Appendix 14 to the Listing Rules.

The Bank is committed to maintaining a high standard of corporate governance. The Bank will continue to review and enhance its corporate governance to ensure compliance with the Corporate Governance Code and meet the expectations of the Shareholders and potential investors of the Bank.

2.1 Shareholders' General Meeting

1. *Functions and powers of the Shareholders' general meeting*

Shareholders' general meeting is the highest authority of the Bank. Its principal responsibilities include determining the operation strategies and significant investment plans of the Bank, electing and replacing Directors and non-employee representative Supervisors and determining their remuneration, reviewing and approving the annual financial budget plans, financial accounting plans, profit distribution plans and loss recovery plans, determining the merger, division, dissolution and liquidation or change of corporate form of the Bank and amending the Articles of Association.

2. *Convening of Shareholders' general meeting*

During the Reporting Period, the Bank held one annual general meeting, details of which are set out below:

On February 29, 2020, the Bank held the 2019 annual general meeting, with a total of 11 Shareholders and representatives of the Shareholders, representing 4,486,059,471 voting shares in aggregate and 90.24% of total share capital, attended and voted in the meeting. 23 resolutions were considered and approved, including the 2019 final accounts report, the 2020 draft financial budget, the 2019 profit distribution plan, and the Resolution on the Amendments to the Articles of Association of Weihai City Commercial Bank Co., Ltd. (Applicable after Listing), etc.

The notice, convening and voting procedures of the above Shareholders' general meeting are all in compliance with the relevant requirements of the Company Law and the Articles of Association.

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.2 The Board

1. *Duties of the Board*

The Board is a decision-making body of the Bank and is accountable to the Shareholders' general meeting. Its principal responsibilities include convening the Shareholders' general meetings, reporting to the Shareholders' general meetings and implementing the resolutions of the Shareholders' general meetings, determining the Bank's development strategies, operation programs and investment plans, formulating the annual financial budget plans, financial accounting plans, profit distribution plans and loss recovery plans, formulating the plans for merger, division, dissolution and change of corporate form of the Bank, formulating the amendments to the Articles of Association and formulating the basic management system of the Bank.

The Board continuously reviews and updates various policies and systems on corporate governance such as the Articles of Association of the Bank in accordance with the applicable laws and regulations, relevant regulatory requirements and the Listing Rules, and ensures that the Bank complies with such policies and systems.

2. *Operation of the Board*

The Board shall convene at least one meeting each quarter, and arrange other meetings when necessary. The Board meetings may be convened by on-site meeting or teleconference. The Board shall notify all Directors in advance of the meetings and provide all Directors with adequate information in a timely manner, including background information on proposed resolutions and other information and data necessary for the Directors to make informed decisions. The notice of a regular Board meeting shall be given to all Directors at least 14 days before the meetings, and the notice of all other Board meetings shall be given to all Directors 5 days before the meeting. At the Board meetings, all Directors may freely express their views, and major decisions shall be subject to detailed discussion.

A sound communication and reporting mechanism has been established among the Directors, the Board and the senior management. The president is accountable to the Board and reports to the Board on a regular basis. The office of the Board is set up under the Board as a daily office. The Board and the senior management exercise their respective rights in accordance with their responsibilities set out in the Articles of Association.

3. *Composition of the Board*

As of the end of the Reporting Period, the Board of Directors of the Bank consisted of fifteen Directors, including five executive Directors, namely Mr. TAN Xianguo (譚先國), Mr. MENG Dongxiao (孟東曉), Mr. ZHANG Renzhao (張仁釗), Mr. BI Qiubo (畢秋波) and Ms. TAO Zunjian (陶遵建); five non-executive Directors, namely Mr. LI Hang (李航), Mr. WANG Song (王松), Mr. SUN Chenglong (孫成龍), Mr. YI Jijun (伊繼軍) and Mr. WANG Qixiang (王啟祥); and five independent non-executive Directors, namely Mr. LIU Xue (劉學), Mr. LU Qing (路清), Mr. SUN Guomao (孫國茂), Mr. ZHANG Guanghong (張廣鴻) and Mr. FAN Chi Chiu (范智超). Directors shall be elected at the Shareholders' general meeting, and shall serve a term of office of three years commencing from the date on which their qualifications are verified by the CBIRC. A Director may serve consecutive terms if re-elected upon the expiry of his/her term of office, unless otherwise specified by laws, regulations, regulatory authorities and the Articles of Association of the Bank. The membership and composition of the Bank's Board of Directors are in compliance with applicable laws and regulations.

Please refer to the section headed "Directors, Supervisors, Senior Management and Employees" of this annual report for the biographies of the Directors. None of the members of the Board is connected with other members.

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.2 The Board (cont'd)

4. *Changes in members of the Board during the Reporting Period*

For details of the changes in Directors of the Bank, please refer to “Directors, Supervisors, Senior Management and Employees – Changes in Directors, Supervisors and Senior Management during the Reporting Period” of this annual report.

5. *Directors’ responsibilities for preparing financial statements*

The Directors acknowledge their responsibilities for preparing the financial statements for the year ended December 31, 2020 which give a true and fair view of the state of affairs and results of the Bank. In preparing the financial statements, the Directors have selected appropriate accounting policies and applied them consistently, and used accounting estimates that are appropriate in the circumstances. With the assistance of the accounting and financial personnel, our Directors ensure that our financial statements are prepared in accordance with statutory requirements and applicable financial reporting standards. The statement of the external auditor about its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor’s Report on pages 144 to 152.

6. *Meetings of the Board and Directors’ attendance at the meetings*

During the Reporting Period, the Bank held seven Board meetings in total, at which 78 resolutions were considered and approved on topics mainly including final accounts report, draft budget, profit distribution plan and amendments to the Articles of Association. Apart from regular Board meetings, the Chairman also held one meeting with the independent non-executive Directors without the presence of other Directors during the year. Details of the Board meetings held during the Reporting Period are set out below:

Session	Date of Meeting	Form of Meeting
14th session of the 7th Board meeting	February 10, 2020	On-site
15th session of the 7th Board meeting	March 19, 2020	Teleconference
16th session of the 7th Board meeting	April 10, 2020	On-site
17th session of the 7th Board meeting	July 24, 2020	On-site
18th session of the 7th Board meeting	September 18, 2020	On-site
19th session of the 7th Board meeting	September 25, 2020	Teleconference
20th session of the 7th Board meeting	November 3, 2020	On-site

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.2 The Board (cont'd)

6. Meetings of the Board and Directors' attendance at the meetings (cont'd)

The attendance of each Director at the Board meetings and the Shareholders' general meeting during the Reporting Period is set out below:

Members of the Board	Attendances Required at Board Meetings	Attendances in Person at Board Meetings	Attendances by Proxy at Board Meetings	Actual Attendances/Attendances Required at Shareholders' General Meeting
Current Directors				
Mr. TAN Xianguo (譚先國)	7	7	0	1/1
Mr. MENG Dongxiao (孟東曉)	7	7	0	1/1
Mr. ZHANG Renzhao (張仁釗)	7	7	0	0/1
Mr. BI Qiubo (畢秋波)	7	7	0	1/1
Ms. TAO Zunjian (陶遵建)	7	7	0	1/1
Mr. LI Hang (李航)	7	7	0	0/1
Mr. WANG Song (王松)	7	7	0	1/1
Mr. SUN Chenglong (孫成龍)	7	7	0	0/1
Mr. YI Jijun (伊繼軍)	7	7	0	0/1
Mr. WANG Qixiang (王啟祥)	4	4	0	0/0
Mr. LIU Xue (劉學)	7	7	0	0/1
Mr. LU Qing (路清)	7	7	0	0/1
Mr. SUN Guomao (孫國茂)	7	7	0	0/1
Mr. ZHANG Guanghong (張廣鴻)	7	7	0	0/1
Mr. FAN Chi Chiu (范智超)	4	4	0	0/0
Resigned Directors				
Mr. WANG Shouhua (王壽華)	1	1	0	1/1
Ms. MA Ya (馬亞)	1	1	0	0/1

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.2 The Board (cont'd)

7. *Independent Non-executive Directors*

The Board of the Bank currently has five independent non-executive Directors, which is in compliance with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors who shall jointly account for at least one third of the Board members and at least one of whom shall have appropriate professional qualifications or accounting or relevant financial management expertise.

During the Reporting Period, the independent non-executive Directors fulfilled their fiduciary duties and due diligence duties as well as those responsibilities as required by the Articles of Association, and protected the interests of the Bank and its Shareholders as a whole. The independent non-executive Directors of the Bank duly attended the meetings of the Board and its special committees, provided objective and independent opinions on various matters discussed at the meetings of the Board and its special committees, and actively participated in the decision-making of the Board and supervised the Board.

The Bank has received an annual confirmation of independence confirming the independence of each of the independent non-executive Directors in writing, which was issued by such directors in accordance with the requirements of the Listing Rules. Therefore, the Bank confirms that all independent non-executive Directors have complied with the requirements of the Listing Rules in relation to their independence.

8. *Special committees of the Board*

As of the date of this annual report, the Board of the Bank has established six special committees, including the Strategic Development Research Committee, the Audit Committee, the Risk Management Committee, the Related Party Transactions Control Committee, the Nomination and Remuneration Committee and the Consumer Rights Protection Committee.

(1) Strategic Development Research Committee

The Bank has established the Strategic Development Research Committee with written rules of procedure. As of the date of this annual report, the Strategic Development Research Committee consists of seven Directors, namely Mr. TAN Xianguo (譚先國), Mr. MENG Dongxiao (孟東曉), Mr. ZHANG Renzhao (張仁釗), Mr. BI Qiubo (畢秋波), Mr. LI Hang (李航), Mr. WANG Song (王松) and Mr. LIU Xue (劉學). The chairman of the Strategic Development Research Committee is Mr. TAN Xianguo (譚先國). Mr. TAN Xianguo (譚先國), Mr. MENG Dongxiao (孟東曉), Mr. ZHANG Renzhao (張仁釗) and Mr. BI Qiubo (畢秋波) are executive Directors, Mr. LI Hang (李航) and Mr. WANG Song (王松) are non-executive Directors, and Mr. LIU Xue (劉學) is an independent non-executive Director.

The primary duties of the Strategic Development Research Committee include: researching and making recommendations on our long-term development strategies and significant investment decisions; researching and putting forward questions on our development objectives, development direction, development priorities, development measures and other development-related issues; making recommendations to the Board of Directors on strategies issues in our development; researching and making recommendations on other significant issues that impact our development; reviewing the implementation of the above matters; and performing other responsibilities as authorized by our Board of Directors.

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.2 The Board (cont'd)

8. *Special committees of the Board (cont'd)*

(1) Strategic Development Research Committee (cont'd)

During the Reporting Period, the Strategic Development Research Committee held four meetings in total, at which 11 resolutions were considered and approved on topics mainly including profit distribution, financial budget, capital planning and strategic evaluation.

The attendance of each committee member at the meetings of the Strategic Development Research Committee during the Reporting Period is set out below:

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Mr. TAN Xianguo (譚先國)	4	4	0
Mr. MENG Dongxiao (孟東曉)	4	4	0
Mr. ZHANG Renzhao (張仁釗)	4	4	0
Mr. BI Qiubo (畢秋波)	4	4	0
Mr. LI Hang (李航)	4	4	0
Mr. WANG Song (王松)	4	4	0
Mr. LIU Xue (劉學)	4	4	0

(2) Audit Committee

The Bank has established the Audit Committee with written terms of reference in accordance with the relevant requirements of the Listing Rules. As of the date of this annual report, the Audit Committee consists of five Directors, namely Mr. LU Qing (路清), Mr. SUN Guomao (孫國茂), Mr. SUN Chenglong (孫成龍), Mr. YI Jijun (伊繼軍) and Mr. ZHANG Guanghong (張廣鴻). The chairman of the Audit Committee is Mr. LU Qing (路清). Mr. LU Qing (路清), Mr. SUN Guomao (孫國茂) and Mr. ZHANG Guanghong (張廣鴻) are independent non-executive Directors. Mr. SUN Chenglong (孫成龍) and Mr. YI Jijun (伊繼軍) are non-executive Directors. The majority of the members of the Audit Committee of the Bank are independent non-executive Directors, and the chairman of the Audit Committee is an independent non-executive Director.

The primary duties of the Audit Committee include: reviewing our accounting policies, financial position and financial reporting procedures and compliance status; recommending independent external auditor to the Board of the Bank; reviewing the Bank's internal audit system and medium and long-term audit plans, and evaluating and supervising the internal audit work; enabling communication between our internal and external auditors; reviewing the performance of the duties of the chief audit officer and the head of the internal audit department of the Bank, and making suggestions and opinions to the Board on their appointment and removal; and performing other duties as required in relevant laws and regulations, supervisory regulations of the stock exchanges where the stocks of the Bank are listed and Articles of Association and as authorized by the Board.

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.2 The Board (cont'd)

8. Special committees of the Board (cont'd)

(2) Audit Committee (cont'd)

During the Reporting Period, the Audit Committee held five meetings in total, at which 11 resolutions were considered and approved on topics mainly including annual report, interim report, financial statements for listing, internal control evaluation and internal audit report.

The Audit Committee has reviewed the Group's 2020 interim report prepared in accordance with the PRC Accounting Standards for Business Enterprises and the 2020 annual report prepared in accordance with the PRC Accounting Standards for Business Enterprises and the International Financial Reporting Standards. During the audit period, the Audit Committee had several meetings and communications with the external auditors in the absence of the executive Directors and senior management. As at March 26, 2021, the Audit Committee had reviewed the audited consolidated financial statements as of the end of the Reporting Period. It also reviewed the effectiveness of the internal control system and the internal audit functions of the Bank by regularly listening to the audit department's report on internal audit.

The attendance of each committee member at the meetings of the Audit Committee during the Reporting Period is set out below:

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Mr. LU Qing (路清)	5	5	0
Mr. SUN Guomao (孫國茂)	5	5	0
Mr. SUN Chenglong (孫成龍)	5	5	0
Mr. YI Jijun (伊繼軍)	5	5	0
Mr. ZHANG Guanghong (張廣鴻)	5	4	0

(3) Related Party Transactions Control Committee

The Bank has established the Related Party Transactions Control Committee with written rules of procedure. As of the date of this annual report, the Related Party Transactions Control Committee consists of five Directors, namely Mr. FAN Chi Chiu (范智超), Mr. LU Qing (路清), Mr. WANG Qixiang (王啟祥), Mr. ZHANG Guanghong (張廣鴻) and Ms. TAO Zunjian (陶遵建). The chairman of the Related Party Transactions Control Committee is Mr. FAN Chi Chiu (范智超). Ms. TAO Zunjian (陶遵建) is an executive Director. Mr. WANG Qixiang (王啟祥) is a non-executive Director. Mr. FAN Chi Chiu (范智超), Mr. LU Qing (路清) and Mr. ZHANG Guanghong (張廣鴻) are independent non-executive Directors.

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.2 The Board (cont'd)

8. *Special committees of the Board (cont'd)*

(3) Related Party Transactions Control Committee (cont'd)

The primary duties of the Related Party Transactions Control Committee include: guiding the Bank to correctly implement related policies and regulations on related party transactions of China and the provisions on connected party transactions under the Listing Rules; formulating policies, rules and management systems on the related (connected) party transactions of the Bank; being responsible for the identification and announcement of the related (connected) parties of the Bank; submitting to the Board of Directors for review and approval upon reviewing major related (connected) party transactions in accordance with relevant provisions; being responsible for periodically reporting to the Board of Directors and Board of Supervisors in relation to details of identified related (connected) parties and related (connected) party transactions; and being responsible for handling other works relating to the related (connected) party transactions assigned by the Board.

During the Reporting Period, the Related Party Transactions Control Committee held four meetings, at which 11 resolutions were considered and approved on topics mainly including the credit business for major related party transactions of Weihai City Commercial Bank in 2020, the amendments to the Administrative Measures for Related Party Transactions of Weihai City Commercial Bank 《威海市商業銀行關聯交易管理辦法》, the amendments to the Rules of Procedure for the Related Party Transactions Control Committee under the Board of Directors of Weihai City Commercial Bank 《威海市商業銀行董事會關聯交易控制委員會議事規則》 and the report on the control of related party transactions of Weihai City Commercial Bank.

The attendance of each committee member at the meetings of the Related Party Transactions Control Committee during the Reporting Period is set out below:

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Mr. FAN Chi Chiu (范智超)	2	2	0
Mr. LU Qing (路清)	4	4	0
Mr. WANG Qixiang (王啟祥)	2	2	0
Mr. ZHANG Guanghong (張廣鴻)	4	4	0
Ms. TAO Zunjian (陶遵建)	4	4	0

(4) Risk Management Committee

The Bank has established the Risk Management Committee with written rules of procedure. As of the date of this annual report, the Risk Management Committee consists of five Directors, namely Mr. LI Hang (李航), Mr. ZHANG Renzhao (張仁釗), Mr. WANG Song (王松), Mr. YI Jijun (伊繼軍) and Mr. SUN Guomao (孫國茂). The chairman of the Risk Management Committee is Mr. LI Hang (李航). Mr. ZHANG Renzhao (張仁釗) is an executive Director. Mr. LI Hang (李航), Mr. WANG Song (王松) and Mr. YI Jijun (伊繼軍) are non-executive Directors. Mr. SUN Guomao (孫國茂) is an independent non-executive Director.

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.2 The Board (cont'd)

8. *Special committees of the Board (cont'd)*

(4) Risk Management Committee (cont'd)

The primary duties of the Risk Management Committee include: being responsible for monitoring the risk control in respect of liquidity, credit, markets, operations and technology of the senior management; regularly assessing the risk conditions of the Bank; giving suggestions on improving the risk management and internal control of the Bank; evaluating the capital adequacy of the Bank on a regular basis; carrying out a research on the disposal of non-performing assets and bad debts; studying other major assets, risks and internal control deficiencies and weaknesses that affect the Bank's development, assessing the impact and giving suggestions.

During the Reporting Period, the Risk Management Committee held five meetings in total, at which 17 resolutions were considered and approved on topics mainly including risk profile, capital adequacy ratio assessment, annual risk appetite strategies, internal capital adequacy assessment and business continuity management assessment for the first three quarters of 2019 and 2020. The Risk Management Committee regularly reviews the Bank's risk management system covering various main types of risks such as credit risk, market risk, operational risk, information technology risk, reputational risk and strategic risk by regularly listening to the senior management's report on the Bank's risk management on a quarterly basis, and proposes opinions and suggestions on improving the Bank's risk management work based on the economic development trend and changes in macroeconomic control policies and the actual business development of the Bank.

The attendance of each committee member at the meetings of the Risk Management Committee during the Reporting Period is set out below:

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Mr. LI Hang (李航)	5	5	0
Mr. ZHANG Renzhao (張仁釗)	5	5	0
Mr. WANG Song (王松)	5	5	0
Mr. YI Jijun (伊繼軍)	5	5	0
Mr. SUN Guomao (孫國茂)	3	3	0

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.2 The Board (cont'd)

8. *Special committees of the Board (cont'd)*

(5) Nomination and Remuneration Committee

The Bank has established the Nomination and Remuneration Committee with written rules of procedure in accordance with the relevant requirements of the Listing Rules. As of the date of this annual report, the Nomination and Remuneration Committee consists of five Directors, namely Mr. LIU Xue (劉學), Mr. BI Qiubo (畢秋波), Mr. WANG Qixiang (王啟祥), Mr. SUN Guomao (孫國茂) and Mr. FAN Chi Chiu (范智超). The chairman of the Nomination and Remuneration Committee is Mr. LIU Xue (劉學). Mr. BI Qiubo (畢秋波) is an executive Director. Mr. WANG Qixiang (王啟祥) is a non-executive Director. Mr. LIU Xue (劉學), Mr. FAN Chi Chiu (范智超) and Mr. SUN Guomao (孫國茂) are independent non-executive Directors. The majority of the members of the Nomination and Remuneration Committee are independent non-executive Directors.

The primary duties of the Nomination and Remuneration Committee include:

Nomination Duties

Making recommendations to the Board of Directors on the scale and composition of the Board based on the operating activities, asset scale and shareholding structure of the Bank; assessing the independence of independent non-executive Directors; reviewing the training and continuous professional development of Directors and senior management; reviewing the procedures and standards for selecting and appointing Directors and senior management to make recommendations to the Board; identifying qualified candidates for Directors and senior management under the authorization of the Board of Directors, and making preliminary assessments on their qualifications and conditions.

Remuneration Duties

Reviewing our remuneration plans or proposals for Directors and senior management, making recommendations on the establishment of a formal and transparent procedure for developing remuneration policy and submitting it to the Board of Directors for review; reviewing the performance of Directors and senior management and conducting annual performance evaluations; considering the evaluation standards of Directors and senior management of the Bank and supervising the implementation of remuneration system for Directors and senior management.

During the Reporting Period, the Nomination and Remuneration Committee held three meetings in total, at which 7 resolutions were considered and approved on topics mainly including the evaluation of the Directors and senior management in 2019, adjustments to the review of the qualifications of Directors and senior management, and amendments to the rules of procedure of the Nomination and Remuneration Committee.

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.2 The Board (cont'd)

8. *Special committees of the Board (cont'd)*

(5) Nomination and Remuneration Committee (cont'd)

The attendance of each committee member at the meetings of the Nomination and Remuneration Committee during the Reporting Period is set out below:

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Mr. LIU Xue (劉學)	3	3	0
Mr. FAN Chi Chiu (范智超)	1	1	0
Mr. SUN Guomao (孫國茂)	3	3	0
Mr. WANG Qixiang (王啟祥)	1	1	0
Mr. BI Qiubo (畢秋波)	3	3	0

The Bank has adopted a board diversity policy, pursuant to which the Bank seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, industry and professional experience, technical and professional skills and/or qualifications, knowledge, length of service and time to be devoted as a Director, and any other factors that the Board may consider relevant and applicable from time to time.

The Board consists of fifteen members, including five executive Directors, five non-executive Directors and five independent non-executive Directors. Our Directors have a balanced mix of experiences, including banking, corporate management, economics, auditing, accounting and finance. In addition, the Board has a relatively wide range of age, ranging from 35 years old to 64 years old. The Bank has one female representative to achieve appropriate gender diversity. The Bank believes that the current composition of the Board is in line with the principles of the board diversity policy.

The nomination procedures for a Director candidate of the Bank are as follows: qualified Shareholders will recommend candidates for directorship to the Bank for consideration by the Bank; the Nomination and Remuneration Committee shall make recommendations to the Board after reviewing the candidates for directorship, and the candidates for directorship will be proposed at the Shareholders' general meeting by written resolution after being considered and approved by the Board. For details, please refer to the section headed "Directors and Board of Directors" of the Articles of Association.

Criteria for selecting and recommending candidates for directorship: Directors shall have the professional knowledge and working experience as required for performing their duties and satisfy the requirements of the CBIRC, and their qualifications shall be verified by the CBIRC.

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.2 The Board (cont'd)

8. *Special committees of the Board (cont'd)*

(6) Consumer Rights Protection Committee

The Bank has established the Consumer Rights Protection Committee with written rules of procedure. As of the date of this annual report, the Consumer Rights Protection Committee consists of five Directors, namely Mr. WANG Song (王松), Ms. TAO Zunjian (陶遵建), Mr. SUN Chenglong (孫成龍), Mr. YI Jijun (伊繼軍) and Mr. WANG Qixiang (王啟祥). The chairman of the Consumer Rights Protection Committee is Mr. WANG Song (王松). Ms. TAO Zunjian (陶遵建) is an executive Director. Mr. WANG Song (王松), Mr. SUN Chenglong (孫成龍), Mr. YI Jijun (伊繼軍) and Mr. WANG Qixiang (王啟祥) are non-executive Directors.

The primary duties of the Consumer Rights Protection Committee include: being responsible for formulating the strategies, policies and goals of the Bank's financial consumer rights protection work; supervising and evaluating the comprehensiveness, timeliness and effectiveness of the Bank's financial consumer rights protection work as well as the performance of the senior management; proposing relevant resolutions on consumer rights protection to the Board of Directors and regularly listening to reports on consumer rights protection; supervising the information disclosure on consumer rights protection; and performing other matters as authorized by the Board of Directors.

During the Reporting Period, the Consumer Rights Protection Committee held three meetings in total, at which 4 resolutions were considered and approved on topics mainly including the 2019 Work Report on Consumer Rights Protection of Weihai City Commercial Bank (《威海市商業銀行2019年度消費者權益保護工作情況報告》).

The attendance of each committee member at the meetings of the Consumer Rights Protection Committee during the Reporting Period is set out below:

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Mr. WANG Song (王松)	3	3	0
Mr. SUN Chenglong (孫成龍)	3	3	0
Mr. YI Jijun (伊繼軍)	3	3	0
Mr. WANG Qixiang (王啟祥)	1	1	0
Ms. TAO Zunjian (陶遵建)	3	3	0

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.3 Board of Supervisors

1. *Duties of the Board of Supervisors*

The Board of Supervisors is the supervisory body of the Bank and is accountable to the Shareholders' general meeting. Its primary responsibilities include supervising the financial operations of the Bank and the performance of the Board and senior management. The Board of Supervisors conducts special surveys on specific areas and attends important meetings in order to understand the operation and management of the Bank and provides supervisory advice.

2. *Composition of the Board of Supervisors*

As of the end of the Reporting Period, the Board of Supervisors consisted of nine Supervisors, including three employees' representative Supervisors, namely Mr. DENG Wei (鄧衛), Mr. LIU Changjie (劉昌傑) and Ms. ZHANG Xuening (張雪凝); three Shareholders' representative Supervisors, namely Mr. ZHOU Hao (周浩), Ms. ZHAO Lijie (趙麗傑) and Mr. FENG Yongdong (馮永東); and three external Supervisors, being Mr. TAN Degui (譚德貴), Ms. TENG Bo (滕波) and Ms. LI Yuanfen (李元芬). The membership and composition of the Board of Supervisors are in compliance with applicable laws and regulations. A Supervisor shall serve a term of three years and may serve consecutive terms if re-elected upon the expiry of his/her term of office, provided that the cumulative term shall not exceed six years, unless otherwise specified by laws, regulations, regulatory authorities and the Articles of Association of the Bank. Shareholders' representative Supervisors and external Supervisors shall be elected or replaced by the Shareholders' general meeting.

3. *Changes in members of the Board of Supervisors during the Reporting Period*

During the Reporting Period, save as disclosed in the section headed "Directors, Supervisors, Senior Management and Employees – Changes in Directors, Supervisors and Senior Management during the Reporting Period", there was no change in the members of the Board of Supervisors of the Bank.

4. *Meetings of the Board of Supervisors and Supervisors' attendance at the meetings*

During the Reporting Period, the Bank held four meetings of the Board of Supervisors, considered 21 resolutions and heard 27 resolutions, which mainly involved topics including plans in terms of budget and final accounts, dividend distribution, re-election and appointment of Directors, and listened to and considered relevant reports such as operation and management of the banks, financial activities, internal control of risks and related party transactions.

The attendance of each Supervisor at the meetings of the Board of Supervisors during the Reporting Period is set out below:

Members of the Board of Supervisors	Attendances Required	Attendances in person	Attendances by proxy
Mr. DENG Wei (鄧衛)	4	4	0
Mr. TAN Degui (譚德貴)	4	4	0
Ms. LI Yuanfen (李元芬)	4	4	0
Ms. TENG Bo (滕波)	4	4	0
Ms. ZHAO Lijie (趙麗傑)	4	4	0
Mr. ZHOU Hao (周浩)	4	4	0
Mr. FENG Yongdong (馮永東)	4	4	0
Mr. LIU Changjie (劉昌傑)	4	4	0
Ms. ZHANG Xuening (張雪凝)	4	4	0

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.3 Board of Supervisors (cont'd)

5. Committees under the Board of Supervisors

The Board of Supervisors of the Bank has two committees, including the Supervision Committee and the Nomination Committee. The committees operate in accordance with the terms of reference formulated by the Board of Supervisors.

(1) Supervision Committee

As of the date of this annual report, the Supervision Committee consisted of four Supervisors, namely Ms. TENG Bo (滕波), Ms. LI Yuanfen (李元芬), Ms. ZHAO Lijie (趙麗傑) and Mr. LIU Changjie (劉昌傑). The chairman of the Board of Supervisors is Ms. TENG Bo (滕波).

The primary duties of the Supervision Committee include: formulating the supervision plans for the Bank's financial activities and implementing relevant supervision plans; and supervising the Board of Directors in forming sound operating concept and business values, and a development strategy consistent with the Bank's circumstances, as well as assessing the Bank's business decisions, risk management and internal control, and supervising rectification thereof.

During the Reporting Period, the Supervision Committee held four meetings in total, at which a total of 17 resolutions were considered, including the Supervision Opinions on Assets and Liabilities Ratio and Risk management Matters (《資產負債比例和風險控制事項的監督意見》), the Supervision and Inspection Work Report (《監督檢查工作情況報告》), the Internal Audit Work Report (《內部審計工作情況報告》) and the Development Strategy Evaluation Report (《發展戰略的評估報告》) of Weihai City Commercial Bank.

