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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board of directors (the “**Board**”) of Weihai City Commercial Bank Co., Ltd.* (the “**Bank**”) hereby announces the unaudited interim results of the Bank and its subsidiary for the six months ended 30 June 2021. This announcement, containing the full text of the 2021 interim 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 interim results. 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 2021 interim 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
27 August 2021

As at the date of this announcement, the Board comprises Mr. TAN Xianguo, Mr. MENG Dongxiao, Ms. TAO Zunjian, Mr. LU Jiliang and Mr. ZHANG Wenbin as executive Directors; Mr. YI Jijun, Mr. SONG Bin, Mr. YIN Lin, Mr. ZHAO Bing and Ms. ZHAO Yue as non-executive Directors; Mr. SUN Guomao, Mr. FAN Chi Chiu, Mr. LU Qing, Mr. WANG Shaohong and Ms. SUN Zuying 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.

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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 they jointly and severally accept responsibility for the truthfulness, accuracy and completeness of the information contained in the 2021 interim report (the "Report").
2. The 2021 interim report and the interim results announcement of the Bank were approved unanimously at the second meeting of the eighth session of the Board of the Bank held on August 27, 2021, which was considered and approved by way of valid voting. Fifteen directors were eligible to attend the meeting, and 15 directors attended such meeting in person. Supervisors of the Bank attended the meeting.
3. The interim financial statements disclosed in this Report are unaudited. The 2021 interim financial report prepared in accordance with the International Financial Reporting Standards has been reviewed by BDO Limited. The Board and the Audit Committee under the Board have reviewed and approved the interim report of the Bank.
4. TAN Xianguo, the Chairman, MENG Dongxiao, the President, TAO Zunjian, the Vice President and Chief Accountant, and LU Guangming, the Head of the Finance Department of the Bank, warrant the truthfulness, accuracy and completeness of the financial report in this Report.
5. According to the 2020 annual general meeting of the Bank held on June 11, 2021, the Bank distributed the dividends for 2020 in cash amounted to RMB598 million (tax inclusive), and distributed 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 final dividend was distributed to our Shareholders on July 2, 2021. The Bank did not declare an interim dividend for 2021.
6. Forward-looking statements, including future plans, contained in this 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 Report. For details, please refer to "Risk Management" and "Future Prospects" in the section headed "Management Discussion and Analysis" of this Report.
8. The financial data and indicators set out in this Report, save as stated otherwise, the monetary unit is denominated in RMB. Certain amounts and percentage figures set out in this 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 Report has been prepared in both Chinese and English. In the event of any discrepancy, the Chinese version shall prevail.

CHAPTER 2 DEFINITIONS

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

“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
“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
“Group”, “our Group”, “we” or “us”	the Bank and its subsidiaries and, where the context requires, includes its predecessors, branches and sub-branches
“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 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
“Company Law”	The Company Law of the People’s Republic of China(《中華人民共和國公司法》)
“Reporting Period”	the six months ended June 30, 2021
“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
“Subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“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
(Abbreviation “威海市商業銀行”)

Legal English Name

Weihai City Commercial Bank Co., Ltd.
(Abbreviation “Weihai City Commercial Bank”)

Legal Representative

TAN Xianguo (譚先國)

Secretary to the Board

LU Jiliang (盧繼梁)
Contact Number: (86) 631-5236187
Facsimile: (86) 631-5210210
E-mail: whccb@whccb.com

Joint Company Secretaries

LU Jiliang (盧繼梁), TAM Pak Yu, Vivien (譚栢如)

Registered Capital

RMB5,980,058,344

Registered Address and office address

No. 9 Bao Quan Road, Weihai City,
Shandong Province, the PRC
Postcode: 264200
Customer Service Hotline: (86) 40000-96636
Complaint Hotline: (86) 631-5221290
Website: www.whccb.com

Principal Place of Business in Hong Kong

40th Floor, Dah Sing Financial Centre,
248 Queen’s Road East, Wan Chai, Hong Kong

Unified Social Credit Code

913700002671339534

Financial License Institution Number

B0176H237100001

Place of Listing of Shares, Stock Short Name and Stock Code

The Stock Exchange of Hong Kong Limited
Stock Short Name: WEIHAI BANK
Stock Code: 9677

H Share Registrar

Computershare Hong Kong Investor Services Limited

Interim Reports are Available at:

Office of the Board and principal place of
business of the Bank

Legal Adviser

Mainland China
Beijing Dentons Law Offices, LLP

Hong Kong, China

Paul Hastings
21-22/F, Bank of China Tower, 1 Garden Road,
Central, Hong Kong

Auditor

Mainland China 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, the PRC

International Auditor

BDO Limited
25th Floor, Wing On Centre, 111 Connaught Road
Central, Sheung Wan, Hong Kong

Compliance Adviser

Central China International Capital Limited

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.

Chapter 3 Corporate Information

COMPANY PROFILE

Established in 1997, the 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.

The strategic approaches of the Bank are to decidedly develop a featured “digitalisation”- driven “Bi-Focus Retail Banking” (“兩端型零售銀行”) business model, focusing on the core values of enhancing differentiated strengths, retail banking business, intensive management, comprehensive coverage, capitalization, branding and conglomeration. In terms of corporate banking services segment, the Bank focuses on high-end customers and adheres to the direction of professional and intensive development. As for retail banking business segment, the Bank closely connects with its customer base, and continues to innovate featured products, so as to form the business characteristics of “Bi-Focus Retail Banking”. In the meantime, the Bank has developed the concepts of “technology leading business” and “technology serving business”, implemented the “three-step” strategy of “bringing offline business online, enriching online business, and weaponising digital banking”, and firmly propelled the construction of “digital banking”, in order to empower its businesses in reliance of technology advancement.

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 (中國金融機構金牌榜•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” (中國最佳中小企業金融服務機構), “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 Taxpaying 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.

CHAPTER 4 SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

Unit: RMB million

Item	January to June 2021	January to June 2020	Current period compared to the same period last year
Operating results			Change (%)
Net interest income	2,919.0	1,970.7	48.12
Net fee and commission income	346.3	258.8	33.81
Net trading gains or losses, net gains or losses arising from investment securities and other net operating income or losses	372.5	796.2	(53.22)
Operating income	3,637.8	3,025.7	20.23
Operating expenses	(750.6)	(686.0)	9.42
Impairment losses on assets	(1,723.0)	(1,250.0)	37.84
Profit before tax	1,164.2	1,089.7	6.84
Net profit	961.8	882.2	9.02
Including: Net profit attributable to equity shareholders of the Bank	882.9	814.3	8.42
Per share (RMB/share)			
Earnings per share attributable to equity shareholders of the Bank	0.15	0.16	(6.25)

Item	June 30 2021	December 31 2020	As at end of current period compared to end of previous year
Key indicators of assets and liabilities			Change (%)
Total assets	288,378.4	267,601.6	7.76
Including: Loans and advances to customers	136,673.6	117,749.1	16.07
Total liabilities	266,315.2	245,927.9	8.29
Including: Deposits from customers	193,413.4	179,588.5	7.70
Share capital	5,980.1	5,980.1	–
Total equity attributable to equity shareholders of the Bank	18,216.5	17,906.0	1.73
Total equity	22,063.2	21,673.7	1.80
Per share (RMB/share)			
Net assets per share attributable to equity shareholders of the Bank	3.05	2.99	1.73

Chapter 4 Summary of Accounting Data and Financial Indicators

Item	January to June 2021	January to June 2020	Current period compared to the same period last year
Profitability indicators (%)			Change
Return on average total assets ⁽¹⁾	0.70	0.74	(0.04)
Weighted average return on net assets ⁽²⁾	9.86	11.32	(1.46)
Net interest spread ⁽³⁾	2.13	1.95	0.18
Net interest margin ⁽⁴⁾	2.25	1.85	0.40
Net fee and commission income to operating income ratio	9.52	8.55	0.97
Cost-to-income ratio ⁽⁵⁾	19.51	21.71	(2.20)

Item	June 30 2021	December 31 2020	The end of current period compared to the end of previous year
Asset quality indicators (%)			
Non-performing loan ratio ⁽⁶⁾	1.47	1.47	0.00
Provision coverage ratio ⁽⁷⁾	172.26	173.39	(1.13)
Allowance-to-borrowings ratio ⁽⁸⁾	2.53	2.56	(0.03)
Capital adequacy indicators (%)			
Core tier-one capital adequacy ratio	9.11	9.88	(0.77)
Tier-one capital adequacy ratio	10.61	11.53	(0.92)
Capital adequacy ratio	13.97	15.18	(1.21)
Total equity to total assets ratio	7.65	8.10	(0.45)
Other indicators (%)			
Liquidity ratio	48.45	52.61	(4.16)
Loan-to-deposit ratio ⁽⁹⁾	73.05	67.78	5.27

- (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, and adjusted on an annualised basis.
- (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) (《公開發行證券的公司信息披露編報規則第9號—淨資產收益率和每股收益的計算及披露》(2010年修訂)), and adjusted on an annualised basis.
- (3) Net interest spread = the average yield on total interest-earning assets-the average cost of total interest-bearing liabilities, and adjusted on an annualised basis.
- (4) Net interest margin = net interest income/average balance of total interest-earning assets, and adjusted on an annualised basis.
- (5) Cost-to-income ratio = operating and management fees (exclusive of tax and surcharge)/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.