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Ms. TENG Bo (滕波)	4	4	0
Ms. LI Yuanfen (李元芬)	4	4	0
Ms. ZHAO Lijie (趙麗傑)	4	4	0
Mr. LIU Changjie (劉昌傑)	4	4	0

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.3 Board of Supervisors (cont'd)

5. Committees under the Board of Supervisors (cont'd)

(2) Nomination Committee

As of the end of the Reporting Period, the Nomination Committee consisted of four Supervisors, namely Mr. TAN Degui (譚德貴), Mr. ZHOU Hao (周浩), Mr. FENG Yongdong (馮永東) and Ms. ZHANG Xuening (張雪凝). The chairman of the Nomination Committee is Mr. TAN Degui (譚德貴). The primary duties of the Nomination Committee include: formulating procedures and standards for selecting and appointing Supervisors, and preliminarily examining the qualifications of supervisor candidates, and making recommendations to the Board of Supervisors; overseeing the election procedure of Directors; making comprehensive performance evaluation of Directors, Supervisors and senior management; and reviewing our remuneration management policies and assessing the scientificity and reasonableness of our remuneration plans for senior management.

During the Reporting Period, the Nomination Committee held one meeting in total, at which 3 resolutions were considered, including the Report on Evaluation of the Performance of Duties by the Board of Directors, Senior Management and Its Members for 2019 (《2019年度董事會和高級管理層及其成員履職評價情況的報告》) and the Report on Evaluation of Supervisors for 2019 (《2019年度監事考核情況的報告》) of Weihai City Commercial Bank.

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Mr. TAN Degui (譚德貴)	1	1	0
Mr. ZHOU Hao (周浩)	1	1	0
Mr. FENG Yongdong (馮永東)	1	1	0
Ms. ZHANG Xuening (張雪凝)	1	1	0

6. Attendance at Shareholders' general meetings during the Reporting Period

During the Reporting Period, the Bank convened one Shareholders' general meeting in total. The Board of Supervisors sent representatives to attend the meeting and supervise on the spot whether the contents considered at the meeting, meeting procedures and voting processes comply with the laws and regulations.

7. Attendance at Board meetings during the Reporting Period

During the Reporting Period, in order to strengthen the basic work of performance evaluation, the Board of Supervisors dispatched Supervisors to attend the Board meetings and record the key contents and information related to the meetings, which were used as the basic information for the year-end evaluation of the Board of Supervisors and effectively improved the objectivity of evaluation.

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.4 Trainings for the Directors and Supervisors during the Reporting Period

During the Reporting Period, the Directors of the Bank have complied with the code provision A6.5 of the Corporate Governance Code. All Directors (including Mr. TAN Xianguo (譚先國), Mr. MENG Dongxiao (孟東曉), Mr. ZHANG Renzhao (張仁釗), Mr. BI Qiubo (畢秋波), Ms. TAO Zunjian (陶遵建), Mr. LI Hang (李航), Mr. WANG Song (王松), Mr. SUN Chenglong (孫成龍), Mr. YI Jijun (伊繼軍), Mr. WANG Qixiang (王啟祥), Mr. LIU Xue (劉學), Mr. LU Qing (路清), Mr. SUN Guomao (孫國茂), Mr. ZHANG Guanghong (張廣鴻) and Mr. FAN Chi Chiu (范智超)) have participated in continuous professional development to develop and refresh their knowledge and skills by attending trainings and reading relevant materials.

During the Reporting Period, all Directors and Supervisors participated in the training on listing contents arranged by the Bank's lawyers, including directors' responsibilities, disclosure of interests, information disclosure, securities transactions, connected transactions, board meetings and shareholders' general meetings, which strengthened the learning of professional knowledge, broadened the working concepts and horizons, and actively responded to the requirements of directors and supervisors of the listed company.

During the Reporting Period, the Bank distributed reference materials to the Directors and Supervisors on laws and regulations related to corporate governance to facilitate the learning and improvement by Directors and Supervisors of their ability and level of corporate governance.

2.5 Chairman of the Board and President

During the Reporting Period, in line with the recommendations under the Listing Rules, the roles and functions of the chairman of the Board and the president of the Bank were taken up by different individuals, and their respective duties were clearly defined.

As of the end of the Reporting Period, Mr. TAN Xianguo (譚先國) held the position of chairman of the Board of the Bank, and Mr. MENG Dongxiao (孟東曉) held the position of president of the Bank, responsible for the daily operation and management of the Bank.

2.6 Senior Management

Senior management has the power delegated by the Board of the Bank to manage the daily operation of the Bank. The president of the Bank is accountable to the Board of Directors and organizes and carries out the business management activities of the Bank and reports to the Board of Directors in accordance with laws, regulations, rules, the Articles of Association of the Bank and the authorization of the Board of Directors. The Bank has also appointed two vice presidents and other senior management members to cooperate with the president of the Bank and perform their respective management responsibilities.

The Bank practises a president accountability system led by the Board. According to the Articles of Association, the president is accountable to the Board and subject to the supervision of the Board of Supervisors. The president and senior management shall regularly report to the Board of Directors and the Board of Supervisors the Bank's operating results, material contracts, financial position, risk profile, business prospects and other information in a timely, accurate and complete manner, and the president shall also report to the Board of Directors the Bank's significant events, implementation, use of funds and profits and losses. The senior management may establish special committees and functional departments according to their work needs and as required by the Board, and specify the structure of functional departments.

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.7 Company Secretary

Mr. BI Qiubo (畢秋波) and Ms. TAM Pak Yu, Vivien (譚柏如) have been the joint company secretaries of the Bank since April 10, 2020. Each Director may discuss with the company secretaries for advice and information. Mr. BI Qiubo (畢秋波) is the primary contact person of Ms. TAM Pak Yu, Vivien (譚柏如) in the Bank. Mr. BI Qiubo (畢秋波) and Ms. TAM Pak Yu, Vivien (譚柏如) have confirmed that they have received no less than 15 hours of relevant professional training during the Reporting Period.

2.8 Relationship Between Directors, Supervisors and Senior Management

There are no financial, business or family relationships among the Directors, Supervisors and senior management of the Bank.

2.9 Amendments to the Articles of Association

During the Reporting Period, the 2019 Shareholders' general meeting of the Bank considered and approved the Resolution on the Amendments to the Articles of Association of Weihai City Commercial Bank Co., Ltd. (Applicable after Listing). The amendments to the Articles of Association are mainly due to the amendments to certain articles according to the regulatory rules and the actual situation of the Bank after the listing of H Shares. The amended Articles of Association is available on the portal website of the Bank and the website of the Hong Kong Stock Exchange.

2.10 Communications with Shareholders

The Bank values the opinions and suggestions of Shareholders and actively organizes various communication activities with investors and analysts to maintain a good relationship and respond to the reasonable requests of Shareholders in a timely manner. Shareholders may make enquiries to the Board through the office of the Board. The contact details of the Board are as follows:

Address: No. 9 Baoquan Road, Weihai, Shandong Province, the PRC
Tel: (86) 631-5236187
Fax: (86) 631-5210210
Email: whccb@whccb.com

2.11 Shareholders' Rights

1. *Procedures for Shareholders to Convene an Extraordinary General Meeting*

The Bank effectively protects Shareholders' rights in strict compliance with applicable laws and regulations, the Listing Rules, the Articles of Association and the corporate governance system.

Shareholders severally or jointly holding more than 10% of the shares with voting right at the meeting to be convened shall propose to the Board in writing to convene the extraordinary general meeting or class meeting and specify the topics of the meeting. The Bank shall convene an extraordinary general meeting within two months from the date of receipt of the written request from the Shareholders. The aforesaid number of shares held shall be calculated based on the date on which the Shareholders submit the written request. The Board shall, pursuant to laws, administrative regulations and the Articles of Association, give a written reply on whether or not it agrees to convene the extraordinary general meeting or class meeting within 10 days after receipt of the request.

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.11 Shareholders' Rights (cont'd)

1. *Procedures for Shareholders to Convene an Extraordinary General Meeting (cont'd)*

If the Board of Directors agrees to convene the extraordinary general meeting or class meeting, it shall serve a notice of such meeting within five days after the resolution is made by the Board of Directors. Any change to the original request set forth in the notice shall be subject to approval by the relevant Shareholders.

If the Board of Directors does not agree to convene the extraordinary general meeting or class meeting or fails to give a written reply within ten days after receipt of the request, the Shareholder(s) severally or jointly holding more than 10% shares with voting rights at the meeting to be convened shall have the right to request the Board of Supervisors to convene an extraordinary general meeting or class meeting, and shall put forward such request to the Board of Supervisors in writing.

If the Board of Supervisors agrees to convene the extraordinary general meeting or class meeting, it shall serve a notice of such meeting within five days after receipt of such request. Any change to the original proposal set forth in the notice shall be approved by the relevant Shareholders.

If the Board of Supervisors fails to serve the notice of Shareholders' general meeting within the prescribed period, it shall be deemed as failing to convene and preside over the Shareholders' general meeting, and the Shareholder(s) severally or jointly holding more than 10% shares of the Bank (such shares have voting rights at the meeting to be convened) for consecutively 90 days may convene and preside over the meeting by themselves.

Shareholders may refer to the Articles of Association published on the websites of the Hong Kong Stock Exchange and the Bank for further details.

2. *Procedures for Making Proposals at Shareholders' General Meetings*

Where the Bank convenes a Shareholders' general meeting, the Board, the Board of Supervisors and Shareholder(s) severally or jointly holding more than 3% shares of the Bank shall be entitled to make proposals to the Bank in writing.

Shareholder(s) severally or jointly holding more than 3% shares of the Bank may submit written interim proposals to the convener ten days before a Shareholders' general meeting is convened. The convener shall serve a supplementary notice of Shareholders' general meeting within two days after receipt of the proposals and announce the contents of the interim proposals.

Save as specified in the preceding paragraph, the convener, after issuing the notice of the Shareholders' general meeting, shall neither revise the proposals stated in the notice of Shareholders' general meetings nor add new proposals.

Shareholders may refer to the Articles of Association published on the websites of the Hong Kong Stock Exchange and the Bank for further details.

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.12 External Auditors and Their Remuneration

We have engaged BDO China Shu Lun Pan Certified Public Accountants LLP and BDO Limited as our domestic and international auditors for 2020, respectively. As of the end of the Reporting Period, the total remuneration agreed to be paid by the Group to BDO China Shu Lun Pan Certified Public Accountants LLP and BDO Limited for the audit of annual financial statements was RMB2.4 million (not including non-audit fee).

The Audit Committee under the Board of Directors is of the view that BDO China Shu Lun Pan Certified Public Accountants LLP and BDO Limited can properly complete various types of work as required by the Bank, comply with the principles of independence, objectivity and fairness and the code of ethics for accountants, and conduct audit work in a prudent and flexible manner. During the Reporting Period, there was no disagreement by the Board with the opinions of the Audit Committee on the selection and appointment of external auditors.

There has been no change of auditors of the Bank in the past three years.

2.13 Remuneration of Senior Management

Details of the remuneration of the members of the senior management during the Reporting Period are set out in “Directors, Supervisors, Senior Management and Employees – Information on Remuneration Paid to Directors, Supervisors and Senior Management” of this annual report.

2.14 Risk Management and Internal Control

1. Risk Management

The Bank has established a sound risk management organizational structure comprising the Board of Directors, the Board of Supervisors, senior management and various risk management committees and departments to ensure the effective risk management with a strong check-and-balance.

We have established comprehensive risk management policies, procedures and risk limit management systems. We has established a sound risk management policy covering credit risk, market risk, operational risk, liquidity risk, strategic risk, information technology risk and reputational risk, etc. We have established a capital constraint mechanism focusing on capital adequacy ratio management, a complete internal capital adequacy assessment mechanism and a risk management mechanism that covers the entire work stream, including risk identification, measurement, assessment, monitoring, mitigation and control. During the Reporting Period, the Bank continued to improve the system of comprehensive risk management. Taking into account the dual needs of business development and risk management, the Bank formulated the annual risk appetite strategy and specified various risk limits and administrative measures. The Bank carried out risk identification and assessment, stress testing, etc., identified and assessed risks that have a significant impact on the Bank’s operations, and made forward-looking assessment on the Bank’s profitability, capital level and liquidity under stress scenarios, and assisted in formulating improvement measures to ensure that various risks are controllable.

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.14 Risk Management and Internal Control (cont'd)

1. Risk management (cont'd)

We continuously invest in improving our technology capability in risk management work. For example, we have developed technology-based systems such as the credit rating system for retail business (零售評級系統), the credit rating system for non-retail business (非零售評級系統) and collateral and pledges management system. Through gradually exploring and improving the application of risk quantification tools in relation to fields such as business access, risk alert and differentiated risk management strategies, we have managed to improve our capability of conducting detail-oriented risk management work. We also have specific risk management systems to address internal control, compliance and operational risks, liquidity risks, interest rate risk in the banking book risk measurement. By fully utilizing these systems and tools in risk identification, measurement and monitoring, we can effectively improve our overall risk management capability. During the Reporting Period, the Bank continued to innovate risk management tools, built a new early warning risk system by leveraging on big data mining and internet technology, and broke the isolation of individual information systems by building an early warning risk model to achieve timely and effective early warning of customer risk information. The Bank conducted in-depth research on business needs, integrated data and technology resources, developed and launched mobile post-loan management tools and realized real-time interaction between mobile terminals and credit systems, thereby improving the efficiency and convenience of post-loan management.

2. Internal control

The Bank has established an internal control organizational structure comprising the Board of Directors, the Board of Supervisors, senior management, the Legal and Compliance Department, the Audit Department, business departments and branches with rational division of functions, clearly defined responsibilities and clear reporting relationships, forging a distinctive risk management and compliance culture. In accordance with the risk management requirements emphasizing on "Rules and Regulations, Supervision, Inspection, Assessment and Rectification" ("有制度、有監督、有檢查、有考核、有整改"), the Bank continued to strengthen the internal control compliance management. Our internal control adapts to management mode, business scale, product complexity and risk profile.

The Bank continued to improve the management systems, timely tracked the changes in regulatory policies and timely revised and improved relevant management systems according to the needs of the Bank's operation and management, and established a comprehensive system covering all business segments of the Bank, covering all aspects of various businesses and important risk prevention measures. During the Reporting Period, a total of 108 new systems were added, 456 of the systems were revised and improved, and 20 systems were abolished. The comprehensiveness and enforceability of the systems were continuously enhanced, which effectively guaranteed the legal, compliance and stable operation of various businesses. During the Reporting Period, the Bank organized and carried out a series of internal control and management activities such as general inspection on operation and management, quarterly compliance inspection and "Year of Deepening Industry Standardization Construction" ("行業規範建設深化年"), and earnestly carried out knowledge learning and testing on case prevention and compliance. In the centralized test on case prevention and compliance organized by the Shandong Office of Banking and Insurance Regulatory Commission, the Bank ranked the first among city commercial banks for two consecutive years, and continued to create an internal control compliance atmosphere of "behavior led by culture and priorities on strict internal control, acting by the system and strict institutional constraints, penetration of the system into the process and all-the-way compliance in a strict manner".

II. CORPORATE GOVERNANCE CODE (CONT'D)

2.14 Risk Management and Internal Control (cont'd)

2. Internal control (cont'd)

The Bank considers internal audit essential to the sustainable development of our business operations. The Bank's Audit Department shall strictly follow the principles of independence and objectivity throughout our internal audit work. During the Reporting Period, the Bank has established an independent and vertical internal audit system that mainly comprises of the Board of Directors, the Audit Committee and the Audit Department at our headquarters. The Board of Directors undertakes ultimate responsibility to ensure the independence and effectiveness of internal audit. The Audit Committee guides, evaluates and assesses the internal audit work while our Audit Department carries out internal auditing at the headquarter and branch level.

During the Reporting Period, the Bank's Audit Department formulated internal policies and annual audit plans based regulatory requirements as well as operation, management and business profile, and carried the audit work strictly in accordance with the annual audit plans after such plans were approved by the Board of Directors. The Audit Department conducts both on-site inspections and off-site monitoring during routine audits on various departments and their operational and management activities. The Bank also conducts special audits on our exposures to various risks such as credit risk, market risk, operational risk and information technology risk. For the issues or deficiencies identified in audits, the Audit Department gives timely notification to the relevant departments and advises on the implementation of effective rectification measures.

The Bank attaches great importance to information disclosure and inside information management. In order to strengthen the confidentiality of inside information, ensure the fairness of information disclosure and protect the legitimate rights and interests of investors, the Bank has formulated the Information Disclosure Management System of Weihai City Commercial Bank Co., Ltd. in accordance with the laws, regulations and regulatory documents of the PRC and Hong Kong. The Bank shall make timely disclosure in accordance with the relevant laws and regulations and the rules governing the listing of securities on the place where the Bank is listed when there are the "inside information" as defined under Part XIVA of the SFO and other matters required to be disclosed in a timely manner by the relevant laws and regulations and the rules governing the listing of securities on the place where the Bank is listed, unless exempted under the relevant laws and regulations and the rules governing the listing of securities on the place where the Bank is listed.

During the Reporting Period, no material defects of internal control and risk management of the Bank have been identified. The Bank is of the opinion that the internal control of the Bank is adequate and effective.

For details of the Bank's risk management and internal control, please refer to "Management Discussion and Analysis – Risk Management" of this annual report.

2.15 Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the directors, supervisors and relevant employees of the Bank. Having made enquiry with all Directors and Supervisors, the Bank confirmed that they had complied with the Model Code during the Reporting Period. The Bank is not aware of any violations of the above code by the employees concerned.

CHAPTER 9 REPORT OF THE BOARD OF DIRECTORS

I. PRINCIPAL ACTIVITIES

The Bank is principally engaged in banking and related financial services, including corporate banking business, retail banking business and financial market business. The information on business review of the Bank during the Reporting Period is set out in the “Management Discussion and Analysis” of this annual report.

II. BUSINESS REVIEW

2.1. Business Review

The Bank’s business review and analysis of key financial performance indicators, principal risks and uncertainties and prospects for future development of the business during the Reporting Period are set out in the “Management Discussion and Analysis” of this annual report.

2.2 Environmental Policies and Performance

During the Reporting Period, the Bank actively assumed the social responsibilities related to environmental policies. In the course of business, the Bank actively advocated the concept of environmental protection, optimized online services, practiced green office, advocated green public welfare and developed green credit to promote green financial undertakings. For details of the Bank’s environmental policies and performance, please refer to the Environmental, Social and Governance Report to be published by the Bank after the publication of the annual report.

2.3 Legal Operation/Compliance with Laws and Regulations

The Bank has established and implemented a series of systems and measures to manage and control legal risks the Bank faces. The Bank follows the principles of compliance and efficiency, unified standardization, division of labor cooperation and hierarchical responsibilities, integrates the management and prevention of legal risks with other risk management activities, improves the legal risk prevention and control mechanism, and promotes legal operation. The Bank has established a legal risk management system and a legal document review management system, strengthened daily legal consulting services, contract management and legal document review, and carried out legal compliance training and learning, so as to provide professional legal support for the daily operation and development, continuously improve the law-abiding and legal awareness of all employees and ensure legal operation.

II. BUSINESS REVIEW (CONT'D)

2.4 Consumer Rights Protection

The Board has established the Consumer Rights Protection Committee. For details of its duties, please refer to the “Corporate Governance Report” of this annual report.

During the Reporting Period, the Bank attached great importance to the protection of the rights and interests of financial consumers, established and improved the management and system of consumer rights protection, strengthened the review of pre-sales consumer protection, and protected the legitimate rights and interests of consumers from the source. The Bank promoted compliance sales management, treated consumers fairly, appropriately disclosed product information, and effectively reminded risks. The Bank improved the inspection and supervision mechanism, carried out internal inspection of service consumer protection, increased the training of consumer protection, and improved the level of consumer protection. During the Reporting Period, the Bank strengthened the management of customer complaints and improved the customer information confidentiality system to improve service quality, and earnestly assumed the responsibility to educate consumers and actively carried out financial knowledge popularization and education activities to guide and cultivate the financial awareness and risk awareness of the public.

In terms of consumer rights protection, the Bank mainly carried out the following activities: 1. The Consumer Rights Protection Committee regularly convened meetings to consider relevant topics. 2. The Bank carried out a series of publicity activities such as “3.15 Consumer Rights Day” (“3.15消費者權益日”) and “Campaign to Spread Financial Knowledge” (“金融知識金融萬里行”), which effectively enhanced the awareness of financial protection of consumers. 3. The complaint channels and complaint handling flow chart are announced in outlets and electronic channels, and the Bank carried out the reception day activity for the president on consumer complaint on the 16th of every month at all level. 4. Regular trainings on consumer rights protection were conducted to keep abreast of the new trend, new dynamics and new requirements of rights protection of the financial consumers.

2.5 Relationship with Employees

The Bank believes that sustainable development relies on the capabilities and dedication of the Bank’s employees. The Bank attaches great importance to the cultivation of talents, and regards the selection and employment of talents as the basis for development. For details of employees, employment policies, remuneration and benefits, please refer to the chapter headed “Directors, Supervisors, Senior Management and Employees” of this annual report and the Environmental, Social and Governance Report to be published by the Bank after the publication of the annual report.

II. BUSINESS REVIEW (CONT'D)

2.6 Dividends

1. Dividends

The Bank aims to provide stable and sustainable returns to Shareholders and strives to maintain a stable dividend policy. According to the dividend policy, in deciding whether to distribute dividends and in determining the amount of dividends, the Board will take into account the Group's results of operations, financial condition, distributable profits generated during the year, liquidity adequacy, capital requirements, future prospects and any other factors that the Board deems appropriate. For details of undistributed profits, please refer to note 35 to the financial statements in this annual report.

The 2019 profit distribution plan of the Bank was approved by the Shareholders of the Bank at the 2019 annual general meeting of the Bank held on February 29, 2020. The Bank decided to distribute a cash dividend of RMB0.497 billion (tax inclusive) for 2019, and to distribute a cash dividend of RMB10 (tax inclusive) per 100 shares to the ordinary Shareholders.

The Board of Directors proposed that the Bank shall distribute 2020 dividends in cash amounted to RMB0.598 billion (tax inclusive) for 2021, and to distribute a cash dividend of RMB10 (tax inclusive) per 100 shares to the ordinary Shareholders whose names appear on the register of members of the Bank on the record date for equity distribution. The proposed final dividend is expected to be distributed to the Shareholders on or around July 2, 2021, and the profit distribution plan will be submitted to the 2020 annual general meeting for approval. The Bank will make further announcement on the book closure date and record date in relation to the proposed final dividend.

2. Tax relief

Withholding and Payment of Individual Income Tax for Overseas Non-resident Individual Shareholders Pursuant to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) (the "IIT Law"), which was last amended on August 31, 2018, and the Regulations on Implementation of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》), which was last amended on December 18, 2018, dividends paid by PRC enterprises are subject to a PRC individual income tax at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from an enterprise in the PRC is normally subject to an individual income tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Document Guo Shui Fa 1993 No. 045 (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued by the SAT on June 28, 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends to individuals resident overseas under the tax treaty, withhold individual income tax at the rate of 10%.

II. BUSINESS REVIEW (CONT'D)

2.6 Dividends (cont'd)

2. Tax relief (cont'd)

Withholding and Payment of Individual Income Tax for Overseas Non-resident Individual Shareholders (cont'd)

For individual holders of H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates lower than 10%, the non-foreign-invested enterprise whose Shares are listed in Hong Kong may apply on behalf of such holders for enjoying the lower preferential tax treatments, and, upon approval by the tax authorities, the amount which is over withheld will be refunded.

For individual holders of H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates higher than 10% but lower than 20%, the non-foreign-invested enterprise is required to withhold the tax at the agreed rate under the treaties, and no application procedures will be necessary.

For individual holders of H Shares receiving dividends who are citizens of countries without taxation treaties with the PRC or are under other situations, the non-foreign-invested enterprise is required to withhold the tax at a rate of 20%.

Withholding and Payment of Corporate Income Tax for Overseas Non-resident Enterprises

In accordance with the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "CIT Law"), which came into effect on January 1, 2008 and was last amended on December 29, 2018, and the Implementation Provisions for the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) which came into effect on January 1, 2008 and was last amended on April 23, 2019, a non-resident enterprise is generally subject to a 10% corporate income tax on PRC-sourced income (including dividends received from a PRC resident enterprise that issues shares in Hong Kong), if such non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected with such establishment or place in the PRC. The income tax may be reduced pursuant to applicable treaties to avoid double taxation. Such withholding tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due.

The Circular on Issues Relating to the Withholding of Corporate Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897) which was issued by the SAT on November 6, 2008, further clarified that a PRC-resident enterprise must withhold corporate income tax at a rate of 10% on dividends paid to overseas non-resident enterprise shareholders of H Shares for 2008 and subsequent years. In addition, the Response to Questions on Levying Corporate Income Tax on Dividends Derived by Non-resident Enterprise from Holding Stock such as B-shares (《國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆》) (Guo Shui Han [2009] No. 394) which was issued by the SAT and came into effect on July 24, 2009, further provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold corporate income tax at a rate of 10% on dividends of 2008 and onwards that it distributes to non-resident enterprises. Such tax rates may be further modified pursuant to the tax treaty or agreement that China has concluded with a relevant jurisdiction, where applicable.

II. BUSINESS REVIEW (CONT'D)

2.6 Dividends (cont'd)

2. Tax relief (cont'd)

Withholding and Payment of Corporate Income Tax for Overseas Non-resident Enterprises (cont'd)

Pursuant to the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, PRC Government may levy taxes on the dividends paid by a Chinese company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of total dividends payable by the Chinese company. If a Hong Kong resident directly holds 25% or more of the equity interest in a Chinese company, then such tax shall not exceed 5% of the total dividends payable by the Chinese company. The Fifth Protocol to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion issued by the State Administration of Taxation (《國家稅務總局關於〈內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排〉第五議定書》) effective on December 6, 2019 states that such provisions shall not apply to arrangement or transaction made for the primary purpose of gaining such tax benefit. The application of the dividend clause of tax agreements shall be subject to the PRC tax laws and regulations, such as the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81).

2.7 Events after the Reporting Period

As of the date of this annual report, the Bank had no significant events after the Reporting Period.

III. ISSUED SHARE CAPITAL

3.1 Capital Issue during the Reporting Period

On October 12, 2020, the Bank's H Shares were listed and traded on the Main Board of the Hong Kong Stock Exchange. In the initial public offering, the Bank issued 877,271,000 H Shares with a par value of RMB1 at an offer price of HKD3.35 per share. On November 5, 2020, the Bank exercised the over-allotment option and issued 131,590,000 H Shares with a par value of RMB1 at HKD3.35 per share, issuing 1,008,861,000 H Shares in aggregate with a par value of RMB1.

3.2 Use of Raised Funds

On October 12, 2020, the Bank was listed on the Main Board of the Hong Kong Stock Exchange with total proceeds from offering amounting to HKD3.380 billion and net proceeds amounting to HKD3.277 billion. The proceeds raised from this offering were used in accordance with the intended purposes as disclosed in the prospectus of the Bank. As of the end of the Reporting Period, all of the proceeds were used to replenish the core tier-one capital to meet the needs of continuous business development.

IV. DEBT SECURITIES ISSUED

As of the end of the Reporting Period, we had the following debts: certificates of interbank deposit with an aggregate principal amount of RMB23.970 billion; financial bonds with an aggregate principal amount of RMB7.000 billion.

During the Reporting Period, as approved by CBIRC Shandong Office and the People's Bank of China, the Bank issued tier-two capital debts with a par value of RMB3.000 billion in the national inter-bank bond market on September 10, 2020, which will expire on September 14, 2030 with an interest rate of 4.20%, and the payment was completed on September 14, 2020 to replenish tier-two capital.

Please refer to note 31 to the financial statements of this annual report for details of debts that were not issued during the Reporting Period.

V. DIRECTORS AND SUPERVISORS

5.1 Biographies of Directors, Supervisors and Senior Management

For biographical details of the Directors, Supervisors and senior management of the Bank, please refer to “Directors, Supervisors, Senior Management and Employees” of this annual report.

5.2 Service Contracts of Directors and Supervisors

The Bank has entered into a service contract with each of its Directors and Supervisors in respect of, among other things, compliance with relevant laws and regulations, observation of the Articles of Association and provisions on arbitration. During the Reporting Period, none of the Directors and Supervisors of the Bank had any service contract determinable by the Bank within one year without payment of any compensation (other than statutory compensation).

5.3 Directors’, Supervisors’ and Chief Executive’s Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or its Associated Corporations

So far as the Directors, Supervisors and chief executives of the Bank are aware, as of the end of the Reporting Period, the interests and short positions of the Directors, Supervisors and chief executives in the shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Bank and the Hong Kong Stock Exchange were as follows:

Name of Director/ Supervisor/ chief executive	Class of shares	Capacity	Number of Domestic Shares directly or indirectly held	Percentage of total issued shares ⁽³⁾ (%)	Percentage of total class shares ⁽³⁾ (%)	Long position/ short position
Mr. TAN Xianguo (譚先國)	Domestic Shares	Beneficial owner	491,426	0.0082	0.0099	Long position
Mr. ZHANG Renzhao ⁽¹⁾ (張仁釗)	Domestic Shares	Beneficial owner	495,656	0.0083	0.0100	Long position
		Interest of spouse	113,752	0.0019	0.0023	Long position
Mr. BI Qiubo (畢秋波)	Domestic Shares	Beneficial owner	498,985	0.0083	0.0100	Long position
Ms. TAO Zunjian (陶遵建)	Domestic Shares	Beneficial owner	143,804	0.0024	0.0029	Long position
Mr. LIU Changjie (劉昌傑)	Domestic Shares	Beneficial owner	499,105	0.0083	0.0100	Long position
Mr. DENG Wei (鄧衛)	Domestic Shares	Beneficial owner	497,611	0.0083	0.0100	Long position
Ms. ZHANG Xuening ⁽²⁾ (張雪凝)	Domestic Shares	Beneficial owner	173,769	0.0029	0.0035	Long position
		Interest of spouse	117,214	0.0020	0.0024	Long position

V. DIRECTORS AND SUPERVISORS (CONT'D)

5.3 Directors', Supervisors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or its Associated Corporations (cont'd)

Notes:

- (1) By virtue of the SFO, Mr. Zhang Renzhao is deemed to be interested in the 113,752 Domestic Shares held by his spouse, Ms. Qu Wenwei (曲文微).
- (2) By virtue of the SFO, Ms. Zhang Xuening is deemed to be interested in the 117,214 Domestic Shares held by her spouse, Mr. Xu Qiang (許強).
- (3) The percentages above are calculated based on the total number of issued shares of 5,980,058,344 shares and the total number of Domestic Shares of 4,971,197,344 shares of the Bank as of the end of the Reporting Period.