CHAPTER 5 MANAGEMENT DISCUSSION AND ANALYSIS

I. REVIEW OF ECONOMIC, FINANCIAL AND POLICY ENVIRONMENT

Subject to such factors as the rapid spread of the Coronavirus variant “Delta Strain”, the international community has seen a continuous resurgence of the pandemic lately. Nevertheless, the world economy has displayed its momentum of recovery as vaccination takes place step by step and lockdown measures are lifted successively in various countries. As a result, major international economic organizations have raised their projections of global GDP growth in 2021.

In the first half of 2021, faced by complicated and ever-changing environment domestically and abroad, China kept cementing and expanding its achievements in epidemic prevention and control as well as economic and social development through precise execution of macro policies. This led to sustained and steady economic recovery with rebounding production demand, generally stable employment and prices, swift growth of new economic drivers, and steadily improving quality and efficiency. Market entities also presented optimistic expectations, as major macro indicators fell within appropriate ranges and economic development embraced a trajectory of reinforcement and progress on top of stability. Based on the preliminary calculation by the National Bureau of Statistics, China recorded its GDP of RMB53,216.7 billion for the first half of the year, representing a year-on-year increase of 12.7% as calculated on comparable price basis. By maintaining the continuity, stability and sustainability of its macro policies, China executes proactive fiscal policies that pursue higher quality and efficiency with greater sustainability, as well as steady monetary policies that are flexible, precise, reasonable and appropriate, all in a bid to attain reasonable growth of monetary loans and social financing with continuous enhancement of serving the real economy with financial services.

Over the year, owing to its efforts to accelerate high-quality development, Shandong has outstripped the entire country in economy growth, with faster replacement of old economic drivers with new ones and much higher development quality and efficiency. The province has manifested a trend of enhancing quality for positivity amidst stability in its economic and social development. According to the unified GDP calculation results for the region, Shandong Province recorded a GDP of RMB3,890,635 million for the first half of the year, registering a year-on-year uptick of 12.8%.

II. SUMMARY OF OVERALL OPERATIONS

Closely in line with the working principle of “Stability, Accuracy, and Transcendence” during the Reporting Period, we focused on targets and tasks with more intensive reform and innovation, quicker transformation and precise policy execution, thus maintaining sustainable and steady growth in all our businesses.

Stable expansion of business scale. Total assets amounted to RMB288,378 million, representing an increase of RMB20,777 million as compared to the end of 2020; deposit balances increased by RMB13,699 million as compared to the end of 2020; and loan balances grew by RMB19,354 million as compared to the end of 2020.

Stable quality. Non-performing loan ratio is 1.47%, which remained relatively low as the Group demonstrated resilience to the challenges and tests brought by complicated situations; capital adequacy ratio and allowance coverage ratio stood at 13.97% and 172.26%, respectively. All regulatory indicators met standards and showed improvement continuously, while the development was more scientific and steady.

Constantly increasing efficiency. Net profit for the first half of the year amounted to RMB962 million, representing a year-on-year increase of RMB80 million or 9.02%.

II. SUMMARY OF OVERALL OPERATIONS (CONT'D)

Faster transformation. Focused on the “three-step” strategy of “bringing offline business online, enriching online business, and weaponising digital banking”, we established a transformation management committee covering innovation, technology and talent. We entered into comprehensive strategic cooperation agreements with companies such as Tencent and Huawei, and engaged a professional institution in a consultation project on digital transformation, seeking to empower business development through Fintech and render our financial services more intelligent and unique.

Increasingly prominent features. We leveraged on technological means such as mobile Internet and big data to actively build our “Smart Platform (智慧平台)” and kept boosting our featured businesses such as “Commercial Vehicle Loan (商車貸)”, “Property e-loan (房e貸)”, “Quick e-Loan (快e貸)” and “SME e-Loan (微e貸)”, with a view to providing SMEs with better support in the model of online platforms. In line with the direction of national policies, we have launched the “Equator Bank (赤道銀行)” project to enhance our capacities in and create a brand image of green financial services.

Solid and effective internal control. By emphasizing that “management systems are our internal regulations and action principles (制度就是內部法律·制度就是行動綱領)”, we comprehensively carried out the “Months of System Series (制度系列月)” activities such as month of system revision, month of system study, month of system examination, month of system inspection and month of system implementation, to continuously enhance the role of our system as restraints. As a result, we witnessed continuous enhancement in both compliance awareness and the foundation of internal control.

Strategic planning for the future. The Bank has formulated its “14th Five-Year” development strategy which sets out clear strategic direction, positioning, goals and measures for the next five years, to further boost our development confidence and cohesion through strategic guidance.

III. ANALYSIS OF INCOME STATEMENT

3.1 Financial Highlights

During the Reporting Period, our operating income amounted to RMB3,638 million, representing an increase of RMB612 million or 20.23% as compared to the same period last year; profit before tax amounted to RMB1,164 million, representing an increase of RMB75 million or 6.84% as compared to the same period last year; net profit amounted to RMB962 million, representing an increase of RMB80 million or 9.02% as compared to the same period last year, mainly due to the continuous development of corporate and retail banking businesses, resulting in year-on-year increases in net interest income and net fee and commission income.

Unit: RMB million

Item	January to June 2021	January to June 2020	Change	Rate of change (%)
Net interest income	2,919.0	1,970.7	948.3	48.12
Interest income	6,346.5	5,157.6	1,188.9	23.05
Interest expenses	(3,427.5)	(3,186.9)	(240.6)	7.55
Net fee and commission income	346.3	258.8	87.5	33.81
Fee and commission income	378.3	286.7	91.6	31.95
Fee and commission expenses	(32.0)	(27.9)	(4.1)	14.70
Net trading gains and losses, net gains and losses arising from investment securities and other net operating gains and losses	372.5	796.2	(423.7)	(53.22)
Operating income	3,637.8	3,025.7	612.1	20.23
Operating expenses	(750.6)	(686.0)	(64.6)	9.42
Impairment losses on assets	(1,723.0)	(1,250.0)	(473.0)	37.84
Profit before tax	1,164.2	1,089.7	74.5	6.84
Income tax expense	(202.4)	(207.5)	5.1	(2.46)
Net profit	961.8	882.2	79.6	9.02
Including: Net profit attributable to equity shareholders of the Bank	882.9	814.3	68.6	8.42
Net profit attributable to non-controlling interests	78.9	67.9	11.0	16.20

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.2 Net Interest Income

Net interest income was the largest component of our operating income, representing 65.13% and 80.24% of our operating income in the first half of 2020 and 2021, respectively. Our net interest income amounted to RMB2,919 million for the first half of 2021, representing an increase of RMB948 million or 48.12% as compared to the same period last year, which was mainly attributable to the larger scale and optimized structure of our business as well as the higher net interest margin. 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

	January to June 2021			January to June 2020		
	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	131,451.1	3,621.6	5.56	101,656.6	2,784.7	5.51
Financial investments	86,043.5	1,955.8	4.58	75,725.4	1,695.3	4.50
Deposits with the central bank ⁽²⁾	18,959.5	134.1	1.43	16,290.6	117.4	1.45
Deposits with banks and other financial institutions	3,059.6	1.5	0.10	967.5	1.1	0.23
Placements with banks	2,502.4	38.5	3.10	1,634.5	32.0	3.94
Finance lease receivables	17,694.8	577.3	6.58	15,333.2	501.7	6.58
Financial assets held under resale agreements	1,720.3	17.7	2.07	3,150.5	25.4	1.62
Total interest-earning assets	261,431.2	6,346.5	4.90	214,758.3	5,157.6	4.83
Interest-bearing liabilities						
Deposits from customers	182,295.9	2,351.2	2.60	153,424.0	2,183.0	2.68
Deposits from banks	3,104.6	46.0	2.99	4,813.0	60.8	2.54
Placements from banks and other financial institutions	16,303.8	335.2	4.15	11,909.8	272.7	4.60
Borrowing from the central bank	8,579.0	89.8	2.11	5,551.0	73.5	2.66
Financial assets sold under repurchase agreements	6,985.2	69.2	2.00	6,625.9	49.4	1.50
Discounted bills	783.8	11.2	2.88	1,148.7	13.5	2.36
Debt securities issued ⁽³⁾	31,892.8	524.9	3.32	29,431.2	534.0	3.65
Total interest-bearing liabilities	249,945.1	3,427.5	2.77	212,903.6	3,186.9	2.88
Net interest income		2,919.0			1,970.7	
Net interest spread			2.13			1.95
Net interest margin			2.25			1.85

Notes:

- (1) Calculated as interest income (expense)/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.

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 average balances, and changes in rate are measured by changes in average rates.

Unit: RMB million

	January to June 2021 vs January to June 2020		
	Volume factor ⁽¹⁾	Interest rate factor ⁽²⁾	Net increase (decrease) ⁽³⁾
Assets			
Loans and advances to customers	820.9	16.0	836.9
Financial investments	234.5	26.0	260.5
Deposits with the Central Bank ⁽⁴⁾	18.9	(2.2)	16.7
Deposits with banks and other financial institutions	1.0	(0.6)	0.4
Placements with banks	13.4	(6.9)	6.5
Financial lease receivables	77.0	(1.4)	75.6
Financial assets held under resale agreements	(14.7)	7.0	(7.7)
Changes in interest income	1,151.0	37.9	1,188.9
Liabilities			
Deposits from customers	372.4	(204.2)	168.2
Deposits from banks	(25.3)	10.5	(14.8)
Placements from banks and other financial institutions	90.3	(27.8)	62.5
Borrowing from the Central Bank	31.7	(15.4)	16.3
Financial assets sold under repurchase agreements	3.6	16.2	19.8
Discounted bills	(5.2)	2.9	(2.3)
Debt securities issued ⁽⁵⁾	40.5	(49.6)	(9.1)
Changes in interest expenses	508.0	(267.4)	240.6
Changes in net interest income	643.0	305.3	948.3

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.2 Net Interest Income (Cont'd)

Notes:

- (1) Represented the average balance for this Reporting Period minus the average balance for the same period last year, multiplied by the average yield/cost for this Reporting Period.
- (2) Represented the average yield/cost for this Reporting Period minus the average yield/cost for the same period last year, multiplied by the average balance for the same period last year.
- (3) Represented interest income/expense for this Reporting Period minus interest income/expense for the same period last 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 RMB1,189 million or 23.05% to RMB6,347 million as compared to the same period last year, primarily due to an increase in the average balance of our interest-earning assets from RMB214,758 million for the first half of 2020 to RMB261,431 million for the first half of 2021, and an increase in the average yield on our interest-earning assets from 4.83% for the first half of 2020 to 4.90% for the first half of 2021. 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 the average yield on financial investments.

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

Unit: RMB million

	January to June 2021		January to June 2020	
	Amount	% of total	Amount	% of total
Interest income				
Loans and advances to customers	3,621.6	57.06	2,784.7	53.99
Financial investments	1,955.8	30.82	1,695.3	32.87
Deposits with banks and other financial institutions	1.5	0.02	1.1	0.02
Placements with banks	38.5	0.61	32.0	0.62
Financial assets held under resale agreements	17.7	0.28	25.4	0.49
Finance lease receivables	577.3	9.1	501.7	9.73
Deposits with the central bank ⁽¹⁾	134.1	2.11	117.4	2.28
Total interest income	6,346.5	100.00	5,157.6	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 53.99% and 57.06% of our interest income in the first half of 2020 and 2021, respectively. In the first half of 2021, our interest income from loans and advances to customers amounted to RMB3,622 million, representing an increase of RMB837 million or 30.05% as compared with the same period last year, primarily due to the Bank's increased placements of loans to support the real economy, and the average balance of loans and advances to customers increased by 29.31% from RMB101,657 million in the first half of 2020 to RMB131,451 million in the first half of 2021; meanwhile, our adjustment of business structure resulted in an increase of the average yield on loans and advances to customers from 5.51% in the first half of 2020 to 5.56% in the first half of 2021.

Interest income from financial investments

During the Reporting Period, our interest income from financial investments amounted to RMB1,956 million, representing an increase of RMB261 million or 15.37% as compared with the same period last year, primarily due to the steady increase in the scale of financial investments business as a result of our increased efforts in bond investments.

Interest income from placements with banks

During the Reporting Period, our interest income from placements with banks amounted to RMB39 million, representing an increase of RMB7 million or 20.31% as compared with the same period last year, mainly due to the increased cooperation with financial leasing companies under the banking system, and the average balance of placements with banks increased by 53.10% from RMB1,635 million in the first half of 2020 to RMB2,502 million in the first half of 2021.

Interest income from finance lease receivables

During the Reporting Period, our interest income from finance lease receivables was RMB577 million, representing an increase of RMB76 million or 15.07% as compared with the same period last year, primarily due to the continuous expansion of our financial leasing business in the first half of the year, which resulted in an increase of RMB2,362 million or 15.40% in the average balance of our financial leasing business as compared with the same period last year.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.4 Interest Expenses

During the Reporting Period, our interest expenses amounted to RMB3,428 million, representing an increase of RMB241 million or 7.55% as compared with the same period last year, primarily due to a 17.40% increase in the average balance of interest-bearing liabilities from RMB212,904 million in the first half of 2020 to RMB249,945 million in the first half of 2021, partially offset by a decrease in the average cost on interest-bearing liabilities from 2.88% in the first half of 2020 to 2.77% in the first half of 2021. The following table sets forth a breakdown of our interest expenses for the periods indicated.

Unit: RMB million

	January to June 2021		January to June 2020	
	Amount	% of total	Amount	% of total
Interest expenses				
Deposits from customers	2,351.2	68.60	2,183.0	68.50
Deposits from banks	46.0	1.34	60.8	1.91
Placements from banks and other financial institutions	335.2	9.78	272.7	8.56
Borrowing from the central bank	89.8	2.62	73.5	2.31
Financial assets sold under repurchase agreements	69.2	2.02	49.4	1.55
Discounted bills	11.2	0.33	13.5	0.42
Debt securities issued	524.9	15.31	534.0	16.75
Total interest expenses	3,427.5	100.00	3,186.9	100.00

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 68.50% and 68.60% of our total interest expenses in the first half of 2020 and 2021, respectively. Our interest expenses on deposits from customers increased by RMB168 million or 7.70% to RMB2,351 million in the first half of 2021 as compared with the same period last year, primarily due to the continuous development of our deposit business, which resulted in an 18.82% increase in the average balance of deposits from customers to RMB182,296 million in the first half of 2021 from RMB153,424 million in the first half of 2020; partially offset by the decrease in the average cost of deposits from customers from 2.68% in the first half of 2020 to 2.60% in the first half of 2021.

Interest expenses on debt securities issued

Interest expenses on debt securities issued accounted for 16.75% and 15.31% of our total interest expenses in the first half of 2020 and 2021, respectively. Our interest expenses on debt securities issued decreased by RMB9 million or 1.70% to RMB525 million in the first half of 2021 as compared with the same period last year, primarily due to the decrease in the average interest rate of debt securities payable from 3.65% in the first half of 2020 to 3.32% in 2021, which resulted from the year-on-year decrease in the issuance interest rate of interbank deposits following the adjustment of our Bank's rating from AA+ to AAA.

Interest expenses on placements from banks and other financial institutions

Interest expenses on placements from banks and other financial institutions accounted for 8.56% and 9.78% of our total interest expenses in the first half of 2020 and 2021, respectively. Interest expenses on placements from banks and other financial institutions amounted to RMB335 million in the first half of 2021, representing an increase of RMB63 million or 22.92% as compared with the same period last year, primarily due to the increase in the scale of our finance lease business and the corresponding increase in the amount of placements from banks and other financial institutions.

Interest expenses on borrowing from the central bank

Interest expenses on borrowing from the central bank represented 2.31% and 2.62% of our total interest expenses in the first half of 2020 and 2021, respectively. Interest expenses on borrowing from the central bank amounted to RMB90 million in the first half of 2021, representing an increase of RMB16 million or 22.18% as compared with the same period last year, primarily due to the Bank's more utilization of relending and rediscount funds from the central bank, which resulted in a 54.55% increase in the average daily amount of borrowing from the central bank from RMB5,551 million in the first half of 2020 to RMB8,579 million in the first half of 2021.

Interest expenses on deposits from banks

Interest expenses on deposits from banks accounted for 1.91% and 1.34% of our total interest expenses in the first half of 2020 and 2021, respectively. Our interest expenses on deposits from banks decreased by RMB15 million or 24.34% to RMB46 million in the first half of 2021 as compared with the same period last year, primarily due to our adjustment of debt structure with moderate control of the scale of our deposits from banks.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.5 Net Fee and Commission Income

During the Reporting Period, our net fee and commission income amounted to RMB346 million, representing an increase of RMB88 million or 33.81% as compared with the same period last year, primarily due to the rapid development of agency wealth management and financial leasing consultation businesses, as a result of which our fee income increased by RMB92 million or 31.95% as compared with the same period last year. Fee expenses increased by RMB4 million or 14.70% as compared with the same period last year, primarily due to more payment of settlement fees and bank card business fees than the same period last year with the expansion of our business scale. The following table sets forth the principal components of our net fee and commission income for the periods indicated.