Save as disclosed above, as of the end of the Reporting Period, none of the Directors, Supervisors or chief executive of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

5.4 Directors' and Supervisors' Interests in Transactions, Arrangements or Contracts

Save for the continuing connected transactions which are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, as of the end of the Reporting Period and at any time during the Reporting Period, none of the Directors and Supervisors or any entity connected with the Directors and Supervisors had any direct or indirect interest in any transaction, arrangement or contract of significance (other than service contracts) in relation to the Bank's business to which the Bank was a party.

5.5 Directors' and Supervisors' Interests in Competing Business

During the Reporting Period, none of the Directors and Supervisors of the Bank held any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Bank.

5.6 Arrangements for Directors and Supervisors to Acquire Shares or Debentures

During the Reporting Period, the Bank did not enter into any arrangements to enable the Directors and Supervisors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

V. DIRECTORS AND SUPERVISORS (CONT'D)

5.7 Remuneration of Directors and Supervisors

According to the remuneration policy of the Bank, in assessing the remuneration payable to the Directors and Supervisors of the Bank, the Nomination and Remuneration Committee will take into account a number of factors including the comparable remuneration paid by the Bank and the term of office, obligations, responsibilities and performance (as the case may be) of the Directors and Supervisors of the Bank. For details of the remuneration of the Directors and Supervisors, please refer to note 9 to the financial statements and “Directors, Supervisors, Senior Management and Employees” of this annual report. As of the end of the Reporting Period, the Bank did not grant any incentive shares to the Directors, Supervisors and senior management.

5.8 Permitted Indemnity Provision and Directors' Insurance

During the Reporting Period, the Bank has purchased effective liability insurance for all Directors against possible legal proceedings arising from corporate activities by Directors.

VI. MANAGEMENT CONTRACTS

Other than the service contracts entered into with the management of the Bank, the Bank has not entered into any other contract with any individual, the Bank or body corporate in relation to the management or administration of the whole or any substantial part of any business of the Bank.

VII. MAJOR CUSTOMERS

As of the end of the Reporting Period, the balance of the Bank's loans to any single borrower did not exceed 10% of the Bank's net capital, the total deposits from the five largest depositors of the Bank accounted for less than 30%, and the total loans and advances to the five largest borrowers accounted for less than 30%. None of the Directors of the Bank and their close associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Bank) has any interest in the above customers.

VIII. DONATIONS

During the Reporting Period, the Bank made charitable and other donations in an aggregate amount of approximately RMB130,000.

IX. RESERVES

Details of the changes in the reserves of the Bank during the Reporting Period are set out in the consolidated statement of changes in equity in the financial statements of the annual report. As of the end of the Reporting Period, the distributable reserves of the Group amounted to RMB3.674 billion.

X. CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the transactions between the Bank and its connected persons constitute connected transactions of the Bank. The Bank provides commercial banking services and products in the ordinary and usual course of its business to members of the public in the PRC, which include our connected persons (such as Directors, Supervisors, president, controlling Shareholders, substantial Shareholders and/or their respective associates). These transactions are entered into on normal commercial terms (or commercial terms that are better to us) in the ordinary and usual course of our business, and thus are fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

We have also entered into certain non-bank transactions with our connected persons and/or their respective associates from time to time in the ordinary and usual course of our business on normal commercial terms (or commercial terms that are better to us), which are expected to constitute de minimis transactions under Chapter 14A of the Listing Rules. The transactions contemplated under the those arrangements constitute continuing connected transactions of the Bank which are fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

XI. COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Bank believes that it has complied with the relevant laws and regulations in the banking industry, and closely monitored the changes to the regulatory environment, laws and systems, and has been improving its internal compliance. The Bank is committed to maintaining a high standard of corporate governance. Details of the corporate governance of the Bank are set out in the "Corporate Governance Report" of this annual report.

XII. SUFFICIENCY OF PUBLIC FLOAT

As of the date of this annual report, based on the public information available to the Bank and to the knowledge of the Directors, the Bank had maintained sufficient public float in compliance with the minimum requirement under the Listing Rules.

XIII. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE BANK

The Bank was listed on the Main Board of the Hong Kong Stock Exchange on October 12, 2020. As of the end of the Reporting Period, neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Bank.

XIV. EQUITY-LINKED AGREEMENTS

During the Reporting Period, no other equity-linked agreements were entered into by the Bank or subsisted.

XV. PRE-EMPTIVE RIGHTS

There are no provisions in the relevant PRC laws and the Articles of Association for granting pre-emptive rights to Shareholders of the Bank. The Articles of Association provides that, the Bank may increase its capital as follows after resolutions being made at the Shareholders' general meeting and upon approval by relevant national regulatory authorities: public offering of shares; non-public offering of shares; placing new shares to existing Shareholders; distributing bonus shares to existing Shareholders; transferring reserve funds to increase share capital according to provisions; other methods stipulated by laws and administrative regulations.

XVI. AUDITORS

For information about the Bank's auditors, please refer to the "Corporate Governance Report".

By Order of the Board of Directors

TAN Xianguo
Chairman

Weihai, China

CHAPTER 10 REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, pursuant to the PRC Company Law, the Commercial Banking Law and other laws and regulations as well as the relevant provisions of the Articles of Association of the Bank, the Board of Supervisors of the Bank performed its functions for purpose of safeguarding the legitimate rights and interests of the Bank, the Shareholders and depositors, performed its supervisory duties with due diligence in accordance with laws, driving the Bank to continuously improve its corporate governance, promote the legal and steady development of the Bank and successfully achieve the listing of H Shares. Details are reported as follows:

I. MAJOR WORK OF THE BOARD OF SUPERVISORS IN 2020

1.1 Focus on Effectively Leveraging its Ability in Handling Meeting Proceedings and Improve Supervision Efficiency at Meetings

During the Reporting Period, the Board of Supervisors gave full play to its supervisory function at discussion meetings by paying attention to focal points, deliberating important events and focusing on improving effectiveness. During the year, the Board of Supervisors convened four meetings at which 48 resolutions on various topics were considered and heard, attended one Shareholders' general meeting and attended seven Board meetings.

1.2 Enhance the Systematic Operation Mechanism with Focus on Improving Modern Corporate Governance

In accordance with the listing requirements, amendments were made to the Rules of Procedure for the Board of Supervisors (《監事會議事規則》) during the Reporting Period, which provided institutional guarantee for the further improvement of the modern corporate governance mechanism.

1.3 Focus on the Performance of the Functions of Special Committees and Continuously Improve the Service Concept

The special committees under the Board of Supervisors convened five meetings in total throughout the year, at which 20 resolutions were heard and considered, with a focus on strengthening targeted research on work. The Board of Supervisors continued to strengthen the working method of "shifting the focus forward" and the awareness of actively serving the grassroots, while carrying out special research in a scientific manner. Placing the focus of research and supervision on major issues concerning the implementation of national policies, bank-wide reform and development as well as upgrading and transformation, the Board of Supervisors stayed close to the Bank's key work in operation management and the new normal of business development.

1.4 Continue to Deepen Daily Supervision and Enhance Performance Efficiency

During the Reporting Period, the Board of Supervisors gradually improved its daily supervision. The members of the Board of Supervisors performed its supervision duties by attending the relevant meetings of the Board of Directors and senior management, reviewing the minutes of the meetings and challenging the work of the relevant functional departments. Firstly, the Board of Supervisors supervised the performance of duties, regularly inspected the implementation of the resolutions of the Shareholders' general meetings and the Board of Directors and supervised the effective operation of the Board of Directors and the special committees to duly perform the performance evaluation. Secondly, the Board of Supervisors carried out financial supervision and supervised the Bank's important financial decisions, external audit, operation and financial budget implementation. Thirdly, the Board of Supervisors strengthened the supervision of internal control management, and supervised the identification and assessment of internal control environmental risks, especially the management system, operation process and key risk links of new businesses and new products. Fourthly, the Board of Supervisors strengthened risk management supervision, timely identified problems in internal control and risk management, and supervised rectification to ensure the stable operation of the Bank. Fifth, the Board of Supervisors strengthened self-construction and performed the duty performance assessment and internal and external training for Supervisors to effectively improve their ability to perform duties.

II. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON THE CONCERNED MATTERS OF THE BANK IN 2020

2.1 Operation in Compliance with Laws

During the Reporting Period, the Bank operated its business in accordance with the laws and its decision-making procedures were in compliance with the relevant requirements of laws, regulations and the Articles of Association. The Bank completed all annual targets and tasks set by the Shareholders' general meeting and the Board, and no significant risks and violations occurred. The Directors and other senior management of the Bank are not aware of any violation of laws, regulations and the Articles of Association of the Bank and any act which is detrimental to the interests of the Bank and the Shareholders when performing their duties and exercising their powers.

2.2 Authenticity of the Financial Report

The annual financial report of the Bank has been audited by BDO China Shu Lun Pan Certified Public Accountants LLP and BDO Limited in accordance with the PRC Accounting Standards for Business Enterprises and the International Financial Reporting Standards, respectively, and a standard unqualified audit report has been issued. The financial report gives a true, accurate and complete view of the financial position and operating results of the Bank in all material aspects.

2.3 Acquisition and Disposal of Assets

During the Reporting Period, the Bank had no other material acquisitions or mergers.

2.4 Related Party Transactions

During the Reporting Period, the management of related party transactions was in compliance with the relevant requirements of the national laws, regulations and the Articles of Association of the Bank, and the relevance indicators were in compliance with the regulatory standards, and no acts which were detrimental to the interests of the Bank and the Shareholders were found.

2.5 Implementation of Resolutions of the Shareholders' General Meeting

Members of the Board of Supervisors attended the Board meetings and the Shareholders' general meetings of the Bank, and had no objection to the reports and proposals submitted by the Board of the Bank to the Shareholders' general meetings for consideration during the year, supervised the implementation of the resolutions of the Shareholders' general meetings, and considered that the Board was able to earnestly implement the relevant resolutions of the Shareholders' general meetings.

2.6 Internal Control

The Bank continued to strengthen and improve its internal control and established a relatively complete, reasonable and effective internal control system. During the Reporting Period, the internal control system was effective, and no material defects were found in respect of the completeness, reasonableness and effectiveness of the internal control mechanism and system of the Bank.

2.7 Information Disclosure

During the Reporting Period, the Bank earnestly fulfilled its information disclosure obligations as a listed company, continuously enhanced the transparency of corporate governance and operation and management, and improved the completeness and adequacy of information disclosure, so as to ensure that all Shareholders had access to significant information of the Bank in a fair manner.

III. PERFORMANCE OF EXTERNAL SUPERVISORS

There are three external Supervisors in the Board of Supervisors of the Bank, and the chairman of the Nomination Committee and the Supervision Committee under the Board of Supervisors are served by external Supervisors. During the Reporting Period, the external Supervisors independently performed their supervisory duties in accordance with their fiduciary and diligent duties to the Bank and all Shareholders, actively attended the meetings of the Board of Supervisors and relevant committees, attended the meetings of the Board of Directors and the Shareholders' general meeting, and expressed objective and fair independent opinions on the matters discussed at the Shareholders' general meeting, the Board of Directors and the Board of Supervisors of the Bank, which fully played the role of external Supervisors.

CHAPTER 11 IMPORTANT EVENTS

USE OF PROCEEDS RAISED

For the issue of H Shares of the Bank, please refer to “Report of board of Directors – III. Issued Share Capital” in this annual report.

ISSUE OF BONDS

Tied-two capital bonds of RMB3.000 billion at 4.20% were issued by the Bank on September 10, 2020, which was used to replenish tied-two capital.

MATERIAL LITIGATION OR ARBITRATION

As of the end of the Reporting Period, the Bank was the plaintiff in 16 outstanding litigations with a principal balance of over RMB30 million, involving an amount of RMB904 million. The Bank was not the defendant in any outstanding litigations or arbitrations with a principal balance of over RMB10 million. The above outstanding litigations and arbitrations are all loan disputes arising from banking business of the Bank, and as of the end of the Reporting Period, the Bank did not expect that such litigation and arbitration (individually or jointly) would have a material adverse effect on the Bank’s business, financial position and results of operations. Save as disclosed above, as of the date of this annual report, the Bank had no other material litigation, arbitration and major case, or other material contingent liabilities.

PENALTIES AND RECTIFICATION

As far as the Bank is aware, during the Reporting Period, the Bank and its Directors, Supervisors and senior management were not subject to any investigation, administrative penalty and public criticism by the China Securities Regulatory Commission, investigation by competent authorities and enforcement of mandatory measures by judicial authorities or disciplinary departments or subject to transfer to judicial authorities or criminal liabilities, material administrative penalties by other administrative authorities such as environmental protection, safety supervision and taxation authorities, and public condemnation by the Hong Kong Stock Exchange.

FULFILLMENT OF UNDERTAKINGS

The undertakings fulfilled during the Reporting Period and not fulfilled as of the end of the Reporting Period by the Bank, its Shareholders, related parties and other parties involved in undertaking are as follows:

Reason for undertaking	Parties involved in undertaking	Type of undertaking	Details of undertaking	Time of undertaking	Term of undertaking	Particulars on performance
Non-competition	Shandong Hi-Speed Group Company	Undertakings by controlling Shareholders	<ol style="list-style-type: none">Undertake that, save as disclosed in the listing prospectus, Shandong Hi-Speed Group Company and its controlled non-listed enterprises (excluding the Bank, our subsidiaries and our branch offices) (collectively, the “Relevant Enterprises”) shall not engage in any business activities within the principal businesses carried on by the Bank, our subsidiaries and our branch offices as of the signing date of this undertaking.Undertake that, in the event it (or the Relevant Enterprises) and the Bank participate in the same tender project relating to the principal businesses of the Group, it shall grant, or shall procure the Relevant Enterprises to grant, a pre-emptive right to participate in any such tender project to the Bank in the manner stated in the non-competition undertakings.	September 16, 2020	Long term	In progress, no violations of the undertakings.

Chapter 11 Important Events

MATERIAL CONTRACTS, MATERIAL GUARANTEES AND SIGNIFICANT INVESTMENTS

Material Contracts

During the Reporting Period, the Bank did not have any material contracts subject to disclosure.

Material Guarantees

As of the end of the Reporting Period, the balances of letters of guarantees and letters of credit of the Bank amounted to RMB716 million and RMB2.025 billion, respectively. The guarantee business is in the ordinary course of business of the Bank, and the above businesses are financial guarantee business within the scope of business approved by the CBIRC during the Reporting Period.

Significant Investments

During the Reporting Period, the Bank had no significant investment. There was no specific plan for significant investments or acquisition of material capital assets or other businesses.

Disposal of Assets and Mergers

During the Reporting Period, there had been no material disposal of assets nor mergers within the Bank.

MATERIAL RELATED PARTY TRANSACTIONS

Related Party Transactions Related to Daily Operations

The Bank carried out related party transactions in strict compliance with the relevant requirements of the regulatory authorities and the Administrative Measures for Related (Connected) Party Transactions of Weihai City Commercial Bank (《威海市商業銀行關聯(連)交易管理辦法》) and the Rules of Procedure for the Related Party Transactions Control Committee under the Board of Directors (《董事會關聯交易控制委員會議事規則》) formulated by the Bank.

In accordance with the requirements of the CBIRC, the Bank has established a comprehensive, dynamic and complete list of related parties, and reviewed and approved related party transactions in accordance with commercial principles and on terms no more favorable than those of similar transactions with non-related parties. The terms of such transactions are fair and reasonable and in the interests of all Shareholders and the Bank as a whole, and have no negative impact on the Bank's operating results and financial position. Related party transactions were conducted in accordance with relevant laws and regulations, and credit conditions and review procedures of the Bank, and the amount of all the loans was recovered normally without non-performing loans.

Related Party Transactions in Relation to Acquisition and Disposal of Assets or Equity Interests

During the Reporting Period, there was no related party transaction in relation to acquisition or disposal of assets or equity interests by the Bank.

Related Party Transactions in Relation to Joint External Investment

During the Reporting Period, the Bank did not have any related party transaction in relation to joint external investment.

Related Party Credit and Debt Transactions

During the Reporting Period, the Bank did not have any related party credit and debt transaction for non-operating purpose.

SUBSEQUENT EVENTS AFTER REPORTING PERIOD

As at the date of this annual report, there was no significant matter after the Reporting Period.

INDEPENDENT AUDITOR'S REPORT



Tel : +852 2541 5041
Fax : +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話 : +852 2541 5041
傳真 : +852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF WEIHAI CITY COMMERCIAL BANK CO., LTD.

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

OPINION

We have audited the consolidated financial statements of Weihai City Commercial Bank Co., Ltd. (the "**Bank**") and its subsidiary (together the "**Group**") set out on pages 153 to 283, which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

KEY AUDIT MATTERS (CONT'D)

Loss allowances of loans and advances to customers and financial investments measured at amortised cost

Refer to the accounting policies in note 2(8), note 18 and note 19 to the consolidated financial statements.

The Key Audit Matter

The Group's loans and advances to customers and financial investments measured at amortised cost as at December 31, 2020 amounted to RMB178,274 million, with loss allowances amounted to RMB3,699 million as at December 31, 2020.

The Group uses the expected credit loss ("**ECL**") model to calculate the loss allowance in accordance with International Financial Reporting Standard 9, Financial instruments ("**IFRS 9**").

The determination of loss allowances using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.

In particular, the determination of the loss allowances is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses for corporate loans and financial investments measured at amortised cost are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The expected credit losses for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors.

Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of loss allowances as at the end of the reporting period.

Independent Auditor's Report

KEY AUDIT MATTERS (CONT'D)

Loss allowances of loans and advances to customers and financial investments measured at amortised cost (Cont'd)

The Key Audit Matter (Cont'd)

We identified the provision for loss allowances of loans and advances to customers and financial investments measured at amortised cost as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Group.

How the matter was addressed in our audit

Our audit procedures to assess loss allowances of loans and advances to customers and financial investments measured at amortised cost included the following:

- understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and advances to customers and financial investments measured at amortised cost, the credit grading process and the measurement of loss allowances;
- assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments;
- assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of the loans and advances to customers and financial investments list used by management to assess the loss allowances with the general ledger, selecting samples and comparing individual loan and investment information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and investment list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources;

Independent Auditor's Report

KEY AUDIT MATTERS (CONT'D)

Loss allowances of loans and advances to customers and financial investments measured at amortised cost (Cont'd)

How the matter was addressed in our audit (Cont'd)

- for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged the reasons for modifications to estimates and input parameters compared with prior period and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development;
- for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the logics and compilation of the overdue information for selected samples;
- evaluating the validity of management's assessment on whether the credit risk of the loans and advances to customers has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting risk-based samples. We analysed the portfolio by industry sector to select samples in industries more vulnerable to the current economic situation with reference to other borrowers with potential increased credit risk. We checked loan overdue information, making enquiries to the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses;
- recalculating the amount of credit loss allowance for 12 month and lifetime credit losses using the expected credit loss model based on the above parameters and assumptions for a sample of loans and investments where the credit risk of the loan has not, or has, increased significantly since initial recognition, respectively; and
- assessing whether the disclosures in the consolidated financial statements in relation to the provision for loss allowances of loans and advances to customers and financial investments measured at amortised cost meet the requirements in the prevailing accounting standards.

Independent Auditor's Report

KEY AUDIT MATTERS (CONT'D)

Assessment of fair value of financial instruments

Refer to the accounting policies in note 2(27) and note 43 to the consolidated financial statements.

The Key Audit Matter

The Group mainly holds level 2 and level 3 financial instruments measured at fair value. As at December 31, 2020, fair value of financial instruments amounted to RMB33,169 million.

The valuation of financial instruments measured at fair value of the Group is based on a combination of market data and valuation models which often require a considerable number of inputs. As in the case of level 2 financial instruments measured at fair value, the inputs of valuation models are mainly observable data. As in the case of level 3 financial instruments measured at fair value, where such observable data is not readily available, estimates need to be developed which can involve significant management judgment.

The Group has developed its own models to value certain level 2 and level 3 financial instruments measured at fair value, which also involves significant management judgment.

We have identified assessment of the fair value of financial instruments as a key audit matter because of the complexity involved in valuing certain financial instruments and the significant judgment exercised by management in determining the inputs used in the valuation models.

How the matter was addressed in our audit

Our audit procedures to assess the fair value of financial instruments included the following:

- understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the valuation, independent price verification and valuation model approval for financial instruments;
- performing, on a sample basis, independent valuations of level 2 and level 3 financial instruments measured at fair value and comparing these valuations with the valuations of the Group. Our procedures included comparing the valuation models of the Group with our knowledge of practice, testing inputs to the fair value calculations or, with the assistance of external valuation specialists, establishing our own valuation models to perform revaluations; and
- assessing whether the disclosures in the consolidated financial statements appropriately reflect the exposure to financial instrument valuation risk and meet the requirements of the prevailing accounting standards.

Independent Auditor's Report

KEY AUDIT MATTERS (CONT'D)

Consolidation of structured entities

Refer to the accounting policies in note 2(27) and note 36 to the consolidated financial statements.

The Key Audit Matter

Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity through a wealth management product, an asset management plan, a trust plan or an investment fund.

In determining whether the Group should retain any partial interests in a structured entity or should consolidate a structured entity, management is required to consider the risks and rewards retained, the power the Group is able to exercise over the activities of the entity and its ability to influence the Group's own returns from the entity. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions.

We identified the consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and because of the judgement exercised by management in the qualitative assessment of the terms and nature of each entity.

How the matter was addressed in our audit

Our audit procedures to assess the consolidated of structured entities included the following:

- understanding and assessing the design and implementation of key internal controls of financial reporting over consolidation of structured entities;
- selecting significant structured entities of each key product type and performing the following procedures for each entity selected:
 - inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;
 - inspecting the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity; and
 - evaluating management's analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity;
 - assessing management's judgement over whether the structured entity should be consolidated or not; and
- assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

Independent Auditor's Report

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Bank's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited

Certified Public Accountants

Chan Wing Fai

Practising Certificate no. P05443

Hong Kong, March 31, 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2020	2019
Interest income		11,090,500	8,957,605
Interest expense		(6,432,187)	(5,651,369)
Net interest income	3	4,658,313	3,306,236
Fee and commission income		533,432	416,384
Fee and commission expense		(69,714)	(144,675)
Net fee and commission income	4	463,718	271,709
Net trading (losses)/gains	5	(159,041)	74,431
Net gains arising from investment securities	6	1,056,752	1,294,442
Other operating income	7	14,222	365
Operating income		6,033,964	4,947,183
Operating expenses	8	(1,577,661)	(1,462,342)
Impairment losses on assets	11	(2,505,035)	(1,671,168)
Profit before tax		1,951,268	1,813,673
Income tax expense	12	(303,027)	(290,012)
Net profit for the year		1,648,241	1,523,661
Net profit for the year attributable to:			
Equity shareholders of the Bank		1,509,547	1,439,696
Non-controlling interests		138,694	83,965
		1,648,241	1,523,661

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2020	2019
Other comprehensive income for the year:			
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, net of tax	34(d)	(211,789)	23,277
– net movement in the impairment reserve, net of tax	34(e)	2,267	922
Items that will not be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income:			
– net movement in the fair value reserve, net of tax		15,976	–
Other comprehensive income, net of tax		(193,546)	24,199
Total comprehensive income for the year		1,454,695	1,547,860
Total comprehensive income for the year attributable to:			
Equity shareholders of the Bank		1,316,001	1,463,895
Non-controlling interests		138,694	83,965
		1,454,695	1,547,860
Basic and diluted earnings per share (in RMB)	13	0.26	0.29

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2020	2019
Assets			
Cash and deposits with the central bank	14	23,500,280	21,203,836
Deposits with banks and other financial institutions	15	4,875,347	2,026,908
Placements with banks	16	241,446	507,205
Financial assets held under resale agreements	17	605,131	5,386,562
Loans and advances to customers	18	117,749,061	90,111,642
Financial investments:	19		
Financial investments measured at fair value through profit or loss		14,896,962	18,507,144
Financial investments measured at fair value through other comprehensive income		18,272,189	13,899,189
Financial investments measured at amortised cost		68,052,213	56,722,112
Property and equipment	21	702,157	705,505
Right-of-use assets	22	453,977	476,851
Deferred tax assets	23	1,372,687	957,751
Other assets	24	16,880,198	14,130,816
Total assets		267,601,648	224,635,521
Liabilities and Equity			
Liabilities			
Borrowing from the central bank		7,240,711	4,730,937
Deposits from banks	26	3,085,763	5,002,125
Placements from banks and other financial institutions	27	15,234,638	10,429,485
Financial assets sold under repurchase agreements	28	6,545,672	9,945,309
Deposits from customers	29	179,588,530	144,233,973
Income tax payable		345,375	379,031
Debt securities issued	31	30,872,662	29,624,782
Lease liabilities	30	423,602	448,682
Deferred tax liabilities	23	309	5,168
Other liabilities	32	2,590,643	1,912,531
Total liabilities		245,927,905	206,712,023

Consolidated Statement of Financial Position

As at December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2020	2019
Equity			
Share capital	33	5,980,058	4,971,197
Capital reserve	34(a)	4,947,553	3,119,964
Surplus reserve	34(b)	1,225,715	1,089,080
General reserve	34(c)	2,293,035	2,079,232
Fair value reserve	34(d)	(225,644)	(29,831)
Impairment reserve	34(e)	11,422	9,155
Retained earnings	35	3,673,849	3,160,582
Total equity attributable to equity shareholders of the Bank		17,905,988	14,399,379
Perpetual bonds	34(f)	2,999,675	2,999,675
Non-controlling interests		768,080	524,444
Total equity		21,673,743	17,923,498
Total liabilities and equity		267,601,648	224,635,521

Approved and authorized for issue by the board of directors on March 31, 2021 and signed on its behalf by

Tan Xianguo
Chairman

Meng Dongxiao
President

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

Notes	Attributable to equity shareholders of the Bank									Non-controlling interests	Total
	Share Capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Retained earnings	Subtotal	Perpetual bonds		
Balance at January 1, 2020	4,971,197	3,119,964	1,089,080	2,079,232	(29,831)	9,155	3,160,582	14,399,379	2,999,675	524,444	17,923,498
Changes in equity for the year:											
Net profit for the year	-	-	-	-	-	-	1,509,547	1,509,547	-	138,694	1,648,241
Other comprehensive income	-	-	-	-	(195,813)	2,267	-	(193,546)	-	-	(193,546)
Total comprehensive income	-	-	-	-	(195,813)	2,267	1,509,547	1,316,001	-	138,694	1,454,695
Issue of H shares 33	1,008,861	1,835,231	-	-	-	-	-	2,844,092	-	-	2,844,092
Capital contribution by non-controlling interests 20	-	(7,642)	-	-	-	-	-	(7,642)	-	139,942	132,300
Appropriation of profit:											
- Appropriation to surplus reserve 34(b)	-	-	136,635	-	-	-	(136,635)	-	-	-	-
- Appropriation to general reserve 34(c)	-	-	-	213,803	-	-	(213,803)	-	-	-	-
- Appropriation to non-controlling interests	-	-	-	-	-	-	-	-	-	(35,000)	(35,000)
- Appropriation to shareholders 35	-	-	-	-	-	-	(497,121)	(497,121)	-	-	(497,121)
- Appropriation to perpetual bondholders	-	-	-	-	-	-	(148,721)	(148,721)	148,721	-	-
- Distribution paid to perpetual bondholders	-	-	-	-	-	-	-	-	(148,721)	-	(148,721)
Balance at December 31, 2020	5,980,058	4,947,553	1,225,715	2,293,035	(225,644)	11,422	3,673,849	17,905,988	2,999,675	768,080	21,673,743

Notes	Attributable to equity shareholders of the Bank									Non-controlling interests	Total
	Share Capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Retained earnings	Subtotal	Perpetual bonds		
Balance at January 1, 2019	4,971,197	3,119,964	952,746	1,726,858	(53,108)	8,233	2,641,088	13,366,978	-	440,479	13,807,457
Changes in equity for the year:											
Net profit for the year	-	-	-	-	-	-	1,439,696	1,439,696	-	83,965	1,523,661
Other comprehensive income	-	-	-	-	23,277	922	-	24,199	-	-	24,199
Total comprehensive income	-	-	-	-	23,277	922	1,439,696	1,463,895	-	83,965	1,547,860
Issuance of perpetual bonds 34(f)	-	-	-	-	-	-	-	-	2,999,675	-	2,999,675
Appropriation of profit:											
- Appropriation to surplus reserve 34(b)	-	-	136,334	-	-	-	(136,334)	-	-	-	-
- Appropriation to general reserve 34(c)	-	-	-	352,374	-	-	(352,374)	-	-	-	-
- Appropriation to shareholders and bondholders 35	-	-	-	-	-	-	(431,494)	(431,494)	-	-	(431,494)
Balance at December 31, 2019	4,971,197	3,119,964	1,089,080	2,079,232	(29,831)	9,155	3,160,582	14,399,379	2,999,675	524,444	17,923,498