Unit: RMB million

	January to June 2021	January to June 2020
Fee and commission income		
Agency service fees	129.0	97.4
Settlement and clearing fees	40.5	43.9
Consultancy service fees	111.2	49.5
Bank card service fees	16.7	17.1
Acceptance and guarantee service fees	32.1	22.2
Finance leases service fees	38.6	45.5
Others ⁽¹⁾	10.2	11.1
Sub-total	378.3	286.7
Fee and commission expenses		
Settlement and clearing fees	(20.4)	(15.7)
Bank card service fees	(8.3)	(7.2)
Others ⁽²⁾	(3.3)	(5.0)
Sub-total	(32.0)	(27.9)
Net fee and commission income	346.3	258.8

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 and Losses, Net Gains and Losses Arising from Investment Securities and Other Net Operating Gains and Losses

During the Reporting Period, our net trading gains and losses, net gains and losses arising from investment securities and other net operating gains and losses amounted to RMB373 million, representing a decrease of RMB424 million or 53.22% as compared with the same period last year, of which net trading gains and losses increased by RMB72 million as compared with the same period last year, primarily due to the relatively loose monetary policy in the first half of the year, the downward fluctuation of bond market yields and the higher valuation of held-for-trading financial assets; the decrease of RMB500 million in net investment gains and losses was mainly due to the smaller 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 gains and losses, net gains and losses arising from investment securities and other net operating gains and losses for the periods indicated:

Unit: RMB million

	January to June 2021	January to June 2020
Net trading gains and losses	(26.7)	(98.5)
Net gains and losses arising from investment securities	388.5	888.6
Other net operating gains and losses	10.7	6.1
Total	372.5	796.2

3.7 Operating Expenses

During the Reporting Period, our operating expenses amounted to RMB751 million, representing an increase of RMB65 million or 9.42% as compared with the same period last year, primarily due to the increase in staff costs, taxes and surcharges 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

	January to June 2021	January to June 2020
Staff costs	392.3	380.8
Depreciation and amortisation	103.2	101.5
Taxes and surcharges	40.8	29.1
Rental and property management expenses	7.8	6.1
Interest expenses on lease liabilities	9.4	10.9
Other general and administrative expenses	197.1	157.6
Total operating expenses	750.6	686.0
Cost-to-income ratio	19.51%	21.71%

Our cost-to-income ratio (excluding taxes and surcharges) was 19.51% and 21.71% in the first half of 2021 and 2020, respectively. The decrease in cost-to-income ratio was primarily because of our enhanced cost control and higher 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 55.51% and 52.26% of our total operating expenses in the first half of 2020 and 2021, respectively. During the Reporting Period, our staff costs amounted to RMB392 million, representing an increase of RMB12 million or 3.02% as compared with the same period last year, primarily due to the increase in our contribution to social insurance as compared with the same period last year. The following table sets forth the components of our staff costs for the periods indicated.

Unit: RMB million

	January to June 2021	January to June 2020
Salaries, bonuses and allowances	304.8	319.2
Social insurance	42.7	19.0
Housing allowances	20.4	19.3
Staff welfare	2.4	1.6
Supplementary retirement benefits	11.3	10.5
Employee education expenses and labour union expenses	10.7	11.2
Total staff costs	392.3	380.8

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 RMB197 million, representing an increase of RMB40 million or 25.06% as compared with the same period last year, 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 RMB1,723 million, representing an increase of RMB473 million or 37.84% as compared with the same period last year, primarily due to (i) an increase of 64.16% in our impairment losses on loans and advances to customers from RMB890 million in the first half of 2020 to RMB1,461 million in first half of 2021, which was primarily due to more allowance for and disposal of risk assets as a result of the expansion of our loan scale; (ii) a decrease of 49.90% in our impairment losses on financial investments from RMB249 million in the first half of 2020 to RMB125 million in the first half of 2021, primarily due to the growth of the scale of financial investments during the Reporting Period was lower than that of the same period last year. The table below sets forth the principal components of our impairment losses on assets for the periods indicated.

Unit: RMB million

	January to June 2021	January to June 2020
Financial assets held under resale agreements	0.0	(2.6)
Loans and advances to customers	1,460.5	889.7
Financial investments	124.7	248.9
Finance lease receivables	105.0	63.0
Credit commitments	5.0	9.6
Others	27.8	41.4
Total	1,723.0	1,250.0

3.9 Income Tax Expense

During the Reporting Period, our income tax expense was RMB202 million, representing a decrease of RMB5 million or 2.46% as compared with the same period last year, primarily due to the increase in non-taxable income in the first half of 2021. 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

	January to June 2021	January to June 2020
Profit before tax	1,164.2	1,089.70
Income tax calculated at statutory tax rate	291.0	272.4
Non-deductible expenses	0.1	8.6
Non-taxable income ⁽¹⁾	(88.7)	(73.5)
Income tax expense	202.4	207.5

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 of the end of the Reporting Period, our total assets amounted to RMB288,378 million, representing an increase of RMB20,777 million or 7.76% as compared to the end of 2020, primarily due to an increase of RMB18,925 million or 16.07% in loans and advances to customers as compared to the end of 2020, and an increase of RMB3,075 million or 3.04% in financial investments as compared to the end of 2020. The following table sets forth the composition of our total assets as of the dates indicated.

Unit: RMB million

As of:	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Loans and advances to customers	136,673.6	47.39	117,749.1	44.00
Financial investments	104,296.2	36.17	101,221.4	37.83
Cash and deposits with the central bank	20,847.3	7.23	23,500.3	8.78
Financial assets held under resale agreements	635.5	0.22	605.1	0.23
Deposits with banks and other financial institutions	3,248.4	1.13	4,875.3	1.82
Placements with banks	1,420.6	0.49	241.4	0.09
Property and equipment	990.6	0.34	702.2	0.26
Right-of-use assets	415.7	0.14	454.0	0.17
Deferred tax assets	1,348.3	0.47	1,372.7	0.51
Other assets ⁽¹⁾	18,502.2	6.42	16,880.1	6.31
Total assets	288,378.4	100.00	267,601.6	100.00

Note:

- (1) Other assets consist primarily of interest receivables, 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 of the end of the Reporting Period, our loans and advances totaled RMB139,648 million, representing an increase of RMB19,354 million or 16.09% as compared to the end of 2020. In particular, the balance of corporate loans amounted to RMB92,499 million, representing an increase of RMB13,266 million or 16.74% as compared to the end of 2020; the balance of personal loans amounted to RMB39,204 million, representing an increase of RMB5,670 million or 16.91% as compared to the end of 2020; discounted bills amounted to RMB7,945 million, representing an increase of RMB418 million or 5.55% as compared to the end of 2020.

Loans by business type

Unit: RMB million

As of:	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Item:				
Corporate loans	92,499.2	66.24	79,233.2	65.86
Personal loans	39,203.6	28.07	33,533.4	27.88
Discounted bills	7,944.7	5.69	7,526.8	6.26
Total loans and advances to customers	139,647.5	100.00	120,293.4	100.00
Add: interests accrued	551.1	–	522.7	–
Less: Provision for loans and advances to customers measured at amortised cost	3,525.0	–	3,067.0	–
Net loans and advances to customers	136,673.6	–	117,749.1	–

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

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers

Corporate loans by maturity

Unit: RMB million

As of:	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Item:				
Short-term loans ⁽¹⁾ and advances	31,026.6	33.54	31,577.7	39.85
Medium – and long-term loans	61,472.6	66.46	47,655.5	60.15
Total corporate loans	92,499.2	100.00	79,233.2	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 of the end of the Reporting Period, the balance of our short-term loans and advances was RMB31,026 million, accounting for 33.54% of our loans and representing a decrease of RMB551 million or 1.75% as compared to the end of 2020, mainly because we took the initiative to increase medium- and long-term loans to enterprises suffering from greater impact of the epidemic.