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2020	2019
Cash flows from operating activities			
Profit before income tax		1,951,268	1,813,673
<i>Adjustments for:</i>			
Impairment losses on assets	11	2,505,035	1,671,168
Depreciation and amortisation	8	204,588	217,743
Unrealised foreign exchange losses/(gains)	5	51,668	(19,238)
Net losses on disposal of property and equipment	7	453	14,257
Net trading losses/(gains)	5	107,373	(55,193)
Net gains on disposal of investment securities	6	(1,056,752)	(1,294,442)
Interest expenses on debt securities issued	3	1,055,295	1,411,197
Interest expenses on lease liabilities	8	20,324	22,907
Interest income from financial investments	3	(3,854,396)	(3,114,818)
		984,856	667,254
<i>Changes in operating assets</i>			
Net increase in deposits with the central bank		(2,180,570)	(954,391)
Net increase in loans and advances to customers		(27,841,814)	(17,344,519)
Net increase in finance lease receivables		(2,867,835)	(1,305,315)
Net increase in other operating assets		(963,507)	(736,505)
		(33,853,726)	(20,340,730)
<i>Changes in operating liabilities</i>			
Net increase in borrowing from the central bank		2,509,976	1,080,312
Net decrease in deposits from banks		(1,907,902)	(2,388,460)
Net increase/(decrease) in placements from banks and other financial institutions		4,784,540	(62,260)
Net (decrease)/increase in financial assets sold under repurchase agreements		(3,398,708)	4,186,445
Net increase in deposits from customers		35,279,723	26,416,906
Income tax paid		(691,962)	(443,691)
Net increase in other operating liabilities		1,146,440	1,600,721
		37,722,107	30,389,973
Net cash flows generated from operating activities		4,853,237	10,716,497

Consolidated Statement of Cash Flows

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2020	2019
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		318,808,813	289,550,218
Gains received from investment activities		4,911,147	4,669,159
Payments on acquisition of investments		(338,178,238)	(278,245,668)
Payments on acquisition of property and equipment, intangible assets and other assets		(46,525)	(63,127)
Proceeds from disposal of property and equipment and other assets		48,381	28,200
Net cash flows (used in)/generated from investing activities		(14,456,422)	15,938,782
Cash flows from financing activities			
Proceeds from issue of shares upon share offer		2,844,092	–
Proceeds from capital contribution by non-controlling interests		132,300	–
Proceeds from debt securities issued	37(c)	41,281,663	65,574,592
Repayment of debt securities issued	37(c)	(40,030,000)	(78,790,000)
Interest paid on debt securities issued	37(c)	(1,059,078)	(1,513,521)
Capital element of lease liabilities paid		(113,460)	(105,591)
Interest element of lease liabilities paid		(20,324)	(22,907)
Dividends paid		(545,404)	(417,952)
Proceeds from issuance of perpetual bonds	37(c)	–	2,999,675
Interest paid on perpetual bonds		(148,721)	–
Net cash flows generated from/(used in) financing activities		2,341,068	(12,275,704)
Effect of foreign exchange rate changes on cash and cash equivalents		(84,389)	(1,419)
Net (decrease)/increase in cash and cash equivalents		(7,346,506)	14,378,156
Cash and cash equivalents as at January 1		35,241,608	20,863,452
Cash and cash equivalents as at December 31		27,895,102	35,241,608
Interest received		13,649,509	9,797,448
Interest paid (excluding interest expense on debt securities issued)		(4,801,272)	(3,457,301)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

1. GENERAL

Weihai City Commercial Bank Co., Ltd. (the “**Bank**”) (formerly Weihai City Cooperation Bank Co., Ltd.) commenced business as a city commercial bank on July 21, 1997, according to the approval by the People’s Bank of China (“**PBOC**”). According to the approval by the PBOC Shandong Branch, Weihai City Cooperation Bank Co., Ltd. was renamed as Weihai City Commercial Bank Co., Ltd. on April 17, 1998.

The Bank has been approved by the former China Banking Regulatory Commission (the “**CBRC**”, currently the China Banking and Insurance Regulatory Commission, the “**CBIRC**”) (Shandong Branch) to hold financial business permit (No. D10014650043). By December 31, 2020, the paid-in capital of the Bank was RMB5,980,058,344, with its registered office located at No. 9 Baoquan Road Weihai, Shandong Province.

On October 12, 2020, the Bank’s H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (Stock code: 9677).

The principal activities of the Bank and its subsidiary (together the “**Group**”) include corporate banking, retail banking, financial market business and finance lease services approved by the CBIRC.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of Preparation – Statement of Compliance

These financial statements have 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 requirements of Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(a) Adoption of new/revised IFRSs – effective January 1, 2020

The IASB has issued a number of new or revised IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IFRS 3, Definition of a Business
- Amendments to IAS 1 and IAS 8, Definition of Material
- Amendments to IAS 39, IFRS 7 and IFRS 9, Interest Rate Benchmark Reform

The Group has adopted all the new or amended IFRSs which are effective for the Group’s accounting periods beginning on or after January 1, 2020 throughout the years ended December 31, 2020 and December 31, 2019. None of these new or revised IFRSs has a material impact on the Group’s result and financial position of the current or prior period.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(1) Basis of preparation – Statement of compliance (Cont'd)

(b) Possible impact of amendments, new standards and interpretations issued but not yet effective for the period beginning on January 1, 2020

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the financial statements, the Group has adopted all applicable new and revised IFRSs to the reporting period, except for any new standards or interpretations that are not yet effective for the year ended December 31, 2020.

The revised and new accounting standards and interpretations issued but not yet effective for the year ended December 31, 2020 or before, are set out below:

Amendments to IFRS 3	Reference to the Conceptual Framework ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
IFRS 17	Insurance Contract ⁴
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current ²
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use ²
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16 and IAS 41 ²
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2 ¹
Amendments to IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9 ⁴
Amendments to IFRS 17	Insurance Contract ⁴

¹ Effective for annual periods beginning on or after January 1, 2021

² Effective for annual periods beginning on or after January 1, 2022

³ No mandatory effective date yet determined but available for adoption

⁴ Effective for annual periods beginning on or after January 1, 2023

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them are unlikely to have significant impacts on the Group's result of operations and financial position.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(2) Basis of preparation – Functional and presentation currency

The financial statements are presented in Renminbi (“RMB”), which is the functional currency of the Group. All financial information presented in RMB has been rounded to the nearest thousand, except when otherwise indicated.

(3) Basis of preparation – Basis of measurement

The financial information has been prepared on the historical cost basis except of certain financial assets, which are measured at fair value as explained in the accounting policies set out below.

(4) Basis of preparation – Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, 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 judgments about 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 recognised 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 consolidated financial statements and major sources of estimation uncertainty are discussed in Note 2(27).

(5) Subsidiary and non-controlling interests

Subsidiaries are entities controlled by the Group. The 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 the Group has power, only substantive rights (held by the Group and other parties) are considered.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(5) Subsidiary and non-controlling interests (Cont'd)

An investment in a subsidiary is consolidated into the consolidated financial statements 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 financial statements. 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 the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the 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, the 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 the Bank. Non-controlling interests in the results of the 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 the Bank.

Changes in the 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 the 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 is 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 the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(17)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(6) Translation of foreign currencies

When the 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 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 of the reporting period. The resulting exchange differences are recognised 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 recognised in profit or loss, except for the exchange differences arising from the translation of non-monetary financial investments which are recognised in fair value 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 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.

(8) Financial instruments

(i) *Recognition and initial measurement of financial assets and financial liabilities*

A financial asset or financial liability is recognised in the statement of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(8) Financial instruments (Cont'd)

(ii) *Classification and subsequent measurement of financial assets*

Classification of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Financial assets are classified as:

- Financial assets measured at amortised cost, including loans, advances and financial investments measured at amortised cost;
- Financial assets measured at fair value through other comprehensive income (“**FVOCI**”), including loans, advances and financial investments measured at FVOCI;
- Financial assets measured at fair value through profit or loss (“**FVTPL**”).

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

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(8) Financial instruments (Cont'd)

(ii) *Classification and subsequent measurement of financial assets (Cont'd)*

Classification of financial assets (Cont'd)

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

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

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

Subsequent measurement of financial assets

– *Financial assets measured at FVTPL*

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

– *Financial assets measured at amortised cost*

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(8) Financial instruments (Cont'd)

(ii) *Classification and subsequent measurement of financial assets (Cont'd)*

Subsequent measurement of financial assets (Cont'd)

– *Debt investments measured at FVOCI*

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

– *Equity investments measured at FVOCI*

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

(iii) *Classification and subsequent measurement of financial liabilities*

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

– Financial liabilities measured at FVTPL

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

Financial liabilities measured at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

– Financial guarantee liabilities

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

– A Financial guarantee contract issued by the Group is recognised initially at its fair value and subsequently carried at higher of:

i) The amount of loss allowance determined in accordance with impairment policies of financial instruments (see Note 2(8) (iv)); and

ii) The amount initially recognised less the cumulative amount of income.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(8) Financial instruments (Cont'd)

(iii) Classification and subsequent measurement of financial liabilities (Cont'd)

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

(iv) Impairment

The Group recognises loss allowances for expected credit loss (“**ECL**”) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- credit commitment.

Financial assets measured at fair value, including debt investments or equity investments measured at FVTPL, and equity securities designated at FVOCI, are not subject to the ECL assessment.

Measurement of ECL

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

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

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

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

ECL on these financial assets are estimated based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

See Note 42(a) for the measurement of ECL of the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(8) Financial instruments (Cont'd)

(iv) *Impairment (Cont'd)*

Presentation of allowance for ECL

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. The 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 debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the 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. However, financial assets that are written off could still be subject to enforcement activities in compliance with the Group's procedures for recovery of amounts due.

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

(v) *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 the 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 bank 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 of the reporting period. Where other pricing models are used, inputs are based on market data at the end of each of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(8) Financial instruments (Cont'd)

(v) *Fair value measurement principles (Cont'd)*

In estimating the fair value of a financial asset and financial liability, the 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.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

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

Financial asset is derecognised when one of the following conditions is met:

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

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

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

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

(vii) *Offsetting*

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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 consolidated statement of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the consolidated statement of financial position and measured in accordance with the accounting policy applicable to that asset. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

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

(10) Perpetual bonds

At initial recognition, the Bank classifies the 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 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 a subsidiary

In the Group's consolidated financial statements, investments in a subsidiary is accounted for in accordance with the principles described in Note 2(5).

In the Bank's financial statements, investment in a subsidiary are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognised at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (see Note 2(17)) in the statement 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, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(12) Property and equipment

Property and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment loss (see Note 2(17)).

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.

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

The subsequent costs including the cost of replacing part of an item of property and equipment are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised 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 recognised 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	40	5	2.38%
Leasehold improvement	Over the shorter of the lease terms and estimated useful lives		
Motor vehicles	7	5	13.57%
Office equipment	5	5	19.00%

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(13) 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 consolidated statement of financial position at cost less accumulated depreciation and impairment loss (Note 2(17)). Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	40	5	2.38%
Land use rights		Over the lease terms	

(14) Leases

At inception of a contract, the 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. To assess whether a contract conveys the right to control the use of an identified asset, the Group, as a lessor or a lessee, assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the lessee has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;
- the lessee has the right to direct the use of the asset. The lessee has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the lessee has the right to direct the use of the asset if either:
 - the lessee has the right to operate the asset; or
 - the lessee designed the asset in a way that predetermines how and for what purpose it will be used.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(14) Leases (Cont'd)

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(i) As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and 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, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are 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 initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(14) Leases (Cont'd)

(i) As a lessee (Cont'd)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will 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.

The Group presents right-of-use assets that do not meet the definition of investment property in right-of-use of assets and land use right separately and lease liabilities as separate line items in the consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of equipment that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies IFRS 15 to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(15) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortisation and impairment loss (see Note 2(17)). The cost of intangible assets less residual value and impairment loss is amortised on the straight-line method over the estimated useful lives.

The respective amortisation periods for intangible assets are as follows:

Computer software and system development	5 years
--	---------

(16) Repossessed assets

Repossessed assets are physical assets or property rights obtained by the 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 of the reporting period based on the internal and external sources of information to determine whether there is any indication of impairment:

- property and equipment
- investment property measured using a cost model
- intangible assets
- investment in a subsidiary
- right-of-use assets

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 groups are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about using or disposing of the 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 of disposal (“**FVLCD**”) 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, the Group determines the recoverable amount of the asset group to which the assets belongs.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(17) Provision for impairment losses on non-financial assets (Cont'd)

An asset's FVLCD 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 recognised 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 recognised 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 recognised, the previously recognised 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 recognised 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 the Group include the social pension schemes, annuity plan, housing fund and other social insurances.

Social pension schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for the employees arranged by local government labor and social security authorities. The 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 labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Annuity plan

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' total salaries and bonuses, which are charged to profit or loss when the contributions are made.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(18) Employee benefits (Cont'd)

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

Housing fund and other social insurances

In addition to the retirement benefits above, the 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. The 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.

(19) Income tax

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

Current tax is the expected tax payable on the taxable income for the reporting period, using tax rates enacted or substantively enacted at the end of the reporting period, 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 utilised, are recognised. 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 utilised.

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 subsidiary to the extent that, in the case of taxable differences, the 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(19) Income tax (Cont'd)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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 utilised. 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 recognised when the liability to pay the related dividends is recognised.

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 the 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, the Group intends either to settle on a net basis, or to realise 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 realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(20) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

In terms of off-balance sheet credit commitment, the Group applies expected credit loss model to measure the loss caused by particular debtors incapable of paying due debts, which is present in provisions. See Note 2(8)(iv) for the description of expected credit loss model.

(ii) Other provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(20) Financial guarantees, provisions and contingent liabilities (Cont'd)

(ii) *Other provisions and contingent liabilities (Cont'd)*

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

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers in entrusted loan and entrusted investment business. Assets held by the 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.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("**entrusted funds**") to the Group, and the Group grants loans to third parties ("**entrusted loans**") under instructions of the customers. As the 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

Income is the gross inflow of economic benefit in the periods arising in the course of the Group's ordinary activities when the inflows result in an increase in shareholder's equity, other than an increase relating to contributions from shareholders.

Income is recognised when the Group satisfies the performance obligation in the contract which by transferring the control over relevant goods or services to the customers.

The following is the description of accounting policies regarding income from the Group's principal activities.

(i) *Interest income*

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(22) Income recognition (Cont'd)

(i) *Interest income (Cont'd)*

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

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

(ii) *Fee and commission income*

The Group earns fee and commission income from a diverse range of services it provides to its customers. The fee and commission income recognised by the Group reflects the amount of consideration to which the 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.

The 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 economic benefits provided by the Group's performance as the Group performs;
- The customer controls the service provided by the Group in the course of performance;
- The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date; or
- In other cases, the Group recognises revenue at a point in time at which a customer obtains control of the promised services.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(22) Income recognition (Cont'd)

(iii) *Government grants*

Government grants are recognised in the statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the 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 the Group for the cost of an asset are initially recognised as deferred income and consequently are effectively recognised in profit or loss over the useful life of the asset by way of other income.

(iv) *Other income*

Other income is recognised on an accrual basis.

(23) Expenses recognition

(i) *Interest expenses*

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

(ii) *Other expenses*

Other expenses are recognised on an accrual basis.

(24) Dividends

Dividends or distribution of profits proposed in the profit appropriation plan which will be authorised and declared after the end of each of the reporting period are not recognised as a liability at the end of each of the reporting period but disclosed separately in the notes to the consolidated financial statements.

(25) Related parties

- a. A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(25) Related parties (Cont'd)

- b. An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the 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 the Group or an entity related to the 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); or
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the 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 and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

(26) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(26) Segment reporting (Cont'd)

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics 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.

(27) Significant accounting estimates and judgments

The preparation of consolidated financial statements requires management to make estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Key underlying assumptions and uncertainties concerning the estimates 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 behavior (e.g. the likelihood of customers defaulting and the resulting losses). For off-balance sheet credit commitments and revolving credit facilities, judgements are also needed to determine the time period applicable for the exposure at default. Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in Note 42(a).

A number of significant judgments 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 judgments and estimates made by the Group in the above areas is set out in Note 42(a) credit risk.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(27) Significant accounting estimates and judgments (Cont'd)

(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 the Group make maximum use of observable input and rely as little as possible on the 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. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

(c) *Income taxes*

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The 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 utilised, management's judgment 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.

The recoverable amount is determined based on value-in-use calculation or FVLCD. The calculations of value-in-use require the use of judgement and estimates of the future cash flows expected to arise from the assets, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value. In the process of estimating expected future cash flows management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Calculation of FVLCD involves the selection of valuation model, adoption of key assumption, and input data, which are subject to management judgement.

(e) *Depreciation and amortisation*

Investment properties, property and equipment, intangible assets and right-of-use 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 reporting period. 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(27) Significant accounting estimates and judgments (Cont'd)

(f) *Determination of control over investees*

Management applies its judgment to determine whether the control indicators indicate that the Group controls a non-principal guaranteed wealth management product and an asset management plan.

The Group acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether the Group controls such a structured entity usually focuses on the assessment of the aggregate economic interests of the 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 the Group, the 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 Group 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.

For further disclosure in respect of unconsolidated non-principal guaranteed wealth management products and asset management plans in which the Group has an interest or for which it is a sponsor, see Note 36.

(g) *Determination of the incremental borrowing rate used to measure lease liabilities*

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

3. NET INTEREST INCOME

	2020	2019
Interest income arising from		
Deposits with the central bank	245,844	224,428
Deposits with banks and other financial institutions	1,838	12,546
Placements with banks	69,243	27,208
Loans and advances to customers		
– Corporate loans and advances	3,925,091	3,232,235
– Personal loans and advances	1,590,508	1,022,494
– Discounted bills	328,611	410,302
Financial assets held under resale agreements	63,216	43,978
Financial investments	3,854,396	3,114,818
Finance leases	1,011,753	869,596
Sub-total	11,090,500	8,957,605
Interest expenses arising from		
Borrowing from the central bank	(164,452)	(101,958)
Deposits from banks	(110,877)	(208,467)
Placements from banks and other financial institutions	(555,724)	(462,419)
Deposits from customers	(4,398,970)	(3,202,917)
Financial assets sold under repurchase agreements	(114,277)	(113,687)
Debt securities issued	(1,055,295)	(1,411,197)
Discounted bills	(32,592)	(150,724)
Sub-total	(6,432,187)	(5,651,369)
Net interest income	4,658,313	3,306,236

Total interest income arising from financial assets that are not at FVTPL for the year ended December 31, 2020 amounted to RMB11,091 million (2019: RMB8,958 million).

Total interest expense arising from financial liabilities that are not at FVTPL for the year ended December 31, 2020 amounted to RMB6,432 million (2019: RMB5,651 million).

Interest income arising from impaired loan for the year ended December 31, 2020 amounted to RMB41 million (2019: RMB9 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

4. NET FEE AND COMMISSION INCOME

(a) Income and expense streams:

	2020	2019
Fee and commission income		
Acceptance and guarantee services fees	42,277	46,236
Agency services fees	166,483	129,071
Bank card services fees	36,220	17,388
Consultancy services fees	98,503	61,210
Finance leases services fees	99,859	87,119
Settlement and clearing fees	71,194	58,054
Others	18,896	17,306
Sub-total	533,432	416,384
Fee and commission expense		
Bank card services fees	(14,929)	(36,038)
Settlement and clearing fees	(46,170)	(16,829)
Agency service fees	–	(75,746)
Others	(8,615)	(16,062)
Sub-total	(69,714)	(144,675)
Net fee and commission income	463,718	271,709

(b) Disaggregation of income:

	2020		2019	
	At a point in time	Over time	At a point in time	Over time
Acceptance and guarantee services fees	–	42,277	–	46,236
Agency services fees	–	166,483	–	129,071
Bank card services fees	36,220	–	17,388	–
Consultancy services fees	–	98,503	–	61,210
Finance leases services fees	–	99,859	–	87,119
Settlement and clearing fees	71,194	–	58,054	–
Others	18,896	–	17,306	–
Total	126,310	407,122	92,748	323,636

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

5. NET TRADING (LOSSES)/GAINS

	2020	2019
Net (losses)/gains from debt securities	(134,083)	43,534
Net gains/(losses) from funds	17,139	(1,206)
Net gains from investment management products	12,907	8,293
Net (losses)/gains from derivatives	(3,336)	4,572
Exchange (losses)/gains	(51,668)	19,238
Total	(159,041)	74,431

6. NET GAINS ARISING FROM INVESTMENT SECURITIES

	2020	2019
Net gains of financial investments measured at fair value through profit or loss	842,551	1,233,362
Net gains of financial investments measured at fair value through other comprehensive income	164,815	57,808
Dividend income	1,440	1,200
Net gains of investment on derivatives	47,946	2,072
Total	1,056,752	1,294,442

7. OTHER OPERATING INCOME

Other operating income streams:

	2020	2019
Penalty income	645	739
Long-term unwithdrawn items income	74	869
Rental income	1,208	3,032
Government grants	7,546	9,223
Net losses on disposal of property and equipment	(453)	–
Net losses on disposal of repossessed assets	–	(14,257)
Others	5,202	759
Total	14,222	365

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

8. OPERATING EXPENSES

	2020	2019
Staff costs		
– Salaries, bonuses and allowances	725,150	624,167
– Social insurance	33,953	82,858
– Housing allowances	39,688	39,801
– Staff welfares	10,532	10,446
– Employee education expenses and labour union expenses	25,598	21,943
– Supplementary retirement benefits	20,861	20,298
Sub-total	855,782	799,513
Rental and property management expenses	17,870	11,893
Depreciation and amortisation	93,334	105,438
Depreciation charge for the right-of-use assets	111,254	112,305
Interest expense on lease liabilities	20,324	22,907
Taxes and surcharges	64,095	43,567
Auditors' remuneration	2,264	717
Office expenses	292,184	291,096
Other general and administrative expenses	120,554	74,906
Total	1,577,661	1,462,342

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	Note	Year ended December 31, 2020						Total
		Fees	Salaries	Discretionary bonus	Sub-total	Contributions to social pension schemes	Other welfares	
Executive directors								
Tan Xianguo (譚先國)		-	702	1,517	2,219	17	40	2,276
Meng Dongxiao (孟東曉)		-	702	1,517	2,219	30	53	2,302
Zhang Renzhao (張仁釗)		-	562	1,062	1,624	17	40	1,681
Bi Qiubo (畢秋波)		-	562	1,062	1,624	17	40	1,681
Tao Zunjian (陶遵建)		-	562	1,062	1,624	17	40	1,681
Non-executive directors								
Li Hang (李航)		-	-	-	-	-	-	-
Wang Song (王松)		-	-	-	-	-	-	-
Sun Chenglong (孫成龍)		-	-	-	-	-	-	-
Yi Jijun (伊繼軍)		-	-	-	-	-	-	-
Wang Shouhua (王壽華)	(a)	38	-	-	38	-	-	38
Wang Qixiang (王啟祥)	(b)	-	-	-	-	-	-	-
Independent non-executive directors								
Liu Xue (劉學)		192	-	-	192	-	-	192
Lu Qing (路清)		192	-	-	192	-	-	192
Ma Ya (馬亞)	(a)	38	-	-	38	-	-	38
Sun Guomao (孫國茂)		192	-	-	192	-	-	192
Zhang Guanghong (張廣鴻)		192	-	-	192	-	-	192
Fan Chi Chiu (范智超)	(b)	167	-	-	167	-	-	167
Employee representative supervisors								
Deng Wei (鄧衛)		-	702	1,517	2,219	17	40	2,276
Liu Changjie (劉昌傑)		-	562	1,062	1,624	17	40	1,681
Zhang Xuening (張雪凝)		-	165	315	480	17	40	537
External supervisors								
Tan Degui (譚德貴)		192	-	-	192	-	-	192
Teng Bo (滕波)		192	-	-	192	-	-	192
Li Yuanfen (李元芬)		-	-	-	-	-	-	-
Shareholder representative supervisors								
Zhao Lijie (趙麗傑)		192	-	-	192	-	-	192
Zhou Hao (周浩)		192	-	-	192	-	-	192
Feng Yongdong (馮永東)		192	-	-	192	-	-	192
Total		1,971	4,519	9,114	15,604	149	333	16,086

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONT'D)

	Note	Fees	Salaries	Discretionary bonus	Year ended December 31, 2019			Total
					Sub-total	Contributions to social pension schemes	Other welfares	
Executive directors								
Tan Xianguo (譚先國)		–	702	1,433	2,135	52	33	2,220
Meng Dongxiao (孟東曉)		–	702	1,433	2,135	79	47	2,261
Zhang Renzhao (張仁釗)		–	562	1,003	1,565	52	33	1,650
Bi Qiubo (畢秋波)		–	562	1,003	1,565	52	33	1,650
Tao Zunjian (陶遵建)		–	562	1,003	1,565	52	33	1,650
Non-executive directors								
Li Hang (李航)		–	–	–	–	–	–	–
Wang Song (王松)		–	–	–	–	–	–	–
Sun Chenglong (孫成龍)		–	–	–	–	–	–	–
Yi Jijun (伊繼軍)		–	–	–	–	–	–	–
Wang Shouhua (王壽華)	(a)	150	–	–	150	–	–	150
Independent non-executive directors								
Liu Xue (劉學)		150	–	–	150	–	–	150
Lu Qing (路清)		150	–	–	150	–	–	150
Ma Ya (馬亞)	(a)	150	–	–	150	–	–	150
Sun Guomao (孫國茂)		150	–	–	150	–	–	150
Zhang Guanghong (張廣鴻)		150	–	–	150	–	–	150
Employee representative supervisors								
Deng Wei (鄧衛)		–	702	1,433	2,135	52	33	2,220
Liu Changjie (劉昌傑)		–	562	1,003	1,565	52	33	1,650
Zhang Xuening (張雪凝)		–	144	183	327	52	36	415
External supervisors								
Tan Degui (譚德貴)		150	–	–	150	–	–	150
Teng Bo (滕波)		150	–	–	150	–	–	150
Li Yuanfen (李元芬)		–	–	–	–	–	–	–
Shareholder representative supervisors								
Zhao Lijie (趙麗傑)		150	–	–	150	–	–	150
Zhou Hao (周浩)		150	–	–	150	–	–	150
Feng Yongdong (馮永東)		150	–	–	150	–	–	150
Total		1,650	4,498	8,494	14,642	443	281	15,366

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONT'D)

Notes:

- (a) On February 29, 2020, Wang Shouhua resigned as non-executive director, Ma Ya resigned as independent non-executive director.
- (b) In the general meeting held on February 29, 2020, Wang Qixiang was elected as non-executive director; Fan Chi Chiu was elected as independent non-executive director.

There was no amount paid during the year to the directors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join the Group. There was no other arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended December 31, 2020, the five individuals with highest emoluments include 2 directors and 1 supervisor (2019: 3 directors and 1 supervisor) of the Bank. Their emoluments are disclosed in Note 9. The emoluments for the five highest paid individuals for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Salaries and other emoluments	3,229	3,229
Discretionary bonuses	6,676	6,306
Contributions to pension schemes	136	290
Others	229	197
Total	10,270	10,022

The number of these individuals whose emoluments are within the following bands is set out below:

	2020	2019
Nil-RMB500,000	–	–
RMB500,001-RMB1,000,000	–	–
RMB1,000,001-RMB1,500,000	–	–
RMB1,500,001-RMB2,000,000	2	2
RMB2,000,001-RMB2,500,000	3	3

None of these individuals received any inducement to join or upon joining the Group or compensation for loss of office, or waived any emoluments during the year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

11. IMPAIRMENT LOSSES ON ASSETS

	2020	2019
Financial assets held under resale agreements	(3,161)	2,643
Loans and advances to customers	1,934,741	1,361,133
Financial investments	409,882	132,011
Finance lease receivables	113,989	138,446
Credit commitments	15,815	5,416
Deposits with banks and other financial institutions	–	(32)
Placements with banks	–	(14)
Others	33,769	31,565
Total	2,505,035	1,671,168

12. INCOME TAX EXPENSE

(a) Income tax expense:

	Note	2020	2019
Current tax		658,306	658,715
Deferred tax	23	(355,279)	(368,703)
Total		303,027	290,012

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

	Note	2020	2019
Profit before tax		1,951,268	1,813,673
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		487,817	453,418
Non-deductible expenses		16,672	2,524
Non-taxable income	(i)	(201,462)	(165,930)
Income tax expense		303,027	290,012

- (i) The non-taxable income mainly represents the interest income arising from the PRC government bonds, and dividends from domestic enterprises.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

13. BASIC AND DILUTED EARNINGS PER SHARE

	Note	2020	2019
Net profit attributable to equity shareholders of the Bank		1,509,547	1,439,696
Less: Distribution to perpetual bondholders		(148,721)	–
Adjusted net profit attributable to equity shareholders of the Bank		1,360,826	1,439,696
Weighted average number of ordinary shares (in thousands)	(a)	5,181,287	4,971,197
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.26	0.29

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year.

(a) Weighted average number of ordinary shares (in thousands)

	2020	2019
Number of ordinary shares at the beginning of the year	4,971,197	4,971,197
Weighted average number of ordinary shares issued during the year	210,090	–
Weighted average number of ordinary shares	5,181,287	4,971,179

On October 12, 2020, the Bank issued 877 million H-shares with a par value of RMB1 at an offering price of HKD3.35 per share. On November 10, 2020, the Bank exercised the over-allotment option and issued 131 million H-shares with a par value of RMB1 at HKD3.35 per share.

Basic earnings per share have been computed by taking into account of the aforesaid shares subscribed by the investors during the year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

14. CASH AND DEPOSITS WITH THE CENTRAL BANK

	Note	2020	2019
Cash on hand		218,265	194,466
Deposits with the central bank			
– Statutory deposit reserves	(a)	15,419,165	13,273,083
– Surplus deposit reserves	(b)	7,817,674	7,725,599
– Fiscal deposits		45,176	10,688
Sub-total		23,282,015	21,009,370
Total		23,500,280	21,203,836

Notes:

- (a) The Group places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of each of the reporting period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	2020	2019
Reserve ratio for RMB deposits	9.0%	9.5%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The statutory deposit reserves are not available for the Bank's daily business.

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

15. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	2020	2019
Deposits in mainland China		
– Banks	3,110,834	1,529,077
– Other financial institution	7	–
Sub-total	3,110,841	1,529,077
Deposits outside mainland China		
– Banks	1,764,437	497,769
Sub-total	1,764,437	497,769
Interests accrued	69	62
Less: Provision for impairment losses	–	–
Total	4,875,347	2,026,908

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

16. PLACEMENTS WITH BANKS

Analysed by type and location of counterparty

	2020	2019
Placements in mainland China – Banks	241,421	500,000
Sub-total	241,421	500,000
Interests accrued	26	7,206
Less: Provision for impairment losses	(1)	(1)
Total	241,446	507,205

17. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	2020	2019
In mainland China – Banks	605,050	5,389,300
Sub-total	605,050	5,389,300
Interests accrued	479	821
Less: Provision for impairment losses	(398)	(3,559)
Total	605,131	5,386,562

(b) Analysed by type of collateral held

	2020	2019
Securities – Government – Policy banks	100,800 504,250	593,800 4,795,500
Sub-total	605,050	5,389,300
Interests accrued	479	821
Less: Provision for impairment losses	(398)	(3,559)
Total	605,131	5,386,562

As at December 31, 2020 and 2019, certain financial assets held under resale agreements were pledged for repurchase agreements (Note 25(a)).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	2020	2019
Loans and advances to customers measured at amortised cost:		
Corporate loans and advances	79,233,264	63,499,110
Personal loans		
– Residential mortgage loans	13,913,613	9,968,942
– Personal consumption loans	3,173,655	1,980,518
– Personal business loans	15,704,617	9,882,221
– Credit cards	741,489	459,753
Sub-total	33,533,374	22,291,434
Interests accrued	522,713	413,389
Less: Provision for loans and advances to customers measured at amortised cost	(3,067,076)	(2,753,357)
Sub-total	110,222,275	83,450,576
Loans and advances to customers measured at fair value through other comprehensive income:		
Discounted bills	7,526,786	6,661,066
Net loans and advances to customers	117,749,061	90,111,642

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

18. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(b) Loans and advances to customers (exclusive interests accrued) analysed by industry sector

	2020		Loans and advances secured by collaterals
	Amount	Percentage	
Manufacturing	18,149,300	15.09%	5,396,734
Leasing and business services	14,657,989	12.19%	5,384,099
Water conservancy, environment and public facilities management	11,370,432	9.45%	4,282,950
Construction	7,801,575	6.49%	3,378,320
Real estate	7,654,667	6.36%	7,580,635
Wholesale and retail	6,365,017	5.29%	3,015,488
Agriculture, forestry, animal husbandry and fishery	3,031,614	2.52%	1,561,954
Electricity, heat, gas and water production and supply	2,357,250	1.96%	409,600
Education	1,989,943	1.65%	821,800
Transportation, warehousing and postal services	1,849,218	1.54%	416,339
Hygiene and social welfare	895,050	0.74%	295,700
Culture, sports and entertainment	325,850	0.27%	154,480
Information transmission, software and information technology services	207,850	0.17%	166,950
Others	2,577,509	2.14%	398,909
Sub-total of corporate loans and advances	79,233,264	65.86%	33,263,958
Personal loans	33,533,374	27.88%	23,083,422
Discounted bills	7,526,786	6.26%	7,526,786
Gross loans and advances to customers	120,293,424	100.00%	63,874,166

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

18. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(b) Loans and advances to customers (exclusive interests accrued) analysed by industry sector (Cont'd)

	2019		Loans and advances secured by collaterals
	Amount	Percentage	
Manufacturing	17,571,499	19.01%	5,609,041
Leasing and business services	10,759,483	11.64%	2,722,922
Wholesale and retail	7,564,689	8.18%	3,489,972
Construction	6,416,671	6.94%	2,363,272
Water conservancy, environment and public facilities management	5,642,356	6.10%	1,914,250
Real estate	4,581,786	4.96%	4,453,036
Agriculture, forestry, animal husbandry and fishery	1,881,861	2.04%	1,183,525
Transportation, warehousing and postal services	1,773,582	1.92%	311,026
Education	1,666,622	1.80%	812,000
Electricity, heat, gas and water production and supply	1,138,975	1.23%	76,800
Hygiene and social welfare	1,048,090	1.13%	317,400
Information transmission, software and information technology services	1,029,929	1.11%	392,929
Culture, sports and entertainment	734,550	0.79%	550,650
Others	1,689,017	1.83%	314,257
Sub-total of corporate loans and advances	63,499,110	68.68%	24,511,080
Personal loans	22,291,434	24.11%	15,329,005
Discounted bills	6,661,066	7.21%	6,661,066
Gross loans and advances to customers	92,451,610	100.00%	46,501,151

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

18. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(b) Loans and advances to customers (exclusive interests accrued) analysed by industry sector (Cont'd)

As at the end of the reporting period and during the year, detailed information of the impaired loans and advances to customers (exclusive interests accrued) as well as the corresponding provision for impairment losses in respect of each industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

	2020					
	Credit-impaired loans and advances	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	Impairment losses charged during the year	Written-off during the year
Manufacturing	1,181,722	–	–	(568,458)	–	(889,822)
Leasing and business services	5,060	–	–	(2,554)	–	–

	2019					
	Credit-impaired loans and advances	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	Impairment losses charged during the year	Written-off during the year
Manufacturing	785,228	(63)	(2,055)	(426,217)	–	(641,199)
Leasing and business services	–	–	–	–	–	–

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

18. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(c) Analysed by type of collateral

	2020	2019
Unsecured loans	10,072,870	7,020,674
Guaranteed loans	46,346,388	38,929,785
Collateralised loans	50,123,066	35,719,775
Pledged loans	6,224,314	4,120,310
Discounted bills	7,526,786	6,661,066
Sub-total	120,293,424	92,451,610
Interests accrued	522,713	413,389
Gross loans and advances to customers	120,816,137	92,864,999
Less: Provision for loans and advances to customers measured at amortised cost	(3,067,076)	(2,753,357)
Net loans and advances to customers	117,749,061	90,111,642

(d) Overdue loans (exclusive interests accrued) analysed by overdue period

	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	2020 Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	11,920	22,737	5,587	136	40,380
Guaranteed loans	1,863,959	668,767	353,483	19,008	2,905,217
Collateralised loans	333,282	305,759	50,104	11,486	700,631
Pledged loans	4,990	7,364	2,200	-	14,554
Total	2,214,151	1,004,627	411,374	30,630	3,660,782
As a percentage of gross loans and advances to customers	1.84%	0.84%	0.34%	0.03%	3.04%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

18. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(d) Overdue loans (exclusive interests accrued) analysed by overdue period (Cont'd)

	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	2019 Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	56,169	1,204	611	–	57,984
Guaranteed loans	2,252,061	729,811	491,689	45,141	3,518,702
Collateralised loans	317,980	158,055	34,212	11,566	521,813
Pledged loans	2,200	–	–	–	2,200
Total	2,628,410	889,070	526,512	56,707	4,100,699
As a percentage of gross loans and advances to customers	2.84%	0.96%	0.57%	0.06%	4.43%

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

(e) Analysis of loans and advances and provision for impairment losses

	Loans and advances that are assessed for expected credit losses over the next 12 months	2020 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 (Note(i))	Total
Total loans and advances to customers measured at amortised cost	104,385,018	7,125,683	1,778,650	113,289,351
Less: Provision for impairment losses	(1,253,271)	(960,840)	(852,965)	(3,067,076)
Carrying amount of loans and advances to customers measured at amortised cost	103,131,747	6,164,843	925,685	110,222,275
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	7,526,786	–	–	7,526,786
Total carrying amount of loans and advances to customers	110,658,533	6,164,843	925,685	117,749,061

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

18. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(e) Analysis of loans and advances and provision for impairment losses (Cont'd)

		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 (Note(i))	Total
Total loans and advances to customers measured at amortised cost	77,231,320	6,826,776	2,145,837	86,203,933
Less: Provision for impairment losses	(915,219)	(849,422)	(988,716)	(2,753,357)
Carrying amount of loans and advances to customers measured at amortised cost	76,316,101	5,977,354	1,157,121	83,450,576
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	6,661,066	–	–	6,661,066
Total carrying amount of loans and advances to customers	82,977,167	5,977,354	1,157,121	90,111,642

Note:

- i. The loans and advances are "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the loans and advances have occurred. Evidence that loans and advances are credit-impaired includes the following observable data: significant financial difficulty of the borrower or issuer; a breach of contract by the borrower, such as a default or delinquency in interest or principal payments; for economic or contractual reasons relating to the borrower's financial difficulty, the Group having granted to the borrower a concession that otherwise would not be considered; it is probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or debts overdue more than 90 days.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

18. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(f) Movements of provision for impairment losses

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

	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	915,219	849,422	988,716	2,753,357
Transferred:				
– to expected credit losses over the next 12 months	10,633	(10,450)	(183)	–
– to lifetime expected credit losses: not credit-impaired loans	(42,658)	43,054	(396)	–
– to lifetime expected credit losses: credit-impaired loans	(18,070)	(541,303)	559,373	–
Charge for the year	388,147	620,117	925,762	1,934,026
Recoveries	–	–	17,420	17,420
Write-offs and others	–	–	(1,637,727)	(1,637,727)
As at December 31	1,253,271	960,840	852,965	3,067,076

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

18. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(f) Movements of provision for impairment losses (Cont'd)

(i) *Movements of provision for impairment losses of loans and advances to customers measured at amortised cost: (Cont'd)*

	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	731,509	652,836	845,059	2,229,404
Transferred:				
– to expected credit losses over the next 12 months	159	(26)	(133)	–
– to lifetime expected credit losses: not credit-impaired loans	(25,554)	49,959	(24,405)	–
– to lifetime expected credit losses: credit-impaired loans	(6,024)	(57,660)	63,684	–
Charge for the year	215,129	204,313	941,806	1,361,248
Recoveries	–	–	10,872	10,872
Write-offs	–	–	(848,167)	(848,167)
As at December 31	915,219	849,422	988,716	2,753,357

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

18. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(f) Movements of provision for impairment losses (Cont'd)

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

	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	7,626	–	–	7,626
Charge for the year	715	–	–	715
As at December 31	8,341	–	–	8,341

	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	7,741	–	–	7,741
Reversal for the year	(115)	–	–	(115)
As at December 31	7,626	–	–	7,626

Provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of loans and advances to customers presented in the consolidated statement of financial position, and impairment loss or gain is recognised in the profit or loss.

(g) Disposal of loans and advances to customers

During the year ended December 31, 2020, the Group transferred (i) loans and advances with principal amount of RMB163.3 million (2019: RMB2,219.0 million); (ii) relevant interests of RMB16.9 million (2019: RMB196.6 million) to independent third parties and the transfer price was RMB98.4 million (2019: RMB1,661.0 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

19. FINANCIAL INVESTMENTS

	Note	2020	2019
Financial investments measured at fair value through profit or loss	(a)	14,896,962	18,507,144
Financial investments measured at fair value through other comprehensive income	(b)	18,272,189	13,899,189
Financial investments measured at amortised cost	(c)	68,052,213	56,722,112
Total		101,221,364	89,128,445

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

	2020	2019
Debt securities issued by the following institutions in mainland China		
– Government	–	133,957
– Policy banks	1,156,408	74,135
– Banks and other financial institutions	593,769	203,336
– Corporate	1,900,986	3,516,679
Sub-total	3,651,163	3,928,107
Unlisted	3,651,163	3,928,107
Asset-backed securities		
– Unlisted	418,590	–
Investment funds		
– Unlisted	714,700	699,876
Wealth management products		
– Unlisted	–	1,019,544
Investment management products		
– Unlisted	10,112,509	12,859,617
Total	14,896,962	18,507,144

Note: As at the end of each of the reporting period, there were no investments subject to material restrictions in the realisation.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

19. FINANCIAL INVESTMENTS (CONT'D)

(b) Financial investments measured at fair value through other comprehensive income

	2020	2019
Debt securities issued by the following institutions in mainland China		
– Government	19,448	1,391,957
– Policy banks	10,648,726	6,892,671
– Banks and other financial institutions	130,472	80,598
– Corporate	6,105,653	3,212,137
Sub-total	16,904,299	11,577,363
Interests accrued	408,517	277,659
– Unlisted	17,312,816	11,855,022
Interbank deposits		
– Unlisted	615,818	1,767,820
Asset-backed securities	79,807	80,316
Interest accrued	5,255	445
– Unlisted	85,062	80,761
Equity investments		
– Unlisted	258,493	195,586
Total	18,272,189	13,899,189

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

19. FINANCIAL INVESTMENTS (CONT'D)

(b) Financial investments measured at fair value through other comprehensive income (Cont'd)

Notes:

- (i) As at the end of each of the reporting period, there were no investments subject to material restrictions in the realisation.
- (ii) Movements of provision for impairment losses of financial investments measured at fair value through other comprehensive income during the year is as follows:

	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	4,581	–	–	4,581
Charge for the year	2,307	–	–	2,307
Balance at December 31	6,888	–	–	6,888

	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	3,235	–	–	3,235
Charge for the year	1,346	–	–	1,346
Balance at December 31	4,581	–	–	4,581

Provision for impairment losses on financial investments measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of financial investments presented in the consolidated statement of financial position, and impairment loss or gain is recognised in the profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

19. FINANCIAL INVESTMENTS (CONT'D)

(c) Financial investments measured at amortised cost

	Note	2020	2019
Debt securities issued by the following institutions in mainland China	(i)		
– Government		18,020,703	12,780,818
– Policy banks		15,171,785	17,789,065
– Banks and other financial institutions		760,000	230,000
– Corporate		19,006,796	7,168,773
Interests accrued		1,182,753	790,053
Sub-total		54,142,037	38,758,709
Investment management products		13,793,613	16,707,665
Interests accrued		238,975	211,542
– Unlisted		14,032,588	16,919,207
Asset-backed securities		492,868	1,342,915
Interests accrued		16,528	1,811
– Unlisted		509,396	1,344,726
Less: Provision for impairment losses	(ii)	(631,808)	(300,530)
Total		68,052,213	56,722,112

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

19. FINANCIAL INVESTMENTS (CONT'D)

(c) Financial investments measured at amortised cost (Cont'd)

Notes:

- (i) As at the end of each of the reporting period, certain debt securities were pledged for repurchase agreements (Note 25(a)).
- (ii) Movements of provision for impairment losses of financial investments measured at amortised cost during the year is as follows:

	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	180,346	110,000	10,184	300,530
Transfers:				
– to expected credit losses over the next 12 months	7,421	–	(7,421)	–
– to lifetime expected credit losses not credit-impaired	(3,660)	3,660	–	–
– to lifetime expected credit losses credit-impaired	(14,794)	(110,000)	124,794	–
(Reversal)/charge for the year	(20,223)	29,210	398,588	407,575
Write-off	–	–	(76,297)	(76,297)
Balance at December 31	149,090	32,870	449,848	631,808

	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	160,915	2,763	6,188	169,866
Transfers:				
– to lifetime expected credit losses over the next 12 months	(579)	579	–	–
– to lifetime expected credit losses credit-impaired	–	(2,763)	2,763	–
Charge for the year	20,010	109,421	1,233	130,664
Balance at December 31	180,346	110,000	10,184	300,530

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

20. INVESTMENT IN A SUBSIDIARY

	2020	2019
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	650,000	650,000

Shandong Tongda Financial Leasing Co., Ltd. (“**Tongda**”) was incorporated on June 6, 2016 at Shandong Province, the PRC with registered capital of RMB1,000 million. As at December 31, 2020, the registered capital of Tongda was RMB1,100 million. The principal activities of Tongda are the provision of financial leasing services. As at December 31, 2020, the Bank holds 59.1% of equity interest (2019: 65%).

On March 27, 2020, an independent third party made a capital injection of RMB132.3 million in Tongda. The Group recorded an increase in non-controlling interests of approximately RMB139.9 million and a decrease in capital reserve of approximately RMB7.6 million. As at December 31, 2020, the consideration of RMB132.3 million was fully settled.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

21. PROPERTY AND EQUIPMENT

	Premises	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost					
As at January 1, 2019	594,535	220,888	368,607	18,023	1,202,053
Additions	615	17,728	32,326	–	50,669
Transfer from investment properties	14,833	–	–	–	14,833
As at December 31, 2019	609,983	238,616	400,933	18,023	1,267,555
As at January 1, 2020	609,983	238,616	400,933	18,023	1,267,555
Additions	–	11,118	17,983	651	29,752
Transfer from investment properties	61,982	–	–	–	61,982
Disposals	–	–	(11,432)	(250)	(11,682)
As at December 31, 2020	671,965	249,734	407,484	18,424	1,347,607
Accumulated depreciation					
As at January 1, 2019	90,128	112,070	262,812	13,224	478,234
Charge for the year	14,205	23,759	39,243	1,293	78,500
Transfer from investment properties	5,316	–	–	–	5,316
As at December 31, 2019	109,649	135,829	302,055	14,517	562,050
As at January 1, 2020	109,649	135,829	302,055	14,517	562,050
Charge for the year	15,757	22,800	31,831	858	71,246
Transfer from investment properties	17,585	–	–	–	17,585
Disposals	–	–	(10,874)	(237)	(11,111)
As at December 31, 2020	142,991	158,629	323,012	15,138	639,770
Impairment loss					
As at January 1, 2019, December 31, 2019 and January 1, 2020	–	–	–	–	–
Transfer from investment properties	5,680	–	–	–	5,680
As at December 31, 2020	5,680	–	–	–	5,680
Net book value					
As at December 31, 2020	523,294	91,105	84,472	3,286	702,157
As at December 31, 2019	500,334	102,787	98,878	3,506	705,505

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

21. PROPERTY AND EQUIPMENT (CONT'D)

The net book values of premises as at the end of each of the reporting period are analysed by the remaining terms of the leases as follows:

	2020	2019
Held in mainland China		
– Medium-term leases (10-50 years)	498,359	472,551
– Long-term leases (over 50 years)	24,935	27,783
	523,294	500,334

22. RIGHT-OF-USE ASSETS

	Motor vehicles	Properties	Total
Net book value			
Balance at January 1, 2019 upon adoption of IFRS 16	284	462,353	462,637
Additions	324	126,195	126,519
Depreciation charge for the year	(284)	(112,021)	(112,305)
Balance at December 31, 2019 and January 1, 2020	324	476,527	476,851
Additions	–	88,380	88,380
Depreciation charge for the year	(230)	(111,024)	(111,254)
Balance at December 31, 2020	94	453,883	453,977

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

23. DEFERRED TAX

a) Analysed by nature

	2020		2019	
	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	4,731,651	1,182,913	3,528,945	882,236
– Fair value changes of financial assets	388,794	97,199	39,775	9,944
– Accrued staff costs	357,885	89,472	249,051	62,263
– Others	12,412	3,103	13,232	3,308
	5,490,742	1,372,687	3,831,003	957,751
Deferred income tax liability				
– Fair value changes of financial assets	(1,236)	(309)	(20,673)	(5,168)
	(1,236)	(309)	(20,673)	(5,168)
Net balances	5,489,506	1,372,378	3,810,330	952,583

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

23. DEFERRED TAX (CONT'D)

b) Movements of deferred tax

	Allowance for impairment losses <i>Note(i)</i>	Accrued staff costs	Change in fair value <i>Note(ii)</i>	Others	Net balance of deferred tax assets
As January 1, 2019	515,375	50,239	26,333	–	591,947
Recognised in profit or loss	366,861	12,024	(13,798)	3,308	368,395
Recognised in other comprehensive income	–	–	(7,759)	–	(7,759)
As at December 31, 2019 and January 1, 2020	882,236	62,263	4,776	3,308	952,583
Recognised in profit or loss	300,677	27,209	26,843	(205)	354,524
Recognised in other comprehensive income	–	–	65,271	–	65,271
As at December 31, 2020	1,182,913	89,472	96,890	3,103	1,372,378

Notes:

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the reporting period. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the reporting period, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realised.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

24. OTHER ASSETS

	Note	2020	2019
Interest receivable	(a)	322,557	205,762
Prepaid expenses		351,391	276,431
Intangible assets	(b)	40,026	40,313
Long-term deferred expenses		4,354	5,310
Repossessed assets	(c)	19,683	70,165
Land use rights	(d)	10,951	11,222
Investment properties	(e)	30,590	76,596
Finance lease receivables	(f)	16,413,465	13,545,630
Others		235,252	314,064
Subtotal		17,428,269	14,545,493
Less: Provision for impairment loss		(548,071)	(414,677)
Total		16,880,198	14,130,816

(a) Interest receivable

	2020	2019
Interest receivable arising from:		
Financial investments	201,663	132,299
Loans and advances to customers	120,894	73,463
Sub-total	322,557	205,762
Less: Provision for impairment losses	(56,529)	(25,524)
Total	266,028	180,238

As at the end of each reporting period, interest receivable only include interests that have been due for the relevant financial instruments but not yet received at the reporting date. Interests on financial instruments based on the effective interest method have been reflected in the balance of corresponding financial instruments.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

24. OTHER ASSETS (CONT'D)

(b) Intangible assets

	Computer software and system development
Cost	
As at January 1, 2019	119,940
Additions	22,923
As at December 31, 2019 and January 1, 2020	142,863
Additions	16,773
As at December 31, 2020	159,636
Accumulated amortisation	
As at January 1, 2019	82,493
Charge for the year	20,057
As at December 31, 2019 and January 1, 2020	102,550
Charge for the year	17,060
As at December 31, 2020	119,610
Net book value	
As at December 31, 2020	40,026
As at December 31, 2019	40,313

(c) Repossessed assets

	2020	2019
Land use right and buildings	19,683	70,165
Less: impairment allowances	(11,448)	(14,897)
Net balances	8,235	55,268

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

24. OTHER ASSETS (CONT'D)

(d) Land use rights

	2020	2019
Located in mainland China: 10-50 years	10,951	11,222

(e) Investment properties

	Investment properties
Cost	
As at January 1, 2019	136,372
Transfer to property and equipment	(14,833)
As at December 31, 2019 and January 1, 2020	121,539
Transfer to property and equipment	(61,982)
As at December 31, 2020	59,557
Accumulated depreciation and impairment	
As at January 1, 2019	47,105
Charge for the year	3,154
Transfer to property and equipment	(5,316)
As at December 31, 2019 and January 1, 2020	44,943
Charge for the year	1,609
Transfer to property and equipment	(17,585)
As at December 31, 2020	28,967
Impairment loss	
As at January 1, 2019, December 31, 2019 and January 1, 2020	5,680
Transfer to property and equipment	(5,680)
As at December 31, 2020	–
Net book value	
As at December 31, 2020	30,590
As at December 31, 2019	70,916

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

24. OTHER ASSETS (CONT'D)

(f) Finance lease receivables

At the end of each of the reporting period, the total future minimum lease receivables under finance leases and their present values were as follows:

	2020	2019
Total minimum finance lease receivables		
Within 1 year (inclusive)	7,934,080	5,963,200
1 year to 5 years	9,860,962	8,899,054
Over 5 years	142,088	188,900
Gross amount of finance lease receivables	17,937,130	15,051,154
Less: Unearned finance income	(1,553,650)	(1,468,755)
Less: Unrealised VAT	(213,232)	(204,965)
Net amount of finance lease receivables	16,170,248	13,377,434
Interests accrued	243,217	168,196
Less: Provision for impairment loss	(479,391)	(365,402)
Carrying amount of finance lease receivables	15,934,074	13,180,228
Present value of minimum lease receivables		
Within 1 year (inclusive)	7,150,152	4,974,416
1 year to 5 years	8,659,151	8,035,569
Over 5 years	124,771	170,243
Total	15,934,074	13,180,228

The Group applies general approach on measure ECL on finance lease receivables based on the ECL measurement stated in accounting policy note 2(8)(iv). The Group's credit policy and exposure to credit risk on finance lease receivables are disclosed in note 42(a).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

24. OTHER ASSETS (CONT'D)

(f) Finance lease receivables (Cont'd)

Analysis of finance lease receivables and provision for impairment losses

	2020			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
Total finance lease receivables measured at amortised cost	15,731,682	555,169	126,614	16,413,465
Less: Provision for impairment losses	(340,030)	(82,385)	(56,976)	(479,391)
Total carrying amount of finance lease receivables	15,391,652	472,784	69,638	15,934,074

	2019			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
Total finance lease receivables measured at amortised cost	13,419,016	126,614	–	13,545,630
Less: Provision for impairment losses	(333,748)	(31,654)	–	(365,402)
Total carrying amount of finance lease receivables	13,085,268	94,960	–	13,180,228

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

24. OTHER ASSETS (CONT'D)

(f) Finance lease receivables (Cont'd)

Movements of provision for impairment losses of finance lease receivables is as follow:

	2020			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
As at January 1	333,748	31,654	–	365,402
Transferred:				
– to lifetime expected credit losses: not credit-impaired	(13,179)	13,179	–	–
– to lifetime expected credit losses: credit-impaired	–	(31,654)	31,654	–
Charge for the year	19,461	69,206	25,322	113,989
As at December 31	340,030	82,385	56,976	479,391

	2019			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
As at January 1	226,956	–	–	226,956
Transferred:				
– to lifetime expected credit losses: not credit-impaired	(2,421)	2,421	–	–
Charge for the year	109,213	29,233	–	138,446
As at December 31	333,748	31,654	–	365,402

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

25. PLEDGED ASSETS

(a) Assets pledged as collateral

	2020	2019
For borrowing from the central bank		
– Financial investments measured at amortised costs	6,178,794	4,572,022
– Financial investments measured at other comprehensive income	272,997	–
– Loans and advances to customers	–	822,510
For repurchase agreements:		
– Financial investments measured at amortised costs	5,684,802	8,838,200
– Discounted bills	1,441,132	1,763,452
Total	13,577,725	15,996,184

Financial assets pledged by the Group as collateral for liabilities are mainly debt securities for repurchase agreements.

(b) Pledged assets received

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. See Note 17 for the Group's balance of the financial assets held under resale agreements. The fair value of such collateral accepted by the Group was RMB642 million as at December 31, 2020 (December 31, 2019: RMB5,670 million). These transactions were conducted under standard terms in the normal course of business.

26. DEPOSITS FROM BANKS

Analysed by type and location of counterparty

	2020	2019
Deposits in mainland China		
– Banks	3,076,859	4,984,761
Sub-total	3,076,859	4,984,761
Interests accrued	8,904	17,364
Total	3,085,763	5,002,125

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

27. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	2020	2019
Placements in mainland China		
– Banks	14,923,350	9,938,810
– Other financial institutions	150,000	350,000
Sub-total	15,073,350	10,288,810
Interests accrued	161,288	140,675
Total	15,234,638	10,429,485

28. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	2020	2019
In mainland China		
– Banks	6,545,391	9,444,099
– Other financial institutions	–	500,000
Sub-total	6,545,391	9,944,099
Interests accrued	281	1,210
Total	6,545,672	9,945,309

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

28. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (CONT'D)

(b) Analysed by type of collateral held

	2020	2019
Debt securities	5,098,200	8,192,480
Bank acceptance	1,447,191	1,751,619
Sub-total	6,545,391	9,944,099
Interests accrued	281	1,210
Total	6,545,672	9,945,309

29. DEPOSITS FROM CUSTOMERS

	2020	2019
Demand deposits		
– Corporate customers	56,744,565	40,815,075
– Individual customers	9,270,807	7,808,426
Sub-total	66,015,372	48,623,501
Time deposits		
– Corporate customers	47,525,968	43,624,853
– Individual customers	63,882,187	49,891,487
Sub-total	111,408,155	93,516,340
Inward and outward remittances	57,599	61,562
Interests accrued	2,107,404	2,032,570
Total	179,588,530	144,233,973

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

30. LEASE LIABILITIES

Nature of leasing activities (in the capacity as lessee)

The Group leases certain properties and motor vehicles in the PRC. Properties and motor vehicles leases comprise only fixed payments over the lease terms.