As of the end of the Reporting Period, the balance of our medium- and long-term loans amounted to RMB61,473 million, accounting for 66.46% of our loans and representing an increase of RMB13,817 million or 28.99% as compared to the end of 2020. This was mainly because we actively responded to the control under national macroeconomic policies and regulatory requirements by increasing our infrastructure loans concerning people's livelihood, loans to the manufacturing sector and consumption loans to protect people's livelihood, 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:	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Item:				
Working capital loans	61,732.5	66.74	52,347.7	66.07
Fixed asset loans	28,090.1	30.37	25,097.3	31.67
Other loans ⁽¹⁾	2,676.6	2.89	1,788.2	2.26
Total corporate loans	92,499.2	100.00	79,233.2	100.00

Note:

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

As of the end of the Reporting Period, the balance of our working capital loans amounted to RMB61,732 million, representing an increase of RMB9,385 million or 17.93% as compared to the end of 2020; the balance of our fixed asset loans amounted to RMB28,090 million, representing an increase of RMB2,993 million or 11.93% as compared to the end of 2020. The increase in our working capital loans and fixed asset loans as compared to the end of 2020 was mainly due to our active response to the government and regulatory call to adhere to the market positioning of “serving the local economy, serving small and micro enterprises, and serving urban and rural residents”, as we kept increasing credit supply and constantly innovating our service model to fully support local economic development.

As of the end of the Reporting Period, the balance of our other loans amounted to RMB2,677 million, representing an increase of RMB888 million or 49.68% as compared to the end of 2020, mainly due to an evident increase in on-balance sheet financing activities denominated in foreign currencies as we boosted our marketing to clients under the name-list system during the year.

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:	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Industry:				
Leasing and business services	20,794.8	22.48	14,658.0	18.50
Manufacturing	19,554.5	21.14	18,149.3	22.91
Water conservancy, environment and public facilities management	14,927.6	16.14	11,370.4	14.35
Construction	9,604.0	10.38	7,801.6	9.85
Real estate	7,423.7	8.03	7,654.7	9.66
Wholesale and retail	6,433.8	6.96	6,365.0	8.03
Agriculture, forestry, animal husbandry and fishery	3,081.4	3.33	3,031.6	3.83
Transportation, warehousing and postal services	2,426.2	2.62	1,849.2	2.33
Electricity, heat, gas and water production and supply	2,359.0	2.55	2,357.3	2.97
Hygiene and social welfare	855.9	0.92	895.1	1.13
Culture, sports and entertainment	247.4	0.27	325.8	0.41
Others ⁽¹⁾	4,790.9	5.18	4,775.2	6.03
Total corporate loans	92,499.2	100.00	79,233.2	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 of the end of the Reporting Period, the top five industries to which we distributed loans were leasing and business services, manufacturing, water conservancy, environment and public facilities management, construction and real estate; loans to customers in these five industries totaled RMB20,795 million, RMB19,555 million, RMB14,928 million, RMB9,604 million and RMB7,424 million, accounting for 22.48%, 21.14%, 16.14%, 10.38% and 8.03% 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:	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Item:				
Residential mortgage loans	16,667.5	42.52	13,913.6	41.49
Personal consumption loans	3,344.6	8.53	3,173.7	9.47
Personal business loans	18,215.7	46.46	15,704.6	46.83
Credit cards	975.8	2.49	741.5	2.21
Total personal loans	39,203.6	100.00	33,533.4	100.00

As of the end of the Reporting Period, the balance of our residential mortgage loans amounted to RMB16,667 million, representing an increase of RMB2,754 million or 19.79% as compared with the end of 2020, mainly due to the relatively low risk level of the business in general, which helped to optimize the structure of our overall credit assets.

As at the end of the Reporting Period, the balance of our personal consumption loans amounted to RMB3,345 million, representing an increase of RMB171 million or 5.39% as compared with the end of 2020, mainly due to the larger scale of our "Quick e-Loan" (快e贷) business arising from the business activities by our customer relationship managers in registered areas.

As of the end of the Reporting Period, the balance of our personal business loans amounted to RMB18,216 million, representing an increase of RMB2,511 million or 15.99% as compared with the end of 2020, mainly because we remained committed to empowerment by "Fintech", the principle of small amount and large quantity in our business development, the new highlights of digital operation for inclusive business such as "digital operation, platform-style marketing, building service networks and improving skills for risk management", as well as the continuous development of featured platform products such as "Property e-loan" and "Commercial Vehicle Loan (商車贷)".

As of the end of the Reporting Period, the balance of our credit cards amounted to RMB976 million, representing an increase of RMB234 million or 31.60% as compared with the end of 2020, mainly due to a significant increase in the number of credit card applications as we bolstered our credit card marketing in 2021 and online application channels were fully available in Shandong Province and Tianjin. As a result, we had 129,118 credit cards in inventory, which represented an increase of 30,158 or 30.47% as compared with the end of 2020 and led to a higher credit balance for credit cards.

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 of the end of the Reporting Period, the total amount of discounted bills was RMB7,945 million, accounting for 5.69% of our total loans and advances to customers, representing an increase of RMB418 million or 5.55% as compared with the end of 2020, mainly due to the moderate increase of our bills size as we enhanced our efforts in distributing discounted bills provided targeted support to small and micro enterprises.

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

Unit: RMB million

Item	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Bank acceptance bills	7,067.8	88.96	6,671.8	88.64
Commercial acceptance bills	876.9	11.04	855.0	11.36
Total discounted bills	7,944.7	100.00	7,526.8	100.00

Distribution of loans and advances to customers by collateral

Unit: RMB million

As of:	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Item:				
Pledged loans	7,773.8	5.57	6,224.3	5.17
Collateralised loans	58,562.4	41.93	50,123.0	41.67
Guaranteed loans	53,160.4	38.07	46,346.4	38.53
Unsecured loans	12,206.2	8.74	10,072.9	8.37
Discounted bills	7,944.7	5.69	7,526.8	6.26
Gross loans and advances to customers	139,647.5	100.00	120,293.4	100.00

Distribution of loans and advances to customers by geographical region

Unit: RMB million

As of:	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Region:				
Weihai City	40,487.2	28.99	34,703.0	28.85
Outside Weihai City	99,160.3	71.01	85,590.4	71.15
Gross loans and advances to customers	139,647.5	100.00	120,293.4	100.00

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

4.1 Assets (Cont'd)

4.1.2 Financial investments

As of the end of the Reporting Period, the carrying value of our financial investments was RMB104,296 million, representing an increase of RMB3,075 million or 3.04% as compared with the end of 2020. 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	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Financial investments measured at amortised cost	68,001.8	65.20	68,052.2	67.23
Financial investments measured at fair value through other comprehensive income	22,235.8	21.32	18,272.2	18.05
Financial investments measured at fair value through profit or loss	14,058.6	13.48	14,897.0	14.72
Total financial investments	104,296.2	100.00	101,221.4	100.00

Financial investments measured at amortised cost

As of the end of the Reporting Period, the carrying value of our financial investments measured at amortised cost amounted to RMB68,002 million, which maintained at the similar level as compared to that as of the end of last year. The following table sets forth the components of our financial investments measured at amortised cost as of the dates indicated.

Unit: RMB million

Item	June 30, 2021	December 31, 2020
Debt securities issued by the following institutions in mainland China:		
Central government	5,250.9	5,249.8
Policy banks	14,985.0	15,171.8
Banks and other financial institutions	520.0	760.0
Corporates	17,211.5	16,447.3
Government-backed institutions	2,509.5	2,559.5
Local governments	13,547.7	12,770.9
Interests accrued	1,050.3	1,182.8
Sub-total	55,074.9	54,142.1
Investment management products	13,199.0	14,032.5
Asset-backed securities	480.6	509.4
Less: Provision for impairment losses	(752.7)	(631.8)
Total	68,001.8	68,052.2

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 other comprehensive income

As of the end of the Reporting Period, the carrying value of our financial investments measured at fair value through other comprehensive income amounted to RMB22,236 million, representing an increase of RMB3,964 million or 21.69% as compared with the end of 2020. Such increase was mainly due to the increase in policy financial bonds and local government 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

Item	June 30, 2021	December 31, 2020
Debt securities held for trading and issued by the following entities in mainland China		
Policy banks	11,775.0	10,648.7
Banks and other financial institutions	439.7	130.5
Corporates	6,407.8	5,841.0
Government-backed institutions	263.7	264.6
Local governments	1,227.0	19.5
Interests accrued	467.1	408.5
Sub-total	20,580.3	17,312.8
Interbank deposits	1,113.6	615.8
Asset-backed securities	82.6	85.1
Equity investments	459.3	258.5
Total	22,235.8	18,272.2

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 of the end of the Reporting Period, the carrying value of our financial investments measured at fair value through profit or loss amounted to RMB14,059 million, representing a decrease of RMB838 million or 5.63% as compared with that of the end of 2020. Such decrease was mainly due to the fact that the Bank did not resume 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

Item	June 30, 2021	December 31, 2020
Debt securities issued by the following institutions in mainland China		
– Policy banks	1,669.8	1,156.4
– Banks and other financial institutions	581.2	593.8
– Corporates	1,654.3	1,901.0
Sub-total	3,905.3	3,651.2
Asset-backed securities	402.5	418.6
Investment funds	3,208.6	714.7
Investment management products	6,542.2	10,112.5
Total	14,058.6	14,897.0

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)**4.2 Liabilities**

As of the end of the Reporting Period, our total liabilities amounted to RMB266,315 million, representing an increase of RMB20,387 million or 8.29% as compared to the end of 2020, mainly due to the increases in deposits from customers, borrowing from the central bank and financial assets sold under repurchase agreements. The following table sets forth the composition of our total liabilities as of the dates indicated.