Right-of-use Assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	2020	2019
Properties leased for own use, carried at depreciated cost	453,883	476,527
Motor vehicles, carried at depreciated cost	94	324

Lease Liabilities

	Properties	Motor vehicles	Total
Balance as at January 1, 2019	427,594	160	427,754
Additions	126,195	324	126,519
Interest expense	22,895	12	22,907
Lease payments	(128,159)	(339)	(128,498)
Balance as at December 31, 2019 and January 1, 2020	448,525	157	448,682
Additions	88,380	–	88,380
Interest expense	20,315	9	20,324
Lease payments	(133,618)	(166)	(133,784)
Balance as at December 31, 2020	423,602	–	423,602

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

30. LEASE LIABILITIES (CONT'D)

Nature of leasing activities (in the capacity as lessee) (Cont'd)

Lease Liabilities (Cont'd)

Future lease payments due are as follows:

	At December 31, 2020		
	Minimum lease payments	Interest	Present value
Within 1 year	114,759	(17,292)	97,467
1 year to 2 years	105,100	(12,839)	92,261
2 years to 5 years	170,395	(20,034)	150,361
More than 5 years	91,419	(7,906)	83,513
	481,673	(58,071)	423,602

	At December 31, 2019		
	Minimum lease payments	Interest	Present value
Within 1 year	111,143	(19,711)	91,432
1 year to 2 years	102,711	(15,372)	87,339
2 years to 5 years	207,746	(24,154)	183,592
More than 5 years	94,400	(8,081)	86,319
	516,000	(67,318)	448,682

During the year ended December 31, 2020, lease payments related to short term leases was amounted to RMB8 million (2019: RMB4 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

31. DEBT SECURITIES ISSUED

	Note	2020	2019
Interbank deposits issued	(a)	23,706,222	22,459,809
Tier-two capital debts issued	(b)	4,997,198	4,993,960
Financial bonds issued	(c)	1,999,718	1,997,706
Sub-total		30,703,138	29,451,475
Interests accrued		169,524	173,307
Total		30,872,662	29,624,782

Notes:

(a) Interbank deposits issued

- i. In 2019, the Bank issued a number of certificates of interbank deposit with total nominal amount RMB65,540 million and duration between 1 to 12 months. The coupon interest rates ranged from 2.50% to 3.70% per annum.
- ii. In 2020, the Bank issued a number of certificates of interbank deposit with total nominal amount RMB38,190 million and duration between 1 to 12 months. The coupon interest rates ranged from 1.38% to 3.52% per annum.
- iii. As at December 31, 2020, the fair value of interbank deposits issued was RMB23,717 million (2019: RMB22,478 million).

(b) Tier-two capital debts issued

- i. The Bank issued 10-year fixed interest rate tier-two capital debts with face value of RMB3,000 million on September 24, 2015. The coupon interest rate per annum is 5.20%. The amount has been early redeemed on September 25, 2020.
- ii. The Bank issued 10-year fixed interest rate tier-two capital debts with face value of RMB2,000 million on July 11, 2017. The coupon interest rate per annum is 5.00%.
- iii. The Bank issued 10-year fixed interest rate tier-two capital debts with face value of RMB3,000 million on September 10, 2020. The coupon interest rate per annum is 4.20%.
- iv. As at December 31, 2020, the fair value of the tier-two capital debts issued was RMB4,833 million (2019: RMB5,057 million).

(c) Financial bonds issued

- i. On March 21, 2018, the Bank issued 3-year financial bonds with face value of RMB2,000 million. The coupon interest rate per annum is 5.43%.
- ii. As at December 31, 2020, the fair value of financial bonds issued was RMB2,012 million (2019: RMB2,047 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

32. OTHER LIABILITIES

	Note	2020	2019
Interest payable	(a)	11,395	10,924
Agency business liabilities		231,564	56,689
Accrued staff costs	(b)	545,370	373,385
Dividend payable		1,627	14,910
Settlement and clearing accounts		570,379	79,802
Output VAT payable		79,561	30,959
Contract liabilities	(c)	132,434	172,507
Provisions	(d)	77,074	61,259
Deposits received		396,808	442,491
Others		544,431	669,605
Total		2,590,643	1,912,531

(a) Interest payable

	2020	2019
Interest payable arising from:		
Deposits from customers	11,395	10,924
Total	11,395	10,924

As at the end of each of the reporting period, interests on financial instruments based on the effective interest method have been reflected in the balance of corresponding financial instruments.

(b) Accrued staff costs

	2020	2019
Salaries, bonuses and allowances payable	491,959	329,208
Pension insurance and annuity payable	1,626	1,626
Other social insurance payable	–	25
Others	51,785	42,526
Total	545,370	373,385

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

32. OTHER LIABILITIES (CONT'D)

(c) Contract liabilities

As at December 31, 2020, the aggregated amounts of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB132 million (2019: RMB173 million). Such amounts represent income expected to be recognised in the future from finance lease services. The Group will recognise the expected income in future as the services are provided.

(d) Provisions

	2020	2019
Provisions for credit commitments	77,074	61,259

Movements of provisions for credit commitments are as follows:

	2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	61,259	-	-	61,259
Charge for the year	15,815	-	-	15,815
As at December 31	77,074	-	-	77,074

	2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	55,843	-	-	55,843
Charge for the year	5,416	-	-	5,416
As at December 31	61,259	-	-	61,259

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

33. SHARE CAPITAL

Authorised and issued share capital

	Note	2020	2019
Number of shares authorised, issued and fully paid at par value of RMB1 each			
At beginning of year		4,971,197	4,971,197
Issued during the year	(a)	1,008,861	–
At end of year		5,980,058	4,971,197

Notes:

(a) On October 12, 2020, the Bank issued 877 million H-shares with a par value of RMB1 at an offering price of HKD3.35 per share. On November 5, 2020, the Bank exercised the over-allotment option and issued 131 million H-shares with a par value of RMB1 at HKD3.35 per share. The capital contribution was verified by BDO China Shu Lun Pan Certified Public Accountants LLP.

(b) In April 2019, Wendeng City Senlu Leather Co., Ltd. (文登市森鹿製革有限公司) (“**Wendeng Senlu**”) and Weihai Liyu Industrial Co., Ltd. (威海市力鈺實業有限公司) (“**Weihai Liyu**”) entered into a share transfer agreement upon which Wendeng Senlu transferred 43,627,931 shares of the Bank to Weihai Liyu with consideration RMB122,158,207. The share transfer was registered in Qilu Equity Exchange (齊魯股權交易所) on April 11, 2019.

In December 2019, Weihai Xinghai Trading Co., Ltd. (威海興海貿易有限公司) (“**Weihai Xinghai**”) and Shandong Huaxia Group Co., Ltd. (山東華夏集團有限公司) (“**Shandong Huaxia**”) entered into a share transfer agreement upon which Weihai Xinghai transferred 30,000,000 shares of the Bank to Shandong Huaxia with consideration RMB90,000,000. The share transfer was registered in Qilu Equity Exchange on December 20, 2019.

In December 2019, Weihai Xinghai and Weihai Tianan Real Estate Development Co., Ltd. (威海天安房地產開發有限公司) (“**Weihai Tianan**”) entered into a share transfer agreement upon which Weihai Xinghai transferred 27,593,500 shares of the Bank to Weihai Tianan with consideration RMB81,400,825. The share transfer was registered in Qilu Equity Exchange on December 20, 2019.

In December 2019, China Heavy Truck Group Co., Limited (中國重型汽車集團有限公司) (“**China Heavy Truck**”) and Qilu Transportation Development Group Co., Ltd (齊魯交通發展集團有限公司) (“**Qilu Transportation**”) entered into a share transfer agreement upon which China Heavy Truck transferred 566,144,163 shares of the Bank to Qilu Transportation with consideration RMB1,257,284,382. The share transfer was registered in Qilu Equity Exchange (齊魯股權交易所) on February 13, 2020.

In March 2020, Weihai Foreign Exchange Business Training Center (威海外匯業務培訓中心) (“**Weihai Foreign Exchange**”) and Shandong Bodelong Group Co., Ltd. (山東波德隆集團有限公司) (“**Shandong Bodelong**”) entered into a share transfer agreement upon which Weihai Foreign Exchange transferred 5,298,517 shares of the Bank to Shandong Bodelong with consideration RMB15,895,551. The share transfer was registered in Qilu Equity Exchange (齊魯股權交易所) on March 6, 2020.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

34. RESERVES

(a) Capital reserve

	2020	2019
Share premium	4,933,399	3,098,168
Other capital reserve	14,154	21,796
Total	4,947,553	3,119,964

As stated in Note 33, on October 12, 2020, the Bank issue 877 million H-shares with a par value of RMB1 at an offering price of HKD3.35 per share. On November 5, 2020, the Bank exercised the over-allotment option and issued 132 million H-shares with a par value of RMB1 at HKD3.35 per share. The premium arising from the issuance of new shares amounting to RMB1,835 million was recorded in capital reserve.

(b) Surplus reserve

The surplus reserve at the end of each of the reporting period represented statutory surplus reserve and discretionary surplus reserve.

Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the People's Republic of China Generally Accepted Accounting Principles (PRC GAAP) after making good prior year's accumulated loss, to statutory surplus reserve until the balance reaches 50% of its registered capital.

The Bank appropriated an amount of RMB137 million to the surplus reserve for year ended December 31, 2020 (2019: RMB136 million).

The Bank may also appropriate discretionary surplus reserve 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, the Bank 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 the Bank amounted to RMB2,157 million as at December 31, 2020 (2019: RMB1,955 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

34. RESERVES (CONT'D)

(d) Fair value reserve

	2020	2019
As at January 1	(29,831)	(53,108)
Changes in fair value recognised in other comprehensive income	(261,084)	31,036
Less: deferred tax	65,271	(7,759)
As at December 31	(225,644)	(29,831)

(e) Impairment reserve

	2020	2019
As at January 1	9,155	8,233
Impairment losses recognised in other comprehensive income	3,022	1,230
Less: deferred tax	(755)	(308)
As at December 31	11,422	9,155

(f) Other equity instrument

On November 28, 2019, the Group issued a perpetual bond of RMB3,000.0 million with no fixed maturity date, resulting in credits to perpetual bonds of RMB2,999.7 million, after deducting the direct issuance cost of RMB0.3 million. In addition, the payment of interest can be indefinitely deferred at the Group's option and is not cumulative.

Therefore, the perpetual bond is classified as an equity instrument due to it does not include any contractual obligation:

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

During the year ended December 31, 2020, the Group did not cancel the payment of distribution and the corresponding interest of RMB148,721,000 was paid to perpetual bond holders accordingly.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

35. RETAINED EARNINGS

(a) Appropriation of profits

In accordance with the resolution at the Bank's Board of Directors Meeting on February 29, 2020, the proposed profit distribution plan for the year ended December 31, 2019 is as follows:

- Appropriation of statutory surplus reserve based on 10% of the net profit;
- Pursuant to the Administrative Measures for the Provision of Reserves of Financial Enterprises (No. 20 2012 of the Ministry Finance), appropriation of general reserve amounted to approximately RMB201.6 million; and
- Declaration of cash dividend in an aggregation amount of approximately RMB497 million to all existing shareholders.

In accordance with the resolution at the Bank's Board of Directors Meeting on March 31, 2021, the proposed profit distribution plan for the year ended December 31, 2020 is as follows:

- Appropriation of statutory surplus reserve based on 10% of the net profit;
- Pursuant to the Administrative Measures for the Provision of Reserves of Financial Enterprises (No.20 2012 of the Ministry Finance), appropriation of general reserve amounted to approximately RMB331 million; and
- Declaration of cash dividend in an aggregation amount of approximately RMB598 million to all existing shareholders.

The profit appropriation resolution mentioned above has yet to be approved by the annual general meeting.

As at December 31, 2020, no appropriation of surplus reserve made by subsidiary of the Bank was included in the consolidated retained earnings attributable to equity shareholders of the Bank (2019: nil).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

35. RETAINED EARNINGS (CONT'D)

(b) Movements in components of equity

Details of the changes in the Bank's individual components of equity for the reporting period are set out below:

	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Perpetual bonds	Retained earnings	Total
Balance at January 1, 2020	4,971,197	3,119,964	1,089,080	1,954,904	(29,831)	9,155	2,999,675	2,961,055	17,075,199
Changes in equity for the year:									
Net profit for the year	-	-	-	-	-	-	-	1,366,352	1,366,352
Other comprehensive income	-	-	-	-	(195,813)	2,267	-	-	(193,546)
Total comprehensive income	-	-	-	-	(195,813)	2,267	-	1,366,352	1,172,806
Issue of H-shares	1,008,861	1,835,231	-	-	-	-	-	-	2,844,092
Appropriation of profits									
- Appropriation to surplus reserve	-	-	136,635	-	-	-	-	(136,635)	-
- Appropriation to general reserve	-	-	-	201,636	-	-	-	(201,636)	-
- Appropriation to shareholders	-	-	-	-	-	-	-	(497,121)	(497,121)
- Appropriation to bondholders	-	-	-	-	-	-	148,721	(148,721)	-
- Distribution paid to perpetual bondholders	-	-	-	-	-	-	(148,721)	-	(148,721)
Balance at December 31, 2020	5,980,058	4,955,195	1,225,715	2,156,540	(225,644)	11,422	2,999,675	3,343,294	20,446,255

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

35. RETAINED EARNINGS (CONT'D)

(b) Movements in components of equity (Cont'd)

	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Perpetual bonds	Retained earnings	Total
Balance at January 1, 2019	4,971,197	3,119,964	952,746	1,668,102	(53,108)	8,233	-	2,531,803	13,198,937
Changes in equity for the year:									
Net profit for the year	-	-	-	-	-	-	-	1,283,882	1,283,882
Other comprehensive income	-	-	-	-	23,277	922	-	-	24,199
Total comprehensive income	-	-	-	-	23,277	922	-	1,283,882	1,308,081
Issuance of perpetual bonds	-	-	-	-	-	-	2,999,675	-	2,999,675
Appropriation of profits									
- Appropriation to surplus reserve	-	-	136,334	-	-	-	-	(136,334)	-
- Appropriation to general reserve	-	-	-	286,802	-	-	-	(286,802)	-
- Appropriation to shareholders and bondholders	-	-	-	-	-	-	-	(431,494)	(431,494)
Balance at December 31, 2019	4,971,197	3,119,964	1,089,080	1,954,904	(29,831)	9,155	2,999,675	2,961,055	17,075,199

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

36. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The 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 mainly include wealth management products issued by financial institutions and investment management products managed by securities firms and under trust schemes. 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 the Group in unconsolidated structured entities, as well as an analysis of the line items in the consolidated statement of financial position in which relevant assets are recognised as at December 31, 2020 and 2019:

	2020		2019	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	10,827,209	10,827,209	14,579,037	14,579,037
Financial investments at amortised cost	13,787,471	13,787,471	17,876,466	17,876,466
Total	24,614,680	24,614,680	32,455,503	32,455,503

As at December 31, 2020 and 2019, the carrying amounts of the unconsolidated structured entities are equal to the maximum exposures.

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group mainly 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 the Group represented fees charged by the Group for providing management services. As at December 31, 2020 and 2019, the management fee receivables being recognised are not material in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

36. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONT'D)

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in: (Cont'd)

For the year ended December 31, 2020, the amount of fee and commission income received from the abovementioned structured entities by the Group are RMB131.2 million (2019: RMB90.9 million).

As at December 31, 2020, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products sponsored by the Group is RMB33,648 million (December 31, 2019: RMB20,124 million).

(c) Unconsolidated structure entities sponsored by the Group during the year which the Group does not have an interest in as at December 31, 2020:

For the year ended December 31, 2020, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before December 31 amounted to RMB31,252 million (2019: RMB21,554 million).

37. STATEMENT OF FINANCIAL POSITION OF THE BANK

	Note	2020	2019
Assets			
Cash and deposits with the central bank		23,500,280	21,203,836
Deposits with banks and other financial institutions		4,705,234	2,026,905
Placements with banks		241,446	507,205
Financial assets held under resale agreements		605,131	5,386,562
Loans and advances to customers		119,300,526	91,335,876
Financial investments:			
Financial investments at fair value through profit or loss		14,896,962	18,507,144
Financial investments at fair value through other comprehensive income		18,272,189	13,899,189
Financial investments at amortised cost		68,052,213	56,722,112
Investment in a subsidiary	20	650,000	650,000
Property and equipment		696,233	670,964
Right-of-use assets		429,948	446,963
Deferred tax assets		1,290,436	895,891
Other assets		859,018	798,084
Total assets		253,499,616	213,050,731

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

37. STATEMENT OF FINANCIAL POSITION OF THE BANK (CONT'D)

	Note	2020	2019
Liabilities and Equity			
Liabilities			
Borrowing from the central bank		7,240,711	4,730,937
Deposits from banks		3,085,763	5,002,125
Placement from banks and other financial institutions		3,002,588	351,500
Financial assets sold under repurchase agreements		6,545,672	9,945,309
Deposits from customers		179,658,799	144,527,462
Income tax payable		302,018	334,041
Debt securities issued		30,872,662	29,624,782
Lease liabilities		399,067	418,671
Deferred tax liabilities		309	5,168
Other liabilities		1,945,772	1,035,537
Total liabilities		233,053,361	195,975,532
Equity			
Share capital	33	5,980,058	4,971,197
Capital reserve	34(a)	4,955,195	3,119,964
Surplus reserve	34(b)	1,225,715	1,089,080
General reserve	34(c)	2,156,540	1,954,904
Fair value reserve	34(d)	(225,644)	(29,831)
Impairment reserve	34(e)	11,422	9,155
Perpetual bonds	34(f)	2,999,675	2,999,675
Retained earnings	35	3,343,294	2,961,055
Total equity		20,446,255	17,075,199
Total liabilities and equity		253,499,616	213,050,731

Approved and authorized for issue by the board of directors on March 31, 2021 and signed on its behalf by

Tan Xianguo
Chairman

Meng Dongxiao
President

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

38. CAPITAL MANAGEMENT

The Group's capital management includes capital adequacy ratio management and capital financing management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the former CBRC. The capital of the Group is divided into core tier-one capital, other core 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 the 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.

The 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.

The 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 CBIRC 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 the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

38. CAPITAL MANAGEMENT (CONT'D)

The Group's capital adequacy ratios at December 31, 2020 and 2019 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

	2020	2019
Total core tier-one capital		
– Share capital	5,980,058	4,971,197
– Qualifying portion of capital reserve	4,947,553	3,119,964
– Surplus reserve	1,225,715	1,089,080
– General reserve	2,293,035	2,079,232
– Other comprehensive income	(214,222)	(20,676)
– Retained earnings	3,673,849	3,160,582
– Qualifying portions of non-controlling interests	525,159	363,690
Core tier-one capital	18,431,147	14,763,069
Core tier-one capital deductions	(39,017)	(38,864)
Net core tier-one capital	18,392,130	14,724,205
Other tier-one capital	3,069,696	3,048,167
Net tier-one capital	21,461,826	17,772,372
Tier-two capital		
– Instruments issued and share premium	5,000,000	5,000,000
– Surplus provision for loan impairment	1,646,750	1,315,897
– Qualifying portions of non-controlling interests	140,042	96,985
Net tier-two capital	6,786,792	6,412,882
Net capital base	28,248,618	24,185,254
Total risk weighted assets	186,125,052	150,891,479
Core tier-one capital adequacy ratio	9.88%	9.76%
Tier-one capital adequacy ratio	11.53%	11.78%
Capital adequacy ratio	15.18%	16.03%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Net (decrease)/increase in cash and cash equivalents

	2020	2019
Cash and cash equivalents as at December 31	27,895,102	35,241,608
Less: Cash and cash equivalents as at January 1	(35,241,608)	(20,863,452)
Net (decrease)/increase in cash and cash equivalents	(7,346,506)	14,378,156

(b) Cash and cash equivalents

	2020	2019
Cash on hand	218,265	194,466
Deposits with central bank other than restricted deposits	7,817,674	7,725,599
Deposits with banks and other financial institutions	4,875,278	2,026,846
Placements with banks	241,421	500,000
Debt investments with maturity of three months or less	14,742,464	24,794,697
Total	27,895,102	35,241,608

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (CONT'D)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Debt securities issued (Note 31)	Interest accrued arising from debt securities issued (Note 31)	Lease liabilities (Note 30)	Total
As at January 1, 2019	42,666,883	275,631	427,754	43,370,268
Changes from financing cash flows				
Net proceeds from new debt securities issued	65,574,592	–	–	65,574,592
Repayment of debt securities issued	(78,790,000)	–	–	(78,790,000)
Interest paid on debt securities issued	–	(1,513,521)	–	(1,513,521)
Capital element of lease liabilities paid	–	–	(105,591)	(105,591)
Interest element of lease liabilities paid	–	–	(22,907)	(22,907)
Total changes from financing cash flows	(13,215,408)	(1,513,521)	(128,498)	(14,857,427)
Other changes				
Interest expense	–	1,411,197	22,907	1,434,104
New lease entered during the year	–	–	126,519	126,519
Total other changes	–	1,411,197	149,426	1,560,623
As at December 31, 2019 and January 1, 2020	29,451,475	173,307	448,682	30,073,464
Changes from financing cash flows				
Net proceeds from new debt securities issued	41,281,663	–	–	41,281,663
Repayment of debt securities issued	(40,030,000)	–	–	(40,030,000)
Interest paid on debt securities issued	–	(1,059,078)	–	(1,059,078)
Capital element of lease liabilities paid	–	–	(113,460)	(113,460)
Interest element of lease liabilities paid	–	–	(20,324)	(20,324)
Total changes from financing cash flows	1,251,663	(1,059,078)	(133,784)	58,801
Interest expense	–	1,055,295	20,324	1,075,619
New lease entered during the year	–	–	88,380	88,380
Total other changes	–	1,055,295	108,704	1,163,999
As at December 31, 2020	30,703,138	169,524	423,602	31,296,264

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

40. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties of the Group

i. Major shareholders

Major shareholders include shareholders of the Bank with a direct or indirect 5% or above shareholding, or with the right to appoint a director, member of the Board of Supervisors in the Bank.

Shareholdings in the Bank:

	2020 %	2019 %
Shandong Hi-Speed Group Co., Ltd (山東高速集團有限公司)	37.06%	33.20%
Weihai City Finance Bureau (威海市財政局)	15.38%	18.50%
Shandong Hi-Speed Company Limited (山東高速股份有限公司)	11.60%	13.96%
China Heavy Truck Group Co., Limited (中國重型汽車集團有限公司)	4.06%	16.28%
Weihai Tianan (威海天安房地產開發有限公司)	2.75%	3.30%
Shandong Global Fishing Gear Co., Ltd (山東環球漁具股份有限公司)	1.39%	1.67%
Shandong Haodangjia Ocean Development Co., Ltd (山東好當家海洋發展股份有限公司)	1.20%	1.44%
Weihai Xinghai (威海市興海貿易有限公司)	N/A	1.21%

The official names of these related parties are in Chinese. The English translation is for reference only.

ii. Subsidiary of the Bank

The detailed information of the Bank's subsidiary is set out in Note 20.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

40. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

(a) Related parties of the Group (Cont'd)

iii. Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors, the board of supervisors 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, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 40(a) or their controlling shareholders.

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

i. Transactions between the Bank and major shareholders:

	2020	2019
Transactions during the year		
Interest income	8	7,464
Interest expense	159,946	161,769
Fee and commission income	32	20
Rental expenses	2,920	–

	2020	2019
Balances at end of the year		
Loans and advances to customers	–	10,002
Deposits from customers	3,781,264	5,854,865

ii. Transactions between the Bank and subsidiary:

	2020	2019
Transactions during the year		
Interest income	9,116	8,289
Interest expense	61,497	42,945
Rental income	524	2,095

	2020	2019
Balances at end of the year		
Loans and advances to customers	1,551,465	1,224,234
Other assets	–	524
Deposits from customers	70,268	293,489

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

40. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

(b) Transactions with related parties other than key management personnel (Cont'd)

iii. Transactions between the Bank and other related parties:

	2020	2019
Transactions during the year		
Interest income	127,411	122,903
Interest expense	33,838	23,834
Fee and commission income	2,937	618
Rental expenses	2,233	2,233
	2020	2019
Balances at end of the year		
Loans and advances to customers	2,225,448	2,399,213
Deposits from customers	3,328,901	2,905,979
Bank acceptances	91,220	26,940
Letters of guarantees	116,648	95,576
Letters of credit	53,045	19,000

(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 the Group, directly or indirectly, including members of the board of directors, the supervisory board and senior management.

i. Transactions between the Bank and key management personnel

	2020	2019
Transactions during the year		
Interest income	207	87
Interest expense	3,885	146
	2020	2019
Balances at end of the year		
Loans and advances to customers	3,005	1,803
Deposits from customers	58,599	9,444

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

40. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

(c) Key management personnel (Cont'd)

ii. Key management personnel compensation

The aggregate compensation to key management personnel is listed as follows:

	2020	2019
Key management personnel compensation	21,177	21,263

(d) Loans and advances to directors, supervisors and officers

	2020	2019
Aggregate amount of relevant loans outstanding at the end of the year	550	1,803
Maximum aggregate amount of relevant loans outstanding during the year	1,803	4,925

There was no amount due but unpaid, nor any impairment provision made against the principal of or interest on these loans at December 31, 2020 and 2019.

41. SEGMENT REPORTING

The Group manages its business by business lines. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing, deposit taking activities, agency services, wealth management services, consulting and advisory services, remittance and settlement services, guarantee services and finance leasing services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, personal wealth management services and remittance services.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

41. SEGMENT REPORTING (CONT'D)

Financial market business

This segment covers the Group's Financial market business operations. The Financial market business enters into inter-bank money market transactions, repurchases transactions, and investments. It also trades in debt securities. The Financial market business segment also covers management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses, which are not directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Intra-group balances and intra-group transactions are eliminated by segment income, expenses, assets and liabilities as part of the consolidation process. Segment capital expenditure is the total cost incurred during the reporting period to acquire property and equipment, intangible assets and other long-term assets.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

41. SEGMENT REPORTING (CONT'D)

	Corporate banking	Retail banking	2020 Financial market business	Others	Total
Operating income					
External net interest income/(expense)	2,108,674	(500,653)	3,050,292	–	4,658,313
Internal net interest income/(expense)	1,247,356	1,662,003	(2,909,359)	–	–
Net interest income	3,356,030	1,161,350	140,933	–	4,658,313
Net fee and commission income	235,331	111,204	118,264	(1,081)	463,718
Net trading losses	(73,907)	–	(85,134)	–	(159,041)
Net gains arising from investment securities	–	–	1,056,752	–	1,056,752
Other operating income	3,532	–	–	10,690	14,222
Operating income	3,520,986	1,272,554	1,230,815	9,609	6,033,964
Operating expenses	(862,064)	(510,471)	(193,465)	(11,661)	(1,577,661)
Impairment losses on assets	(1,761,088)	(310,684)	(428,060)	(5,203)	(2,505,035)
Profit/(loss) before tax	897,834	451,399	609,290	(7,255)	1,951,268
Segment assets	107,537,261	42,990,726	114,730,588	970,386	266,228,961
Deferred tax assets	–	–	–	1,372,687	1,372,687
Total assets	107,537,261	42,990,726	114,730,588	2,343,073	267,601,648
Segment liabilities	127,137,565	74,417,385	41,718,275	2,654,680	245,927,905
Total liabilities	127,137,565	74,417,385	41,718,275	2,654,680	245,927,905
Other segment information					
– Depreciation and amortisation	111,639	66,660	24,680	1,609	204,588
– Capital expenditure	25,588	15,279	5,658	–	46,525

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

41. SEGMENT REPORTING (CONT'D)

	Corporate banking	Retail banking	2019 Financial market business	Others	Total
Operating income					
External net interest income/(expense)	1,852,069	(502,519)	1,956,686	–	3,306,236
Internal net interest income/(expense)	931,349	1,337,074	(2,268,423)	–	–
Net interest income	2,783,418	834,555	(311,737)	–	3,306,236
Net fee and commission income	129,054	62,574	91,363	(11,282)	271,709
Net trading gains	19,238	–	55,193	–	74,431
Net gains arising from investment securities	–	–	1,294,442	–	1,294,442
Other operating income	–	–	–	365	365
Operating income	2,931,710	897,129	1,129,261	(10,917)	4,947,183
Operating expenses	(1,033,511)	(220,017)	(191,998)	(16,816)	(1,462,342)
Impairment losses on assets	(1,071,662)	(312,398)	(276,622)	(10,486)	(1,671,168)
Profit/(loss) before tax	826,537	364,714	660,641	(38,219)	1,813,673
Segment assets	88,263,465	30,222,897	103,836,924	1,354,484	223,677,770
Deferred tax assets	–	–	–	957,751	957,751
Total assets	88,263,465	30,222,897	103,836,924	2,312,235	224,635,521
Segment liabilities	102,609,063	57,830,121	44,922,750	1,350,089	206,712,023
Total liabilities	102,609,063	57,830,121	44,922,750	1,350,089	206,712,023
Other segment information					
– Depreciation and amortisation	65,575	15,060	134,255	2,853	217,743
– Capital expenditure	52,145	11,975	9,472	–	73,592

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT

The 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 the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

Risk management system

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control procedures for monitoring risks level. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board of Directors is responsible for establishing and maintaining a robust and effective risk management system and determining general risk preference and risk tolerance of the Group. Based on the general strategy of the Group, the Risk Management Committee under the Board reviews the Group's risk management system and basic principles, risk management strategies and internal control system framework; supervises and evaluates the establishment, organization, processes and effectiveness of risk management departments; supervises and evaluates risk control by the management in aspects such as credit risk, market risk and operational risk; and conducts identification, monitoring, control and regular assessment of the Group's risk management and risk tolerance. Senior management led by the president will be responsible for the control of credit risk, market risk, operational risk and approval of related policies and procedures; Chief Risk Officer will be led by the president of the Bank. In addition, the Group set up departments such as the Department of Risk Management, Department of Credit Approval, Financial Planning Department, Department of Law and Compliance and Audit Department based on the requirements of general risk management to perform respective functions in risk management, strengthen risk-covering portfolio management capabilities and conduct inspection on compliance with risk management policy of internal control system on regular or irregular basis.

(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 the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

To identify, assess, monitor and manage credit risks, the Group has designed effective system frameworks, credit policies and processes for credit risk management and implemented systematic control procedures. The responsible departments for credit risk management mainly include the Risk Management Department and Credit Approval Department. The Risk Management Department is responsible for implementing the Group's overall risk management system, risk monitoring and control and formulating risk management policies. The Credit Approval Department is independent from customer relationship and product management departments to ensure the independence of credit approval. Front office departments including Corporate Business Department and Personal Finance Department carry out credit businesses according to the Group's risk management policies and procedures.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Credit business (Cont'd)

The Group continuously improves the internal control mechanism and strengthens the management of all processes of the credit business. Based on effective checks and balances, the Group has established comprehensive assessment and accountability mechanisms, assigning responsibilities of credit management to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-, region-, product- and client-specific limits for credit approval. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs 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, the 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 or personnel for approval. The 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, the Group starts the recovery process according to standardised loan recovery procedures.

Stages of risks in financial instrument

Stage 1

Financial assets have not experienced a significant increase in credit risk since origination and impairment is 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Significant increase in credit risk

When one or more quantitative, qualitative standards or upper limits are triggered, the 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.

The 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, 2020 and 2019, the Group has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the reporting date with that at the initial recognition to identify whether there was a significant increase in credit risk.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Definition of "default" and "credit-impaired assets"

At each reporting date, the 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;
- the disappearance of an active market for the financial asset because of financial difficulties of the issuer; or
- overdue more than 90 days.

The above criteria apply to all financial assets of the Group and they are consistent with the definition of "default" adopted by the internal management of credit risk.

Measurement of ECL

The Group adopts ECL model to measure 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 the 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 the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

The Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future years. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default in an earlier period). By adopting this approach, the Group can calculate the ECL for the future months. The results of calculation for each month are then discounted to the reporting 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 pattern of default 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.

- In respect of the financial assets with instalment repayments and bullet repayment, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of overlimit repayment and prepayments/refinancing made by the borrower.
- As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the reporting date by the credit conversion factor (CCF).
- The Group determines the 12-month and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.
- As to financial assets classified as security, the Group determines the LGD according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.
- As to credit-based financial assets, the Group usually determines LGD in the product level due to the limited differences in recoverable amounts from different borrowers.

Forward-looking economic information should be considered when determining the 12-month and lifetime PD, EAD and LGD.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

The 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.

As at December 31, 2020 and 2019, there has been no significant changes in the estimate techniques and key assumptions of the Group.

Forward-looking information included in the expected credit loss model is as follows:

- Both the assessment of significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting the future economic indicators.
- When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of the scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under the different scenarios by the weight of the corresponding scenarios.
- Similar to other economic forecasts, there is high inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.
- Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the expected credit losses were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

i. Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial asset at the end of each of the reporting period.

ii. Financial assets analysed by credit quality are summarised as follows:

	2020				
	Loans and advances to customers	Deposits/placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments (Note i)	Others (Note ii)
Balance of financial assets that are assessed for ECLs over the next 12 months					
– Overdue but not credit-impaired	385,702	-	-	-	-
– Neither overdue nor credit-impaired	111,141,480	5,116,699	605,050	97,265,335	15,740,211
Sub-total	111,527,182	5,116,699	605,050	97,265,335	15,740,211
Balance of financial assets that are not credit-impaired and assessed for lifetime ECLs					
– Overdue but not credit-impaired	4,965,299	-	-	-	-
– Neither overdue nor credit-impaired	2,027,278	-	-	692,935	618,678
Sub-total	6,992,577	-	-	692,935	618,678
Balance of credit-impaired financial assets that are assessed for lifetime ECLs					
– Overdue and credit-impaired	1,580,160	-	-	1,615,175	338,077
– Credit-impaired but not Overdue	193,505	-	-	427,699	-
Sub-total	1,773,665	-	-	2,042,874	338,077
Interests accrued	522,713	95	479	1,852,028	243,217
Less: Provision for impairment losses	(3,067,076)	(1)	(398)	(631,808)	(536,623)
Net value	117,749,061	5,116,793	605,131	101,221,364	16,403,560

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

ii. Financial assets analysed by credit quality are summarised as follows: (Cont'd)

	2019				
	Loans and advances to customers	Deposits/placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments (Note i)	Others (Note ii)
Balance of financial assets that are assessed for ECLs over the next 12 months					
– Overdue but not credit-impaired	259,490	–	–	–	–
– Neither overdue nor credit-impaired	83,396,177	2,526,846	5,389,300	86,816,184	13,441,513
Sub-total	83,655,667	2,526,846	5,389,300	86,816,184	13,441,513
Balance of financial assets that are not credit-impaired and assessed for lifetime ECLs					
– Overdue but not credit-impaired	5,917,109	–	–	–	218,677
– Neither overdue nor credit-impaired	734,036	–	–	500,000	–
Sub-total	6,651,145	–	–	500,000	218,677
Balance of credit-impaired financial assets that are assessed for lifetime ECLs					
– Overdue and credit-impaired	2,144,689	–	–	300,000	71,067
– Credit-impaired but not Overdue	109	–	–	531,281	–
Sub-total	2,144,798	–	–	831,281	71,067
Interests accrued	413,389	7,268	821	1,281,510	168,195
Less: Provision for impairment losses	(2,753,357)	(1)	(3,559)	(300,530)	(391,104)
Net value	90,111,642	2,534,113	5,386,562	89,128,445	13,508,348

Notes:

- i. Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income and financial investments measured at amortised cost.
- ii. Others comprise interest receivable, finance lease receivables and other receivables in other assets.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

ii. Financial assets analysed by credit quality are summarised as follows: (Cont'd)

Financial assets (exclusive interests accrued) analysed by credit quality

	Balance				2020 Provision for impairment losses				ECL rate Total
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Financial assets measured at amortised cost									
Cash and deposits with the central bank	23,500,280	-	-	23,500,280	-	-	-	-	N/A
Deposits with banks and other financial institutions	4,875,278	-	-	4,875,278	-	-	-	-	N/A
Placements with banks	241,421	-	-	241,421	(1)	-	-	(1)	0.00% ^(note)
Financial assets held under resale agreements	605,050	-	-	605,050	(398)	-	-	(398)	0.07%
Loans and advances to customers	104,000,396	6,992,577	1,773,665	112,766,638	(1,248,046)	(951,008)	(852,859)	(3,051,913)	2.71%
Financial investments	64,509,956	692,935	2,042,874	67,245,765	(391,368)	(33,683)	(131,572)	(556,623)	0.83%
Other assets	15,740,211	618,678	338,077	16,696,966	(342,553)	(101,489)	(92,581)	(536,623)	3.21%
Total	213,472,592	8,304,190	4,154,616	225,931,398	(1,982,366)	(1,086,180)	(1,077,012)	(4,145,558)	1.83%
Financial assets at fair value through other comprehensive income									
Loans and advances to customers	7,526,786	-	-	7,526,786	(8,341)	-	-	(8,341)	0.11%
Financial investments	17,858,417	-	-	17,858,417	(6,888)	-	-	(6,888)	0.04%
Total	25,385,203	-	-	25,385,203	(15,229)	-	-	(15,229)	0.06%
Credit commitments	37,113,772	-	-	37,113,772	(77,074)	-	-	(77,074)	0.21%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

ii. Financial assets analysed by credit quality are summarised as follows: (Cont'd)

Financial assets (exclusive interests accrued) analysed by credit quality (Cont'd)

	Balance				2019				ECL rate Total
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Financial assets measured at amortised cost									
Cash and deposits with the central bank	21,203,836	-	-	21,203,836	-	-	-	-	N/A
Deposits with banks and other financial institutions	2,026,846	-	-	2,026,846	-	-	-	-	N/A
Placements with banks	500,000	-	-	500,000	(1)	-	-	(1)	0.00% ^(note)
Financial assets held under resale agreements	5,389,300	-	-	5,389,300	(3,559)	-	-	(3,559)	0.07%
Loans and advances to customers	77,009,803	6,635,946	2,144,795	85,790,544	(912,430)	(824,653)	(988,492)	(2,725,575)	3.18%
Financial investments	54,913,655	500,000	605,581	56,019,236	(180,346)	(110,000)	(10,184)	(300,530)	0.54%
Other assets	13,441,513	218,677	71,067	13,731,257	(334,567)	(8,268)	(48,268)	(391,103)	2.85%
Total	174,484,953	7,354,623	2,821,443	184,661,019	(1,430,903)	(942,921)	(1,046,944)	(3,420,768)	1.85%
Financial assets at fair value through other comprehensive income									
Loans and advances to customers	6,661,066	-	-	6,661,066	(7,626)	-	-	(7,626)	0.11%
Financial investments	13,621,085	-	-	13,621,085	(4,581)	-	-	(4,581)	0.03%
Total	20,282,151	-	-	20,282,151	(12,207)	-	-	(12,207)	0.06%
Credit commitments	27,360,205	-	-	27,360,205	(61,259)	-	-	(61,259)	0.22%

Note: The amount represented an ECL rate of below 0.01%.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

ii. Financial assets analysed by credit quality are summarised as follows: (Cont'd)

The overall ECL rate for financial assets and credit commitments analysed by credit quality

	2020			Total
	Stage 1	Stage 2	Stage 3	
Financial assets measured at amortised cost	0.93%	13.08%	25.92%	1.83%
Financial assets measured at fair value through other comprehensive income	0.06%	N/A	N/A	0.06%
Credit commitments	0.21%	N/A	N/A	0.21%

	2019			Total
	Stage 1	Stage 2	Stage 3	
Financial assets measured at amortised cost	0.82%	12.82%	37.11%	1.85%
Financial assets measured at fair value through other comprehensive income	0.06%	N/A	N/A	0.06%
Credit commitments	0.22%	N/A	N/A	0.22%

Note: The amount represented an ECL rate of below 0.01%.

As at December 31, 2020, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB4,405 million (December 31, 2019: RMB1,060 million). The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB798 million (December 31, 2019: RMB1,362 million). The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

iii. Rescheduled loans and advances to customers

The Group has no rescheduled loans and advances to customers at December 31, 2020 and 2019.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

iv. Credit rating

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments (exclusive interests accrued) analysed by the rating agency designations as at the end of the reporting period are as follows:

	2020	2019
Neither overdue nor impaired		
Ratings		
– AAA	17,809,324	12,578,521
– AA- to AA+	20,312,968	4,210,197
– below AA-	1,270,469	302,818
Sub-total	39,392,761	17,091,536
Unrated	33,735,623	36,256,173
Total	73,128,384	53,347,709

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The Group has especially built up a market risk management structure and team. The Department of Risk Management takes the major responsibility for the exposure of market risk and preparation of relevant market risk management policies to submit to the Committee of Risk Management. According to established standards and current management capabilities, the Group measures market risk with the major adoption of sensitivity analysis. Before the new products or new business are launched, their market risks will be identified according to regulations.

The major source of market risk of the Group is the asset and liability businesses involved in market operation and the risks in interest rate and exchange rate of products.

Interest rate risk

The 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 bank assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury business' investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

(i) The following tables indicate the assets and liabilities as at the end of each of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	2020					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	23,500,280	263,441	23,236,839	-	-	-
Deposits with banks and other financial institutions	4,875,347	69	4,875,278	-	-	-
Placements with banks	241,446	26	241,420	-	-	-
Financial assets held under resale agreements.	605,131	479	604,652	-	-	-
Loans and advances to customers (Note (i))	117,749,061	507,550	14,223,769	37,616,785	35,448,221	29,952,736
Financial investments (Note (ii))	101,221,364	3,886,542	3,136,797	9,136,622	48,788,685	36,272,718
Other assets	19,409,019	3,771,791	1,591,758	5,261,548	8,659,151	124,771
Total assets	267,601,648	8,429,898	47,910,513	52,014,955	92,896,057	66,350,225
Liabilities						
Borrowing from the central bank	7,240,711	3,496	1,924,148	5,313,067	-	-
Deposits from banks	3,085,763	14,564	1,411,199	1,660,000	-	-
Placements from banks and other financial institutions	15,234,638	161,288	2,761,910	12,311,440	-	-
Financial assets sold under repurchase agreements	6,545,672	281	6,545,391	-	-	-
Deposits from customers	179,588,530	2,165,002	83,589,730	37,339,424	56,117,518	376,856
Debt securities issued	30,872,662	169,525	12,964,461	12,741,479	-	4,997,197
Others liabilities	3,359,929	2,936,326	34,411	63,056	242,623	83,513
Total liabilities	245,927,905	5,450,482	109,231,250	69,428,466	56,360,141	5,457,566
Asset-liability gap	21,673,743	2,979,416	(61,320,737)	(17,413,511)	36,535,916	60,892,659

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Trading interest rate risk (Cont'd)

(i) The following tables indicate the assets and liabilities as at the end of each of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier: (Cont'd)

	Total	2019				
		Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	21,203,836	-	21,203,836	-	-	-
Deposits with banks and other financial institutions	2,026,908	62	2,026,846	-	-	-
Placements with banks	507,205	7,205	500,000	-	-	-
Financial assets held under resale agreements.	5,386,562	821	5,385,741	-	-	-
Loans and advances to customers (Note (i))	90,111,642	831,559	12,466,432	31,142,896	26,817,397	18,853,358
Financial investments (Note (ii))	89,128,445	2,703,203	3,572,206	19,091,576	36,823,711	26,937,749
Others assets	16,270,923	2,896,584	92,638	870,955	11,630,136	780,610
Total assets	224,635,521	6,439,434	45,247,699	51,105,427	75,271,244	46,571,717
Liabilities						
Borrowing from the central bank	4,730,937	3,698	535,767	4,191,472	-	-
Deposits from banks	5,002,125	17,367	819,758	4,165,000	-	-
Placements from banks and other financial institutions	10,429,485	140,675	2,280,000	8,008,810	-	-
Financial assets sold under repurchase agreements	9,945,309	1,210	9,478,043	466,056	-	-
Deposits from customers	144,233,973	2,032,570	66,487,353	26,022,138	45,895,536	3,796,376
Debt securities issued	29,624,782	173,307	6,417,686	16,042,123	1,997,706	4,993,960
Others liabilities	2,745,412	2,305,918	29	32,075	362,310	45,080
Total liabilities	206,712,023	4,674,745	86,018,636	58,927,674	48,255,552	8,835,416
Asset-liability gap	17,923,498	1,764,689	(40,770,937)	(7,822,247)	27,015,692	37,736,301

Notes:

- i. As at December 31, 2020, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB1,417.2 million (December 31, 2019: RMB3,140.2 million).
- ii. Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income and financial investments measured at amortised cost.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Trading interest rate risk (Cont'd)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. The following table sets forth the results of the Group's interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant.

	2020	2019
Change in net profit		
Up 100 bps parallel shift in yield curves	167,199	295,298
Down 100 bps parallel shift in yield curves	(167,199)	(295,298)

	2020	2019
Change in equity		
Up 100 bps parallel shift in yield curves	302,302	382,128
Down 100 bps parallel shift in yield curves	(302,302)	(382,128)

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of each of the reporting period apply to non-derivative financial instruments of the Group;
- At the end of each of the reporting period, 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;

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Trading interest rate risk (Cont'd)

(ii) Interest rate sensitivity analysis (Cont'd)

- 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 the 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

The majority of the business of the Group is related to Renminbi, as well as a small amount of business related to US dollar and other foreign currencies.

The changes in exchange rates will affect the financial position and cash flow of the Group. Due to the small amount of foreign currency business of the Group, the effect of foreign currency risk on the Group would be immaterial. The major principle of the Group's control on foreign currency risk is to achieve matching of assets and liabilities in each currency and to conduct daily monitoring on currency exposure.

The Group adopts sensitivity analysis to measure the possible effects of changes in exchange rates on net gains and losses and interests of the Group. As the foreign currency assets and liabilities account for an immaterial part of the total assets and total liabilities of the Group, the effect of changes in exchange rates on net gains and losses and interests of the Group would be immaterial.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Foreign currency risk (Cont'd)

The currency exposures as at the end of each of the reporting period are as follows:

	2020			Total (RMB Equivalent)
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	
Assets				
Cash and deposits with the central bank	23,424,565	75,715	–	23,500,280
Deposits with banks and other financial institutions	364,487	1,686,262	2,824,598	4,875,347
Placements with banks	–	241,446	–	241,446
Financial assets held under resale agreements	605,131	–	–	605,131
Loans and advances to customers	117,715,273	29,743	4,045	117,749,061
Financial Investments (Note (i))	101,221,364	–	–	101,221,364
Other assets	19,409,019	–	–	19,409,019
Total assets	262,739,839	2,033,166	2,828,643	267,601,648
Liabilities				
Borrowing from the central bank	7,240,711	–	–	7,240,711
Deposits from banks and other financial institutions	3,085,763	–	–	3,085,763
Placements from banks and other financial institutions	15,234,638	–	–	15,234,638
Financial assets sold under repurchase agreements	6,545,672	–	–	6,545,672
Deposits from customers	177,664,898	1,917,922	5,710	179,588,530
Debt securities issued	30,872,662	–	–	30,872,662
Other liabilities	3,200,648	132,472	26,809	3,359,929
Total liabilities	243,844,992	2,050,394	32,519	245,927,905
Net position	18,894,847	(17,228)	2,796,124	21,673,743
Off-balance sheet credit commitments	36,549,368	526,489	37,915	37,113,772

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Foreign currency risk (Cont'd)

	RMB	2019		Total (RMB Equivalent)
		USD (RMB Equivalent)	Others (RMB Equivalent)	
Assets				
Cash and deposits with the central bank	21,127,565	76,271	–	21,203,836
Deposits with banks and other financial institutions	206,352	1,818,707	1,849	2,026,908
Placements with banks	507,205	–	–	507,205
Financial assets held under resale agreements	5,386,562	–	–	5,386,562
Loans and advances to customers	89,721,259	390,383	–	90,111,642
Financial investments (Note (i))	89,128,445	–	–	89,128,445
Other assets	16,270,923	–	–	16,270,923
Total assets	222,348,311	2,285,361	1,849	224,635,521
Liabilities				
Borrowing from the central bank	4,730,937	–	–	4,730,937
Deposits from banks	5,002,125	–	–	5,002,125
Placements from banks and other financial institutions	10,080,675	348,810	–	10,429,485
Financial assets sold under repurchase agreements	9,945,309	–	–	9,945,309
Deposits from customers	142,460,053	1,772,192	1,728	144,233,973
Debt securities issued	29,624,782	–	–	29,624,782
Other liabilities	2,581,343	164,003	66	2,745,412
Total liabilities	204,425,224	2,285,005	1,794	206,712,023
Net position	17,923,087	356	55	17,923,498
Off-balance sheet credit commitments	27,023,880	278,137	58,188	27,360,205

Note:

- (i) Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income, financial investments measured at amortised cost.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(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.

The Group plays an active part in managing liquidity risks and improves related management system in terms of organisation, institution, system, management and mechanism. The organisational structure of the Group's liquidity risk management consists of the Board of Directors, senior management and its Risk Management Committee and Asset and Liability Management Committee, Risk Management Department, Financial Planning Department, Corporate Banking Department, Retail Banking Department, Department of Credit Approval, Department of Financial Market, Information Technology and Audit Department, responsible for formulating liquidity risk management strategy and establishing internal control mechanism to support the implementation and supervision of liquidity risk management strategy.

The measurement of liquidity risk of the Group adopts liquidity indicator and cash flow gap calculation. By stress testing, the Group sets up mild, moderate and severe scenarios to examine the capacity to withstand liquidity or liquidity crises and improve liquidity contingency measures. In terms of response to liquidity risks, the Group: strengthens management and monitoring of liquidity limits; establishes related liquidity emergency leading groups, early-warning indicators for internal and external liquidity risks and indicators that could trigger contingency plans and monitors these indicators; builds up quality liquidity assets reserve and financing capability management; erects liquidity risk reporting mechanism, in which the Financial Planning Department reports to the Asset and Liability Management Committee, senior management and the Board of Directors on issues related to the status, stress testing and contingency plans of liquidity risks on a regular basis.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(c) Liquidity risk (Cont'd)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of each of the reporting period:

	Indefinite <i>Note (i)</i>	Repayable on demand	Within one month	2020				Total
				Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	15,464,341	8,035,939	-	-	-	-	-	23,500,280
Deposits with banks and other financial institutions	-	4,775,347	100,000	-	-	-	-	4,875,347
Placements with banks	-	-	241,446	-	-	-	-	241,446
Financial assets held under resale agreements	-	-	605,131	-	-	-	-	605,131
Loans and advances to customers	3,219,803	2,136,016	5,079,031	6,393,007	35,873,330	35,314,979	29,732,895	117,749,061
Financial investments	4,170,302	-	1,075,554	7,015,941	13,931,699	39,981,981	35,045,887	101,221,364
Others	1,491,407	2,037,168	520,497	1,096,019	5,343,385	8,793,832	126,711	19,409,019
Total assets	24,345,853	16,984,470	7,621,659	14,504,967	55,148,414	84,090,792	64,905,493	267,601,648
Liabilities								
Borrowing from the central bank	-	-	194,888	1,732,756	5,313,067	-	-	7,240,711
Deposits from banks	-	792,496	571,111	56,773	1,665,383	-	-	3,085,763
Placements from banks and other financial institutions	-	-	328,540	2,594,658	12,311,440	-	-	15,234,638
Financial assets sold under repurchase agreements	-	-	6,346,897	198,775	-	-	-	6,545,672
Deposit from customers	-	66,856,603	6,141,194	11,641,985	37,783,098	56,784,316	381,334	179,588,530
Debt securities issued	-	169,525	2,317,841	10,646,620	12,741,479	-	4,997,197	30,872,662
Others	-	2,539,518	35,286	493	82,106	619,013	83,513	3,359,929
Total liabilities	-	70,358,142	15,935,757	26,872,060	69,896,573	57,403,329	5,462,044	245,927,905
Net position	24,345,853	(53,373,672)	(8,314,098)	(12,367,093)	(14,748,159)	26,687,463	59,443,449	21,673,743

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(c) Liquidity risk (Cont'd)

	Indefinite Note (i)	Repayable on demand	Within one month	2019				Total
				Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	13,283,771	7,920,065	-	-	-	-	-	21,203,836
Deposits with banks and other financial institutions	-	2,026,908	-	-	-	-	-	2,026,908
Placements with banks	-	7,205	500,000	-	-	-	-	507,205
Financial assets held under resale agreements	-	-	5,386,562	-	-	-	-	5,386,562
Loans and advances to customers	76,432	1,323,207	5,896,249	6,097,317	37,155,685	20,674,930	18,887,822	90,111,642
Financial investments	488,165	-	1,744,192	2,787,121	19,260,918	37,393,689	27,454,360	89,128,445
Others	1,673,910	9,275	392,256	844,068	4,021,833	8,534,928	794,653	16,270,923
Total assets	15,522,278	11,286,660	13,919,259	9,728,506	60,438,436	66,603,547	47,136,835	224,635,521
Liabilities								
Borrowing from the central bank	-	-	33,669	505,796	4,191,472	-	-	4,730,937
Deposits from banks	-	795,125	-	42,000	4,165,000	-	-	5,002,125
Placements from banks and other financial institutions	-	-	2,420,675	8,008,810	-	-	-	10,429,485
Financial assets sold under repurchase agreements	-	-	9,143,123	336,130	466,056	-	-	9,945,309
Deposit from customers	-	50,696,923	7,384,333	10,438,667	26,022,138	45,895,536	3,796,376	144,233,973
Debt securities issued	-	173,307	1,909,284	8,862,906	11,687,619	6,991,666	-	29,624,782
Others	66,427	458,831	58,896	488,544	497,177	896,538	278,999	2,745,412
Total liabilities	66,427	52,124,186	20,949,980	28,682,853	47,029,462	53,783,740	4,075,375	206,712,023
Net position	15,455,851	(40,837,526)	(7,030,721)	(18,954,347)	13,408,974	12,819,807	43,061,460	17,923,498

Note:

- (i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of investments represents impaired investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(c) Liquidity risk (Cont'd)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities of the Group at the end of the reporting period:

	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	2020				
				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	7,240,711	7,332,045	-	198,944	1,755,651	5,377,450	-	-
Deposits from banks	3,085,763	3,233,461	888,781	573,569	56,845	1,714,266	-	-
Placements from banks and other financial institutions	15,234,638	15,364,446	-	1,659,543	2,816,517	10,888,386	-	-
Financial assets sold under repurchase agreements	6,545,672	6,549,491	-	6,349,491	200,000	-	-	-
Deposits from customers	179,588,530	183,999,967	66,543,517	5,687,264	11,808,616	40,924,229	58,989,630	46,711
Debt securities issued	30,872,662	33,274,636	-	2,752,374	10,518,823	13,272,643	903,507	5,827,289
Other financial liabilities	1,929,933	1,988,004	1,109,523	37,053	3,322	94,801	651,886	91,419
Total non-derivative financial liabilities	244,497,909	251,742,050	68,541,821	17,258,238	27,159,774	72,271,775	60,545,023	5,965,419

	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	2019				
				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	4,730,937	4,809,241	-	95,801	96,888	4,616,552	-	-
Deposits from banks	5,002,125	5,708,432	706,307	1,160,989	3,841,136	-	-	-
Placements from banks and other financial institutions	10,429,485	10,661,235	-	239,216	2,024,014	8,398,005	-	-
Financial assets sold under repurchase agreements	9,945,309	9,952,917	-	9,145,417	337,500	470,000	-	-
Deposits from customers	144,233,973	147,262,239	47,086,608	9,236,638	10,626,144	27,703,422	52,609,427	-
Debt securities issued	29,624,782	29,810,000	-	700,000	5,750,000	16,360,000	2,000,000	5,000,000
Other financial liabilities	1,341,011	1,341,011	901,546	-	-	32,075	362,310	45,080
Total non-derivative financial liabilities	205,307,622	209,545,075	48,694,461	20,578,061	22,675,682	57,580,054	54,971,737	5,045,080

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(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.

The Group has specified issues of operational risks, including its manifestation, management mode, reporting procedure, reporting cycle and statistics of loss and improved comprehensive risk management system, with major initiatives as follows:

- Establishment of operational risk management system in a crisscrossing manner. On the one hand, the Group establishes an operational risk management framework that is compatible with its nature, scale, complexity and risk characteristics, including the operational risk management mechanism that involves its board of directors, board of supervisors, senior management, head office and branches. On the other hand, a three-tier risk prevention system for the front office, middle office and back office has been established for every major risk faced by the Group.
- Formation of business philosophy of compliance and robustness. The Group fosters favourable control environment, including constant advances and promotion in operational risk culture by the board of directors and senior management.
- Preference to low operational risk under the framework of 'robust' risk preference. By conducting controls on operational risk including identification, measurement, resolution, monitoring and reporting, the Group establishes mechanisms for risk avoidance, loss prediction, prevention, control, reduction, financing to control operational risk within the carrying capacity of the Group and maximise its profits.
- Prevention of operational risks based on the means of inspection and supervision. All departments and branches of the head office actively perform their duties of supervision and management, conduct routine and special inspections on operational risks in major businesses, establish ledger of all problems identified for rectification and check-off. Based on the inspection by departments, the internal audit department fully uses the off-site audit system, business risk early-warning system and remote monitoring system to detect violations and pay constant attention to risk-prone problems to prevent operational risks. In the meantime, inspections and investigations are exercised on key businesses, key institutions and key personnel to prevent operational risks.
- Combination of punishment and incentives to encourage compliance and standard operations. Integral management will be implemented on personnel violating operational standards for strict ascertainment of responsibility; employees are encouraged to spontaneously disclose and actively report operational risks; internal management, compliance operation, inspection and supervision and swindle prevention and control of the head office and branches shall be quantitatively assessed for penalty points; innovative implementation of compliance and internal control management of institutions shall be assessed for bonus points.
- Substantive achievements in carrying out system training and improving staff operation skills have been effective in preventing operational risks for the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

43. FAIR VALUE

(a) Methods and assumptions for measurement of fair value

The 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 the reporting period. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

(ii) *Receivables 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 reporting period.

(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 reporting period, 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 reporting period.

(b) Fair value measurement

(i) *Financial assets*

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks, loans and advances to customers, and investments.

Deposits with the central bank, deposits with banks and other financial institutions, placements with banks and financial assets held under resale agreements 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 are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial investments measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss are stated at fair value. Financial investments measured at amortised cost are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

(ii) *Financial liabilities*

The Group's financial liabilities mainly include deposits from banks, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

The book value and fair value of debt securities issued is presented in Note 31. The carrying amounts of other financial liabilities approximate their fair value.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

43. FAIR VALUE (CONT'D)

(c) Fair value hierarchy

The following table presents the fair value of financial instruments measured at the end of the reporting period 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, credit spreads and exchange rate. 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.