Unit: RMB million

	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Deposits from customers	193,413.4	72.63	179,588.5	73.02
Financial assets sold under repurchase agreements	10,768.4	4.04	6,545.7	2.66
Deposits from banks	2,988.2	1.12	3,085.8	1.25
Placements from banks and other financial institutions	16,416.7	6.16	15,234.6	6.19
Debt securities issued	30,301.5	11.38	30,872.7	12.55
Borrowing from the central bank	9,482.0	3.56	7,240.7	2.94
Income tax payable	70.6	0.03	345.4	0.14
Deferred tax liabilities	3.3	0.00	0.3	0.00
Lease liabilities	397.5	0.15	423.6	0.17
Other liabilities ⁽¹⁾	2,473.6	0.93	2,590.6	1.08
Total liabilities	266,315.2	100.00	245,927.9	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 73.02% and 72.63% of our total liabilities as of the end of 2020 and the end of June 2021, respectively. As of the end of the Reporting Period, our deposits from customers amounted to RMB193,413 million, representing an increase of RMB13,825 million or 7.70% as compared to the end of 2020, mainly due to the increases in our corporate deposits and personal deposits as we amplified our marketing campaign for deposits. The following table sets forth the composition of our deposits from customers as of the dates indicated.

Unit: RMB million

	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Corporate deposits				
Demand deposits	53,780.0	28.13	56,744.6	31.97
Time deposits	54,752.0	28.64	47,526.0	26.78
Sub-total	108,532.0	56.77	104,270.6	58.75
Personal deposits				
Demand deposits	10,491.0	5.49	9,270.8	5.23
Time deposits	72,091.7	37.71	63,882.2	35.99
Sub-total	82,582.7	43.20	73,153.0	41.22
Inward and outward remittances	65.4	0.03	57.5	0.03
Total	191,180.1	100.00	177,481.1	100.00
Interests accrued	2,233.3		2,107.4	
Deposits from customers	193,413.4		179,588.5	

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

4.2 Liabilities (Cont'd)

4.2.2 Financial assets sold under repurchase agreements

As of the end of the Reporting Period, the balance of our financial assets sold under repurchase agreements was RMB10,768 million, representing an increase of RMB4,223 million or 64.51% as compared to the end of 2020, primarily due to the adjustment of the structure of our liability business and more utilization of financial assets sold under repurchase agreements.

4.2.3 Deposits from banks

As of the end of the Reporting Period, our deposits from banks amounted to RMB2,988 million, representing a decrease of RMB98 million or 3.16% as compared to the end of 2020, primarily due to the adjustment of the structure of our liability business and proper control of the scale of our deposits from banks.

4.2.4 Placements from banks and other financial institutions

As of the end of the Reporting Period, the balance of our placements from banks and other financial institutions amounted to RMB16,417 million, representing an increase of RMB1,182 million or 7.76% as compared to the end of 2020, mainly due to the continued increase in the scale of our finance lease business 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 and tier-two capital debts issued by us. As of the end of the Reporting Period, the balance of our debt securities issued amounted to RMB30,302 million, representing a decrease of RMB571 million or 1.85% as compared to the end of 2020, mainly because our green financial bonds of RMB2 billion issued in 2018 matured during the Reporting Period.

4.2.6 Borrowing from the central bank

Borrowing from the central bank consists primarily of relending and rediscount. As of the end of the Reporting Period, the balance of our borrowing from the central bank amounted to RMB9,482 million, representing an increase of RMB2,241 million or 30.95% as compared to the end of 2020, primarily due to our reasonable control of liability costs and more utilization of relending and rediscount capital with low interest rates.

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

4.3. Shareholders' equity

As of the end of the Reporting Period, our total shareholders' equity amounted to RMB22,063 million, representing an increase of RMB390 million or 1.80% as compared to the end of 2020; our total equity attributable to equity shareholders amounted to RMB18,217 million, representing an increase of RMB311 million or 1.73%, mainly due to the increase in our general reserve.

Unit: RMB million

	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Share capital	5,980.1	27.10	5,980.1	27.59
Capital reserve	4,947.6	22.42	4,947.6	22.83
Surplus reserve	1,225.7	5.56	1,225.7	5.66
General reserve	2,648.1	12.00	2,293.0	10.58
Fair value reserve	(204.6)	(0.93)	(225.6)	(1.04)
Impairment reserve	16.0	0.07	11.4	0.05
Retained earnings	3,603.6	16.34	3,673.8	16.95
Total equity attributable to equity shareholders of the Bank	18,216.5	82.56	17,906.0	82.62
Perpetual bonds	2,999.7	13.60	2,999.7	13.84
Non-controlling interests	847.0	3.84	768.0	3.54
Total equity	22,063.2	100.00	21,673.7	100.00

V. OFF-BALANCE SHEET ITEMS

Our off-balance sheet items include credit commitment and capital commitment. Credit commitment is the most important component. As of the end of the Reporting Period, the balance of credit commitment amounted to RMB44,222 million. For details, see note 42 to the financial statements of this 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 remained stable as compared with the beginning of the year. As of the end of the Reporting Period, our total loans (excluding interests accrued) amounted to RMB139,648 million, representing an increase of RMB19,354 million or 16.09% as compared with the end of 2020; total overdue loans amounted to RMB3,051 million, representing a decline of RMB610 million or 16.65% from the end of 2020; total non-performing loans amounted to RMB2,053 million, representing an increase of RMB279 million or 15.73% as compared with the end of 2020; and the non-performing loan ratio was 1.47%, which stood at the same level as compared with the end of 2020.

6.1 Distribution of Loans by Five-category Classification

Unit: RMB million

Item	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Normal loans	133,059.3	95.28	113,454.4	94.32
Special-mentioned loans	4,535.6	3.25	5,065.3	4.21
Sub-total of normal loans	137,594.9	98.53	118,519.7	98.53
Substandard loans	1,603.4	1.15	1,573.3	1.31
Doubtful loans	449.2	0.32	200.4	0.16
Loss loans	–	–	–	–
Sub-total of non-performing loans	2,052.6	1.47	1,773.7	1.47

Under the five-category loan regulatory system, our non-performing loans include substandard, doubtful and loss loans. As of the end of the Reporting Period, our non-performing loan ratio stood at the same level as compared with the end of 2020. In particular, the proportion of substandard loans decreased by 0.16 percentage point from the end of 2020 to 1.15%, the proportion of doubtful loans increased by 0.16 percentage point from the end of 2020 to 0.32%, and loss loans remained the same as compared with the end of 2020.

VI. ANALYSIS OF LOAN QUALITY (CONT'D)**6.2 Distribution of Non-performing Corporate Loans by Industry**

As of the end of the Reporting Period, among the Bank's non-performing loans, non-performing corporate loans and non-performing personal loans amounted to RMB1,870 million and RMB183 million, respectively. Below sets out the distribution of non-performing corporate loans by industry:

Unit: RMB million

Item	June 30, 2021			December 31, 2020		
	Amount of non-performing loans	% of total	Non-performing loan ratio %	Amount of non-performing loans	% of total	Non-performing loan ratio %
Manufacturing	1,296.8	69.35	6.63	1,165.7	71.24	6.42
Wholesale and retail	266.5	14.25	4.14	269.8	16.49	4.24
Construction	157.5	8.42	1.64	94.5	5.78	1.21
Water conservancy, environment and public facilities management	71.0	3.8	0.48	71.0	4.34	0.62
Agriculture, forestry, animal husbandry and fishery	47.0	2.52	1.53	2.2	0.13	0.07
Other ⁽¹⁾	31.0	1.66	0.93	33.1	2.02	0.61
Total	1,869.8	100.00	2.02	1,636.3	100.00	2.07

Note:

- (1) Consist primarily of accommodation and catering; travel and transportation, warehousing and postal services; 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	June 30, 2021			December 31, 2020		
	Amount	% of total	Non-performing loan ratio (%)	Amount	% of total	Non-performing loan ratio (%)
Working capital loans	1,632.5	79.53	2.64	1,476.0	83.22	2.82
Fixed asset loans	43.4	2.11	0.15	20.0	1.13	0.08
Other corporate loans ⁽¹⁾	193.9	9.45	7.25	140.3	7.91	7.85
Residential mortgage loans	21.1	1.03	0.13	13.7	0.77	0.10
Personal consumption loans	9.5	0.46	0.28	4.7	0.26	0.15
Personal business loans	135.4	6.60	0.74	113.7	6.41	0.72
Credit cards	16.8	0.82	1.72	5.3	0.30	0.71
Total	2,052.6	100.00	1.47	1,773.7	100.00	1.47

Note:

(1) Other corporate loans mainly include trade financing, advances, etc.

6.4 Distribution of Non-performing Loans by Geographical Region

Unit: RMB million

Region	June 30, 2021			December 31, 2020		
	Amount	% of total	Non-performing loan ratio (%)	Amount	% of total	Non-performing loan ratio (%)
Weihai City	134.3	6.54	0.33	105.1	5.93	0.30
Outside Weihai City	1,918.3	93.46	1.93	1,668.6	94.07	1.95
Total non-performing loans	2,052.6	100	1.47	1,773.7	100.00	1.47

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 of the end of the Reporting Period, the amount of loans to our largest single customer accounted for 6.22% 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	1,790.0	1.28	6.22	Normal
Borrower B	Water conservancy, environment and public facilities management	1,790.0	1.28	6.22	Normal
Borrower C	Real estate	1,700.0	1.22	5.91	Normal
Borrower D	Leasing and business services	1,646.6	1.18	5.73	Normal
Borrower E	Water conservancy, environment and public facilities management	1,539.0	1.10	5.35	Normal
Borrower F	Leasing and business services	1,500.0	1.07	5.22	Normal
Borrower G	Leasing and business services	1,379.4	0.99	4.80	Normal
Borrower H	Construction	1,360.0	0.97	4.73	Normal
Borrower I	Leasing and business services	1,296.0	0.93	4.51	Normal
Borrower J	Manufacturing	1,000.0	0.72	3.48	Normal
Total		15,001.0	10.74	52.17	

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 group customer by a commercial bank shall not exceed 15% of its net capital. As of the end of the Reporting Period, our total credit exposure to the largest single group accounted for 10.43% 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	Manufacturing	2,990.0	2.14	3,000.0	2.15	10.43	Normal
Group B	Leasing and business services	2,110.3	1.51	2,946.5	2.11	10.25	Normal
Group C	Real estate	800.0	0.57	2,800.0	2.01	9.74	Normal
Group D	Transportation, warehousing and postal services	-	-	2,760.0	1.98	9.60	Normal
Group E	Water conservancy, environment and public facilities management	2,741.4	1.96	2,741.4	1.96	9.53	Normal
Group F	Leasing and business services	1,614.0	1.16	2,046.0	1.47	7.11	Normal
Group G	Manufacturing	952.3	0.68	2,036.0	1.46	7.08	Normal
Group H	Education	1,997.0	1.43	2,010.6	1.44	6.99	Normal
Group I	Water conservancy, environment and public facilities management	2,004.9	1.44	1,839.0	1.32	6.40	Normal
Group J	Construction	1,810.0	1.30	1,810.0	1.30	6.29	Normal
Total		17,019.9	12.19	23,989.5	17.20	83.42	

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

	June 30, 2021		June 30, 2020	
	Operating income of the segment	% of total	Operating income of the segment	% of total
Corporate banking	2,164.9	59.51	1,688.9	55.82
Retail banking	819.6	22.53	705.4	23.31
Financial market business	650.9	17.89	631.3	20.87
Others	2.4	0.07	0.1	0.00
Total	3,637.8	100.00	3,025.7	100.00

Unit: RMB million

	June 30, 2021		June 30, 2020	
	Segment profit before tax	% of total	Segment profit before tax	% of total
Corporate banking	525.4	45.13	505.7	46.41
Retail banking	297.0	25.51	235.2	21.58
Financial market business	349.7	30.04	350.2	32.14
Others	(7.9)	(0.68)	(1.4)	(0.13)
Total	1,164.2	100.00	1,089.7	100.00

VIII. BUSINESS DEVELOPMENT

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 its 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, managing strategic customers and promoting technology empowerment. Guided by a client list, the Bank's corporate business employed a project-based system as the starting point to engage in intensive and thorough "headquarters-to-headquarters" marketing, implemented the client visiting system, capitalized on the advantages of large enterprises, large projects and large platforms, improved the accuracy and efficiency of matching key projects, and continuously enhanced the comprehensive income. During the Reporting Period, the operating income from our corporate banking business amounted to RMB2,165 million, representing an increase of 28.18% as compared with the same period last year and accounting for 59.51% of our total operating income.

(1) Corporate customers

The Bank has established a vast and stable corporate customer base in Shandong Province and Tianjin Municipal City. The corporate banking customers of the Bank primarily comprise the governmental agencies, state-owned enterprises, business units, and industrial and commercial enterprises in Shandong Province and Tianjin Municipal City. As at the end of the Reporting Period, there were 61,805 corporate customers, representing an increase of 5,493 or a growth of 9.75% as compared with that as at the end of 2020. 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 carried out chain marketing, relied on core customers, integrated core customer resources, made full use of supply chain products, explored upstream and downstream industrial chains, marketed high-quality supply chain financial customers, gained in-depth linkage and explored the potential of customer resources.

(2) 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, activate and retain customers through linkage, collaboration and technology empowerment, extended the fund transfer chain of the Bank and increased capital accumulation in the Bank.

As of the end of the Reporting Period, the balance of corporate deposits amounted to RMB108,532 million, representing an increase of RMB4,261 million or 4.09% as compared with the end of 2020, accounting for 56.77% of the balance of all deposits. In particular, corporate demand deposits amounted to RMB53,780 million, accounting for 49.55% of corporate deposits; and corporate time deposits amounted to RMB54,752 million, accounting for 50.45% of corporate deposits.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.1 Corporate Banking (Cont'd)

(3) Corporate loans

As of the end of the Reporting Period, the balance of corporate loans was RMB92,499 million, representing an increase of RMB13,266 million or 16.74% as compared with the end of 2020, of which the balance of working capital loans was RMB61,732 million, accounting for 66.74% of total corporate loans; the balance of fixed asset loans was RMB28,090 million, accounting for 30.37% of total corporate loans; and the balance of other loans was RMB2,677 million, accounting for 2.89% of total corporate loans.

Loans to large and medium enterprises

During the Reporting Period, the Bank actively implemented its 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 system” 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 of the end of the Reporting Period, the balance of loans to large enterprises was RMB17,771 million, and the balance of loans to medium enterprises was RMB33,784 million.

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 carriers, the Bank positioned itself in the community to serve small and micro enterprises. As of 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 RMB38,567 million, which represented an increase of RMB5,965 million as compared with the end of 2020. The average interest rate of loans to small and micro enterprises was 6.09%, covering 853 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 credit policies that supported the development of small and micro enterprises and actively used the re-loans of the PBOC and the on-lending funds of policy banks, effectively expanding the source of funds to support the development of small and micro enterprises and continuously improving the coverage and support of financial services for small and micro enterprises.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.1 Corporate Banking (Cont'd)

(3) *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 people in poverty to increase 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 online loan platforms 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.

(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 of the end of the Reporting Period, the Bank had 22 branches and sub-branches providing international settlement services and a total of 214 banks with which the Bank has established agency relationship, covering 30 countries (regions) including mainland China, Hong Kong, Germany and the United States. The Bank continues to strengthen its marketing efforts based on its trading and financial customer list to enhance its business scale. During the Reporting Period, the trading and financial services transaction volume amounted to US\$3,557 million.

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 its retail business by strengthening technology investment and improving online product functions and service level. During the Reporting Period, the operating income from retail banking business amounted to RMB820 million, representing an increase of 16.19% as compared with 2020 and accounting for 22.53% of 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, and strengthen cooperation with technology finance companies, internet platforms, life service enterprises, etc. It also works to promote the development of ecological banks and create the scenario-based online marketing mode, driving low-frequency consumption of financial products via high-frequency consumption in living scenarios, and achieving online customer acquisition and activation in the digital era. In addition, the Bank strengthens cross-industry cooperation by deepening its collaboration with local leading enterprises, hospitals and schools, introducing designated merchants in “medical, food, housing and travel” industries around its outlets to achieve effective resource sharing and continuously improve customer services.

The Bank has a wide range of retail banking customers in Shandong Province and Tianjin. As of the end of the Reporting Period, the assets retained by retail customers in the Bank amounted to RMB122,079 million, representing an increase of 15.15% as compared with the end of 2020. As the wealth management of the Bank gradually improves, the number of mid-to high-end customers continues to grow. As of 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 RMB100,196 million, accounting for 82.07% of the Bank’s personal financial assets.