	2020			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial investments measured at fair value through profit or loss				
– debt securities	–	3,651,163	–	3,651,163
– investment funds	–	714,700	–	714,700
– assets-backed securities	–	418,590	–	418,590
– investment management products	–	–	10,112,509	10,112,509
Financial investments measured at fair value through other comprehensive income				
– debt securities	–	17,312,816	–	17,312,816
– equity investments	–	–	258,493	258,493
– assets-backed securities	–	85,062	–	85,062
– interbank deposits	–	615,818	–	615,818
Total	–	22,798,149	10,371,002	33,169,151

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

43. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

	2019			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial investments measured at fair value through profit or loss				
– debt securities	–	3,928,107	–	3,928,107
– investment funds	–	699,876	–	699,876
– wealth management products	–	–	1,019,544	1,019,544
– investment management products	–	–	12,859,617	12,859,617
Financial investments measured at fair value through other comprehensive income				
– debt securities	–	11,855,022	–	11,855,022
– equity investments	–	–	195,586	195,586
– assets-backed securities	–	80,761	–	80,761
– interbank deposits	–	1,767,820	–	1,767,820
Total	–	18,331,586	14,074,747	32,406,333

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

43. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

The movement during the year ended December 31, 2020 in the balance of Level 3 fair value measurements is as follows:

	January 1, 2020	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				December 31, 2020	Unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	
				Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements			
Assets												
Financial investments measured at fair value through profit or loss												
- wealth management products	1,019,544	-	-	-	-	-	-	-	(1,019,544)	-	-	-
- investment management products	12,859,617	-	-	720,013	-	2,116,808	-	(398,261)	(5,185,668)	10,112,509	8,865	
Financial investments measured at fair value through other comprehensive income												
- equity investments	195,586	-	-	-	21,301	41,606	-	-	-	258,493	-	-
Total	14,074,747	-	-	720,013	21,301	2,158,414	-	(398,261)	(6,205,212)	10,371,002	8,865	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

43. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

	January 1, 2019	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				December 31, 2019	Unrealised gains or losses for the year included in profit or loss for assets held at the end of the year
				Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements		
Assets											
Financial investments measured at fair value through profit or loss											
- wealth management products	1,115,121	-	-	19,393	-	1,000,000	-	(1,100,000)	(14,970)	1,019,544	(13)
- investment management products	15,454,247	-	-	945,301	-	5,703,774	-	(8,280,118)	(963,587)	12,859,617	(18,519)
Financial investments measured at fair value through other comprehensive income											
- equity investments	71,105	-	-	-	-	124,481	-	-	-	195,586	-
Total	16,640,473	-	-	964,694	-	6,828,255	-	(9,380,118)	(978,557)	14,074,747	(18,532)

During each of the years ended December 31, 2020 and 2019, there were no significant transfers among instruments in Level 1, Level 2 and Level 3 of the Group.

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised are within Level 3.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

43. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

Quantitative information of Level 3 fair value measurement is as below:

	Fair value as at December 31 2020	Valuation techniques	Unobservable input
Financial investments measured at fair value through profit or loss			
– investment management products	10,112,509	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments measured at fair value through other comprehensive income			
– equity investments	258,493	Discounted cash flow	Risk-adjusted discount rate, cash flow

	Fair value as at December 31 2019	Valuation techniques	Unobservable input
Financial investments measured at fair value through profit or loss			
– wealth management services	1,019,544	Discounted cash flow	Risk-adjusted discount rate, cash flow
– investment management products	12,859,617	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments measured at fair value through other comprehensive income			
– equity investments	195,586	Discounted cash flow	Risk-adjusted discount rate, cash flow

During the years ended December 31, 2020 and 2019, there were no significant change in the valuation techniques.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

43. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

As at December 31, 2020 and 2019, unobservable inputs such as risk-adjusted discount rate and cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly equity investments, wealth management products and investment management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

The sensitivity analysis of the fair value on changes in unobservable inputs for Level 3 financial instruments measured at fair value on an ongoing basis is set out as below.

The fair value of financial instruments is, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel movement of plus or minus 1 percent of change in fair value to reasonably possible alternative assumptions.

	2020			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments measured at fair value through profit or loss				
– investment management products	75,844	(75,844)	–	–
Financial investments measured at fair value through other comprehensive income				
– equity investments	–	–	1,939	(1,939)

	2019			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments measured at fair value through profit or loss				
– wealth management products	7,647	(7,647)	–	–
– investment management products	96,447	(96,447)	–	–
Financial investments measured at fair value through other comprehensive income				
– equity investments	–	–	1,467	(1,467)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

44. TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group only acts as an agent to hold and manage these assets and liabilities at the direction of the entruster and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statements of financial position. Surplus funding is accounted for as deposits from customers.

	2020	2019
Entrusted loans	10,454,472	12,325,075
Entrusted funds	10,454,472	12,325,075

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including bonds and funds. The Group initiated the launch of wealth management products. The investment risk associated with these products is borne by the customers who invest in these products. The Group does not consolidate these wealth management products. The Group earns commission which represents the charges on customers in relation to sales and management services. The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the consolidated statement of financial position. At the end of the each reporting period, funds received from customers under unconsolidated non-principal-guaranteed wealth management services were as follows:

	2020	2019
Funds received from customers under wealth management services	33,647,885	20,123,662

45. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Group's credit commitments take the form of bank acceptances, letters of credit, financial guarantees and credit card commitments.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 (Expressed in thousands of Renminbi, unless otherwise stated)

45. COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

(a) Credit commitments (Cont'd)

	2020	2019
Acceptances	32,890,827	24,142,358
Letters of credit	2,024,745	1,796,711
Letters of guarantees	715,953	240,116
Credit card commitments	1,482,247	1,181,020
Total	37,113,772	27,360,205

The 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) Credit risk-weighted amount for credit commitments

	2020	2019
Credit risk-weighted amounts	6,731,339	6,761,025

The credit risk-weighted amount for credit commitments represents the amount calculated with reference to the guidelines issued by the former CBRC.

(c) Capital commitments

As at the end of each of the reporting period, the Group's authorised capital commitments are as follows:

	2020	2019
Property and equipment		
– Contracted but not paid for	21,007	7,451
Intangible assets		
– Contracted but not paid for	58,596	20,047
Total	79,603	27,498

(d) Outstanding litigations and disputes

As at December 31, 2020 and 2019, the Group had not identified any outstanding litigations and disputes which the Group as defendant with an estimated gross amounts larger than RMB10 million. The 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 the Group's internal lawyers, it is unlikely for the Group to receive unfavorable ruling in these cases. Therefore, the Group has not recognised the litigation provision at the reporting date. Directors of the Bank are of the view that these litigations will not have any material adverse effect on the Group's business, financial condition, results of operations or prospects.

CHAPTER 14 UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

The Bank discloses the unaudited supplementary financial information in accordance with the Listing Rules and the Banking (Disclosure) Rules as follows:

1. LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

(1) Liquidity coverage ratio

Liquidity coverage ratio (RMB'000)	December 31, 2020	December 31, 2019
Qualified and quality liquidity assets	65,932,239	47,180,594
Amount of net cash outflows in the next 30 days	29,181,509	15,359,327
Liquidity coverage ratio	225.94%	307.18%

According to the Administrative Measures on the Liquidity Risk Management of Commercial Banks, the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018.

(2) Leverage ratio

	December 31, 2020	December 31, 2019
Leverage ratio	7.13%	7.14%

Pursuant to Administrative Measures on the Leverage Ratio Management of Commercial Banks issued by the former China Banking Regulatory Commission and was effective since April 1, 2015, a minimum leverage ratio 4% is required for commercial banks.

The following table sets forth the relevant accounting items corresponding to the regulatory leverage ratio items and the differences between the regulatory items and accounting items.

Unit: RMB'000

No.	Item	December 31, 2020	December 31, 2019
1	Consolidated total assets	267,142,967.1	224,105,638.2
2	Consolidated adjustments	-	-
3	Adjustments for client assets	-	-
4	Adjustments for derivatives	12,181.5	-
5	Adjustments for securities finance transactions	-	-
6	Adjustments for off-balance sheet items	33,950,202.8	24,857,962.0
7	Other adjustments	(39,016.7)	(38,864.2)
8	Balance of on-and off-balance sheet assets after adjustments	301,066,334.7	248,924,736.0

Chapter 14 Unaudited Supplementary Financial Information

1. LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONT'D)

(2) Leverage ratio (cont'd)

The following table sets forth information on the Bank's leverage ratio, net tier-one capital, on-and off-balance sheet assets after adjustments and relevant breakdown.

Unit: RMB'000

No.	Item	December 31, 2020	December 31, 2019
1	On-balance sheet assets (excluding derivatives and securities finance transactions)	267,142,967.1	224,105,638.2
2	Less: Tier-one capital deductions	(39,016.7)	(38,864.2)
3	Balance of on-balance sheet assets after adjustments (excluding derivatives and securities finance transactions)	267,103,950.4	224,066,774.0
4	Replacement cost of various derivatives (net of qualified security deposits)	—	—
5	Potential risk exposure of various derivatives	12,181.5	—
6	Total collateral and pledges charged to the balance sheet	—	—
7	Less: Assets receivable arising from provision of qualified security deposits	—	—
8	Less: Balance of assets of derivatives arising from transactions with central counterparties when providing clearing services to customers	—	—
9	Notional principal amount of sold credit derivatives	—	—
10	Less: Balance of deductible assets of sold credit derivatives	—	—
11	Balance of assets of derivatives	12,181.5	—
12	Balance of accounting assets for securities finance transactions	—	—
13	Less: Balance of deductible assets of securities finance transactions	—	—
14	Counterparty credit risk exposure of securities finance transactions	—	—
15	Balance of assets of securities finance transactions arising from agency securities finance transactions	—	—
16	Balance of assets of securities finance transactions	—	—
17	Balance of off-balance sheet items	33,950,202.8	24,857,962.0
18	Less: Balance of off-balance sheet items deducted by credit conversion	—	—
19	Balance of off-balance sheet items after adjustments	33,950,202.8	24,857,962.0
20	Net tier-one capital	21,461,827.0	17,772,372.6
21	Balance of on- and off-balance sheet assets after adjustments	301,066,334.7	248,924,736.0
	Leverage ratio	7.13	7.14

1. LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONT'D)**(3) Net stable funding ratio**

Net stable funding ratio (RMB'000)	December 31, 2020	December 31, 2019
Available stable funding	169,483,790	141,000,198
Required stable funding	132,693,469	105,448,367
Net stable funding ratio	127.73%	133.71%

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio 100% is required for commercial banks.

The above liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the formula promulgated by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.

2. CURRENCY CONCENTRATIONS

Unit: RMB'000

	December 31, 2020			
	USD	HKD	Others	Total
Spot assets	2,033,165.9	2,819,036.3	9,606.5	4,861,808.7
Spot liabilities	(2,050,394.3)	(22,758.7)	(9,759.7)	(2,082,912.7)
Net position	(17,228.4)	2,796,277.6	(153.2)	2,778,896.0

	December 31, 2019			
	USD	HKD	Others	Total
Spot assets	2,285,361.0	–	1,849.1	2,287,210.1
Spot liabilities	(2,285,005.7)	–	(1,794.2)	(2,286,799.9)
Net position	355.3	–	54.9	410.2

3. INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all third parties claims outside Mainland China as international claims. International claims include loans and advances to customers, balances with central bank and amounts due from banks and other financial institutions.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

Unit: RMB'000

	December 31, 2020		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	26,694.6	–	26,694.6
Europe	6,747.6	–	6,747.6
Total	33,442.2	–	33,442.2

	December 31, 2019		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	20,580.6	–	20,580.6
Europe	17,415.1	–	17,415.1
Total	37,995.7	–	37,995.7

4. GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

Unit: RMB'000

	December 31, 2020	December 31, 2019
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
between 3 and 6 months (inclusive)	502,650.8	463,870.2
between 6 months and 1 year (inclusive)	501,977.0	425,199.7
between 1 year and 3 years (inclusive)	411,373.8	526,511.7
over 3 years	30,629.8	56,707.3
Total	1,446,631.4	1,472,288.9
As a percentage of gross loans and advances		
between 3 and 6 months (inclusive)	0.42%	0.50%
between 6 months and 1 year (inclusive)	0.42%	0.46%
between 1 year and 3 years (inclusive)	0.34%	0.57%
over 3 years	0.02%	0.06%
Total	1.20%	1.59%

5. MATERIAL RELATED PARTY TRANSACTIONS

In accordance with the requirements of the CBIRC, during the Reporting Period, on a group basis, there were three resolutions on material related party transactions approved by the Board, namely Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司), Qilu Transportation Development Group Co., Ltd. (齊魯交通發展集團有限公司) (which was dissolved and merged into Shandong Hi-Speed Group Co., Ltd. during the Reporting Period) and Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司). The material related party transactions were related party transactions with 16 related companies of Shandong Hi-Speed Group Co., Ltd. and Shandong Tongda Financial Leasing Co., Ltd. As at the end of the Reporting Period, the Bank's credit exposure to material related party transactions was RMB3.266 billion, details of which are as follows:

Unit: RMB'000

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	300,000.00	1.15%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	200,000.00	0.77%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	200,000.00	0.77%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	200,000.00	0.77%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	200,000.00	0.77%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	150,000.00	0.58%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	150,000.00	0.58%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	100,000.00	0.38%
Shangao International Commercial Factoring (Shenzhen) Co., Ltd. Jinan Branch* (山高國際商業保理(深圳)有限公司濟南分公司)	Loan	Guarantees	192,000.00	0.74%
Shangao International Commercial Factoring (Shenzhen) Co., Ltd. Jinan Branch* (山高國際商業保理(深圳)有限公司濟南分公司)	Loan	Guarantees	145,000.00	0.56%
Shangao International Commercial Factoring (Shenzhen) Co., Ltd. Jinan Branch* (山高國際商業保理(深圳)有限公司濟南分公司)	Loan	Guarantees	145,000.00	0.56%
Shandong Hi-Speed Tongda Financial Leasing Co., Ltd.* (山東高速通達融資租賃有限公司)	Loan	Guarantees	199,000.00	0.76%
Shandong Hi-Speed Tongda Financial Leasing Co., Ltd.* (山東高速通達融資租賃有限公司)	Loan	Guarantees	98,500.00	0.38%

Chapter 14 Unaudited Supplementary Financial Information

5. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Hi-Speed Tonghe Investment Co., Ltd.* (山東高速通和投資有限公司)	Loan	Guarantees	284,010.44	1.09%
Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)	Credit bonds	Guarantees	200,000.00	0.77%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Loan	Guarantees	98,500.00	0.38%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	2,000.00	0.01%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	1,500.00	0.01%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	800.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	654.55	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	500.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	451.80	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	449.88	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	400.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	350.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	300.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	219.98	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	200.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	200.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	200.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	200.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	200.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	200.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	200.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	200.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	200.00	0.00%

5. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	200.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	200.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	170.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	100.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	33.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	24.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	20.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	8.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	5.00	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Letters of Guarantee	Guarantees	3.00	0.00%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	20,000.00	0.08%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	20,000.00	0.08%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	10,700.00	0.04%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	10,000.00	0.04%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	8,800.00	0.03%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Bank acceptance bills	Collateral	6,000.00	0.02%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Bank acceptance bills	Collateral	5,000.00	0.02%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	4,500.00	0.02%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	2,900.00	0.01%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	1,700.00	0.01%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	890.00	0.00%

Chapter 14 Unaudited Supplementary Financial Information

5. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	600.00	0.00%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	500.00	0.00%
Shandong Hi-Speed Lunan Logistics Development Co., Ltd.* (山東高速魯南物流發展有限公司)	Loan	Guarantees	86,990.00	0.33%
Shandong Dongfang Road & Bridge Construction Co., Ltd.* (山東東方路橋建設有限公司)	Loan	Guarantees	50,000.00	0.19%
Shandong Dongfang Road & Bridge Construction Co., Ltd.* (山東東方路橋建設有限公司)	Bank acceptance bills	Guarantees	17,110.00	0.07%
Shandong Dongfang Road & Bridge Construction Co., Ltd.* (山東東方路橋建設有限公司)	Loan	Collateral	9,000.00	0.03%
Shandong Dongfang Road & Bridge Construction Co., Ltd.* (山東東方路橋建設有限公司)	Bank acceptance bills	Guarantees	6,500.00	0.02%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	6,292.08	0.02%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	3,650.00	0.01%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	3,519.94	0.01%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	3,513.34	0.01%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	2,764.51	0.01%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	2,425.54	0.01%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	1,659.63	0.01%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	1,552.95	0.01%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	1,006.72	0.00%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	756.00	0.00%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	710.56	0.00%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	504.00	0.00%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	258.04	0.00%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	254.76	0.00%

5. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	239.07	0.00%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	50.00	0.00%
Shandong Hi-Speed Engineering Consulting Co., Ltd. (山東高速工程諮詢有限公司)	Letters of Guarantee	Guarantees	48.01	0.00%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Letters of credit	Guarantees	26,445.40	0.10%
Shandong Hi-Speed Service Area Management Co., Ltd. (山東高速服務區管理有限公司)	Letters of Guarantee	Guarantees	25,345.33	0.10%
Shandong Hi-Speed Construction Materials Co., Ltd. (山東高速建設材料有限公司)	Letters of Guarantee	Guarantees	7,220.87	0.03%
Shandong Hi-Speed Construction Materials Co., Ltd. (山東高速建設材料有限公司)	Letters of Guarantee	Guarantees	2,000.00	0.01%
Shandong Hi-Speed Construction Materials Co., Ltd. (山東高速建設材料有限公司)	Letters of Guarantee	Guarantees	2,000.00	0.01%
Shandong Hi-Speed Construction Materials Co., Ltd. (山東高速建設材料有限公司)	Letters of Guarantee	Guarantees	2,000.00	0.01%
Shandong Hi-Speed Construction Materials Co., Ltd. (山東高速建設材料有限公司)	Letters of Guarantee	Guarantees	1,000.00	0.00%
Shandong Hi-Speed Construction Materials Co., Ltd. (山東高速建設材料有限公司)	Letters of Guarantee	Guarantees	1,000.00	0.00%
Shandong Hi-Speed Construction Materials Co., Ltd. (山東高速建設材料有限公司)	Letters of Guarantee	Guarantees	500.00	0.00%
Shandong Hi-Speed Construction Materials Co., Ltd. (山東高速建設材料有限公司)	Letters of Guarantee	Guarantees	200.00	0.00%
Shandong Hi-Speed Xinlian Technology (Holding) Co., Ltd. * (山東高速信聯科技股份有限公司)	Letters of Guarantee	Guarantees	8,000.00	0.03%
Shandong Hi-Speed Xinlian Technology (Holding) Co., Ltd. * (山東高速信聯科技股份有限公司)	Letters of Guarantee	Guarantees	3,500.00	0.01%
Shandong Hi-Speed Xinlian Technology (Holding) Co., Ltd. * (山東高速信聯科技股份有限公司)	Letters of Guarantee	Guarantees	2,000.00	0.01%
Shandong Hi-Speed Linzao-Zaomu Highway Co., Ltd. (山東高速臨棗至棗木公路有限公司)	Loan	Guarantees	10,000.00	0.04%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	1,655.73	0.01%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	1,143.75	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	1,062.61	0.00%

5. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	745.45	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	732.67	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	604.60	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	436.70	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	372.00	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	340.14	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	339.44	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	320.37	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	303.63	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	264.21	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	206.32	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	193.07	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	185.50	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	159.53	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	113.00	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	112.00	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	109.40	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	95.68	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	82.25	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	63.05	0.00%

5. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	62.34	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	18.98	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	18.94	0.00%
Shandong Expressway New Material Technology Co., Ltd.* (山東高速路用新材料技術有限公司)	Discounting	Credit	2,400.00	0.01%
Total			3,265,547.76	12.54%

As at the end of the Reporting Period, there are material non-credit related party transactions between the Bank and the related companies of Shandong Hi-Speed Group Co., Ltd., in which the Bank, as lessee, signed a property leasing agreement with Shandong Hi-Speed Qingdao Jiaye Asset Management Co., Ltd. (山東高速青島嘉業資產管理有限公司), our related party and a company dissolved and merged by Shandong Hi-Speed Qingdao Railway Co., Ltd.* (山東高速青島公路有限公司), at an amount of RMB2.2331 million. The Bank signed the Sales and Purchase Agreement of Video Conferencing System for Binzhou Branch and Rizhao Branch (《濱州、日照分行視訊會議系統購銷合同》) with Shandong Hi-Speed Information Engineering Co.,Ltd.* (山東高速信息工程有限公司), our related party, at a contract price of RMB155,600. The Bank signed an underwriting agreement with CSFG International Securities Limited (山高國際證券有限公司), pursuant to which the Bank will have a related party transaction with the company in relation to the underwriting commission, additional bonuses and other costs payable by the Bank.

6. RISK EXPOSURE ANALYSIS

(1) Credit risk exposure and assessment

In accordance with the relevant provisions of the Guidelines of Risk-based Classification of Loans issued by the CBIRC and the Administrative Measures for the Capital of Commercial Banks (Provisional), the Bank has formulated comprehensive asset risk classification and administrative measures for all types of assets that are exposed to credit risk, and implemented five-category classification management for all types of credit assets based on their risk levels, namely, normal, special mention, substandard, doubtful and loss. Special mention assets represent that borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors. Non-performing assets comprise the last three categories, which represent that borrowers cannot repay principal and interest in full and certain losses may ensue even when collaterals or guarantees are invoked. As at the end of the Reporting Period, none of the balance of principal of assets for which principal or interest is not repaid in accordance with the contractually stipulated terms was defined as overdue assets.

As at the end of the Reporting Period, our total credit risk exposure was RMB297.518 billion. Among which, the on-balance sheet credit risk exposure was RMB263.568 billion, while the off-balance sheet credit risk exposure was RMB33.95 billion. During the Reporting Period, the maturity profile of our business remained stable, and our credit risk exposure was mainly distributed in Shandong and Tianjin, with industries concentrated in the manufacturing, leasing and business services industries.

When we measure credit risk-weighted assets, the risk weights of each asset are in accordance with the Administrative Measures for the Capital of Commercial Banks (Provisional). Credit risk exposures by level of risk weights are detailed in the following table:

Unit: RMB million

	Risk exposure	Unmitigated risk exposure
0% Combined	85,952.0	58,951.7
20% Combined	21,233.8	20,628.7
25% Combined	7,030.3	4,650.2
50% Combined	13,771.4	13,771.4
75% Combined	21,777.6	21,159.8
100% Combined	146,497.1	141,035.2
250% Combined	864.3	864.3
400% Combined	278.4	268.1
1,250% Combined	113.0	113.0
Total	297,517.9	261,442.4

6. RISK EXPOSURE ANALYSIS (CONT'D)**(1) Credit risk exposure and assessment (cont'd)**

The credit risk exposures by entity during the Reporting Period are as follows:

Unit: RMB million

	Risk exposure	Unmitigated risk exposure
Cash assets	23,455.1	23,455.1
Claims to the Central Government and the Central Bank	5,275.0	5,275.0
Claims to public sector entities	15,842.4	15,842.4
Claims to PRC financial institutions	40,724.1	38,030.4
Claims to financial institutions registered in other countries/ regions	1,764.4	1,764.4
Claims to general businesses	137,377.6	131,917.0
Claims to qualified small and micro enterprises	2,430.5	1,856.7
Claims to individuals	33,118.5	33,074.5
Residual value of leased assets	21.4	20.1
Equity Investments	316.6	306.3
Others	2,263.4	2,263.4
On-balance sheet items of asset securitization	978.6	978.6
Off-balance sheet credit risk exposure	33,950.3	6,658.5
Total	297,517.9	261,442.4

We continue to standardize the management of credit risk mitigation tools, and have formulated systems and procedures covering guarantee management, collateral classification, valuation method and process, investigation and evaluation, stress test, establishment and duration management of collateral and pledges, and collateral return and disposal. We have also regularly evaluated the value of collateral and guarantee capabilities. All of the above promoted the effective function of risk mitigation. Our credit risk mitigation tools include collateral, pledges and guarantees. Collateral includes financial collateral, accounts receivable and other collateral (warehouse receipts, intellectual property rights, inventories, machinery and equipment, etc.). The collaterals mainly include land, real estate and other real estate. Real estate mortgage, land mortgage and financial product pledge represent a relatively high proportion of mitigation tools. The types of guarantors include sovereign institutions, financial institutions, credit guarantee institutions, general corporate legal entities and natural persons, etc., in which credit guarantee institutions, general corporate legal persons and natural persons account for a relatively high proportion, and have better overall guarantee qualifications. As at the end of the Reporting Period, the amount of the qualified mitigation tools calculated by us in accordance with the Administrative Measures for the Capital of Commercial Banks (Provisional) amounted to RMB36.076 billion, all of which are in substance.

6. RISK EXPOSURE ANALYSIS (CONT'D)**(2) Market risk exposure and assessment**

Our market risk capital under the standardized approach is the sum of the capital requirements for interest rate risk and exchange rate risk. Interest rate risk capital is the sum of general market risk capital requirement and specific risk capital requirement.

The capital requirement for market risk under the standardized approach is the sum of the capital requirements for interest rate risk, exchange rate risk, commodity risk, stock risk and option risk. Interest rate risk capital requirement and equity risk capital requirement are the sum of general market risk capital requirement and specific risk capital requirement.

Standardized approach of market risk basically measures the capital requirement for each type of risks

Unit: RMB million

Type of risk	Capital requirement
Interest rate risk	103.3
General Risks	70.8
Specific Risks	32.5
Equity Risk	—
General Risks	—
Specific Risks	—
Exchange rate risk	—
Commodity risk	—
Option risk	—
Specific risks to risk exposure of asset securitization in transaction accounts	—
Total	103.3

(3) Operational risk exposure and assessment

We use the basic indicator approach to measure our operational risk capital. In accordance with the basic indicator rules of the Administrative Measures for the Capital of Commercial Banks (Provisional), operational risk capital covers our overall business scale and corresponding operational risk exposure.

LIST OF INSTITUTIONS

District	Name of organisation	Business Address	Remarks
Weihai, Shandong	Headquarter	9 Bao Quan Road, Huancui District, Weihai City	51 licensed branches and sub-branches in Weihai District
Jinan, Shandong	Jinan Branch	127 Yingxiongshan Road, Shizhong District, Jinan City, Shandong Province	12 licensed branches and sub-branches in Jinan District
	Laiwu Branch	60 Luzhong East Main Street, Laiwu District, Jinan City, Shandong Province	2 licensed branches and sub-branches in Laiwu District
Qingdao, Shandong	Qingdao Branch	487 Changjiang Middle Road, Huangdao District, Qingdao City, Shandong Province	9 licensed branches and sub-branches in Qingdao District
Yantai, Shandong	Yantai Branch	218-1 Changjiang Road, Yantai Development Zone, Shandong Province	6 licensed branches and sub-branches in Yantai District
Dezhou, Shandong	Dezhou Branch	1337 Tianqu Middle Road, Decheng District, Dezhou City, Shandong Province	5 licensed branches and sub-branches in Dezhou District
Jining, Shandong	Jining Branch	9-1 Pipashan North Road, Jining High-tech Zone, Shandong Province	7 licensed branches and sub-branches in Jining District
Linyi, Shandong	Linyi Branch	0004 Yimeng Road, Lanshan District, Linyi City, Shandong Province	6 licensed branches and sub-branches in Linyi District
Weifang, Shandong	Weifang Branch	1589 Xinhua Road, Kuiwen District, Weifang City, Shandong Province	2 licensed branches and sub-branches in Weifang District

List of Institutions

District	Name of organisation	Business Address	Remarks
Dongying, Shandong	Dongying Branch	500 Xier Road, Dongying District, Dongying City, Shandong Province	1 licensed branch and sub-branch in Dongying District
Zibo, Shandong	Zibo Branch	227 Xincun West Road, Zhangdian District, Zibo City, Shandong Province	2 licensed branches and sub-branches in Zibo District
Liaocheng, Shandong	Liaocheng Branch	117 Dongchang West Road, Dongchangfu District, Liaocheng City, Shandong Province	1 licensed branch and sub-branch in Liaocheng District
Zaozhuang, Shandong	Zaozhuang Branch	117 Guangming West Road and 55 Deren North Road, Zaozhuang High-tech Zone, Shandong Province	2 licensed branches and sub-branches in Zaozhuang District
Heze, Shandong	Heze Branch	289 Yongchang Road, Heze Economic and Technological Development Zone, Shandong Province	1 licensed branch and sub-branch in Heze District
Taian, Shandong	Taian Branch	472 Dongyue Main Street, Taishan District, Taian City, Shandong Province	1 licensed branch and sub-branch in Taian District
Rizhao, Shandong	Rizhao Branch	59 Qinhuangdao Road, Donggang District, Rizhao City, Shandong Province	1 licensed branch and sub-branch in Rizhao District
Binzhou, Shandong	Binzhou Branch	338 Huanghe 6th Road, Binzhou Economic and Technological Development Zone, Shandong Province	1 licensed branch and sub-branch in Binzhou District
Tianjin City	Tianjin Branch	150 Fuan Main Street, Heping District, Tianjin City	10 licensed branches and sub-branches in Tianjin District