During the Reporting Period, the Bank regarded customer experience as a starting point, to further increase its efforts in financial services and enrich its retail products and services system. The Bank also worked to better meet the diverse financial needs of its customers through measures such as launching China Life Annuity Insurance, CPIC Property Insurance, Health Insurance and Home Property Insurance, upgrading personal structured deposits, expanding online channels for mobile credit, expanding the benefits to high-end customers, enriching credit card benefits, and optimizing the large cash installment products for credit cards.

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. As of the end of the Reporting Period, the balance of the Bank's personal deposits reached RMB82,583 million, representing an increase of RMB9,430 million or 12.89% as compared with the end of 2020.

(3) *Personal loan business*

We provide residential mortgage loans, personal business loans and personal consumption loans to 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 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 its personal consumption loan business to achieve simultaneous improvement in the scale and quality of consumption loans. As of the end of the Reporting Period, the balance of personal consumption loans of the Bank amounted to RMB3,345 million, representing an increase of RMB171 million or 5.39% as compared with the end of 2020, and the NPL ratio of personal consumption loans remained within 0.28%.

Residential mortgage loans

During the Reporting Period, the Bank adhered to the positioning that "houses are for living in, not for speculation" and implemented differentiated housing credit policies to support residents' reasonable housing needs and steadily developed individual residential mortgage loans. At the same time, the Bank added a retail rating model to assist approval and decision-making, strengthened the risk prevention and control of its mortgage business, and focused on high-quality developers, properties and customers in its marketing, to promote the steady growth of its residential mortgage business. As of the end of the Reporting Period, the balance of our individual residential mortgage loans amounted to RMB16,667 million.

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, earnestly leveraged the two policy instruments from the PBOC, and developed inclusive loans to support the real economy through various measures such as special incentives for the number of customers, innovative products and differentiated credit policies. As of the end of the Reporting Period, the balance of the Bank's personal business loans amounted to RMB18,216 million, representing an increase of RMB2,511 million or 15.99% as compared with the end of 2020.

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 of the end of the Reporting Period, the balance reached RMB3,620 million and RMB7,778 million, respectively. The online platform model has become the backbone to promote the growth of inclusive business.

(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 leapfrog growth. As of the end of the Reporting Period, the scale of the Bank's personal wealth management business reached RMB39,105 million, representing an increase of RMB6,964 million or 21.67% as compared with the end of 2020, of which net-worth wealth management accounted for 100%.

(5) *Bank card business*

Debit card business: As of the end of the Reporting Period, the total number of debit cards issued was 3,966,700, representing an increase of 182,398 or 4.82% as compared with the end of 2020. During the Reporting Period, the total transaction amount arising from consumption via the Bank's debit cards was RMB4,973 million. During the Reporting Period, the Bank further enriched the benefits to its VIP cardholders by launching the VIP lounge services at locations such as Jinan Airport, to enhance the user experience of its VIP cardholders.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.2 Retail Business (Cont'd)

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

Credit card business: During the Reporting Period, under the premise of strict risk control, 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 30,158 new credit cards, bringing the tally to a total of 129,118 credit cards issued.

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 "Weihai 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 with in-depth marketing for the customers of "Weihai Citizen Card", achieving extensive coverage of various retail products. As of the end of the Reporting Period, the Bank issued 1,342,500 Citizen Cards in total.

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 the treasury business, explored potential and innovated the interbank financial business, optimized the 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 its 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 RMB104,296 million, representing an increase of RMB3,075 million or 3.04% as compared to the end of last year. The increase in such assets in the Reporting Period 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 interbank market reached RMB1.14 trillion. During the Reporting Period, the Bank was approved to carry out RMB and foreign exchange derivatives businesses, successfully launched its first interest rate swap business for customers and first forward settlement and sale exchange business for customers.

(3) *Investment banking business*

In recent years, the Bank has continuously expanded various business licenses in the national interbank market and promoted the development of various businesses and product innovation. Leveraging on its extensive licenses and qualifications for underwriting business, the Bank is able to provide comprehensive financial services to customers, continued to enhance its competitive edge in financial markets, established its service brand in capital markets, and provided customers with comprehensive financial solutions.

(4) *Wealth management*

Since 2011, the Bank's wealth management business has developed into a well-established, stable and distinctive brand with a stable customer base. Leveraging its extensive business network coverage, the Bank actively explores customers' demands, based on which, it designs flexible and tailor-made wealth management products and offers clients convenient asset management services on an ongoing basis. The Bank has implemented a diversified, cross-market investment strategy with a stable investment return and controllable risks.

During the Reporting Period, the total amount of wealth management products issued was RMB102,362 million. As of the end of the Reporting Period, the balance was RMB39,322 million, representing an increase of 16.42% as compared to the end of 2020. In particular, the balance of net-worth wealth management products amounted to RMB39,322 million, representing an increase of RMB11,243 million or 40.04% as compared to the end of 2020. The proportion of net-worth wealth management products was 100%, representing an increase of 16.87 percentage points and the completion of our transformation to net-worth products in the wealth management business.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.4 Internet Finance Channels

The Bank always attaches great importance to the important role 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) *Self-service banking*

The Bank’s self-service banking facilities include ATMs, self-service deposit and withdrawal machines, smart teller machines, Smart Terminals (“智能終端”), Smart Self-Service Receipt Machines (“智能回單機”) and automatic inquiry machines. These facilities 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 407 self-service banking facilities.

In addition, the Bank actively upgrades and uses innovative application technology on its self-service banking facilities in order to provide better services and experience 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 requiring service from staff. As of the end of the Reporting Period, the Bank had 107 smart devices.

(2) *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.

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, money transfer and remittance. For retail banking customers, it offers 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 499,600 online banking customers, including approximately 49,800 corporate banking customers and approximately 449,800 retail banking customers. During the Reporting Period, an aggregate transaction volume of RMB420,327 million was processed through the Bank’s online banking platform.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.4 Internet Finance Channels (Cont'd)

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

Mobile banking

The Bank began offering mobile banking services through its client terminal 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 the transactions of our customers, we provide the customers with 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 1,556,700 mobile banking users, which represented an increase of approximately 197,400 users or 14.52% as compared to the end of last year. During the Reporting Period, an aggregate transaction volume of RMB109,164 million 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, wealth management products, payment of public utility bills, application for personal loans, application for credit cards, management of credit cards, outlet inquiry and appointment for public accounts. As of the end of the Reporting Period, the Bank's official WeChat account had approximately 314,100 subscribers.

Direct banking

The Bank commenced its 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 and purchase of funds. These services helped us capture potential financial needs of customers in their daily lives and improved the attraction and free-flow of our direct banking channel.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.4 Internet Finance Channels (Cont'd)

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

Online loans

Our “Quick e-Loan” (快e貸) product applies identification technologies such as device fingerprint, biological probes, simulator identification, and network connections to quickly identify common online fraud methods in a targeted manner, and is 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 line 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 RMB1,245 million.

8.5 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 “bringing offline business online, enriching online business and strategic digital banking” for products and services, and effectively carried out the construction of digital banking. First, the Bank focused on its asset business and improved approval efficiency. The Bank launched products such as Shui e Rong (税e融), G7 Logistics Loan (G7物流貸), 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 Vehicle Loan, 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, the Bank enriched its debt products to meet customers’ needs. The Bank launched cyclical and closed-end net-worth wealth management products and structured deposit products, achieved online multi-channel sales of precious metals and continuously enriched product categories. Third, the Bank increased 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 the mobile marketing system, expanded mobile marketing channels, and continuously improved the intelligence level of business processing. Fourth, the Bank optimized its settlement process and improved customer experience. The Bank built and promoted paperless counters, put multi-channel business into operation, and launched the electronic file management system to effectively improve customer experience. Fifth, the Bank consolidated the data base to support business development. Through the construction and transformation of its data management and control platform, data quality monitoring system, unified data dispatch platform and other basic platforms, the Bank continued to carry out data governance work and continuously improved data mining and data application capabilities.

During the Reporting Period, the Bank saw efficient and stable operation of its information system, continuously optimized the information system structure, and kept bolstering its system operation and maintenance guarantee ability as well as business continuity. 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.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.6 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, culture, tourism and 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, Tongda Financial Leasing was registered in Shandong with the registered capital of RMB1.1 billion. 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 RMB404 million, representing an increase of 24.94% as compared with the same period last year; net profit amounted to RMB193 million, representing an increase of RMB19 million as compared with the same period last year and accounting for 20.07% of our consolidated net profit.

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 and 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. During the Reporting Period, the corresponding relationship between regulatory capital items and balance sheet items remained the same.

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

The following table sets forth the information relating to our capital adequacy ratios calculated in accordance with the Administrative Measures for the Capital of Commercial Banks (Provisional) and PRC GAAP as of the dates indicated.

Unit: RMB million

Basis of the Group	June 30, 2021	December 31, 2020
Core tier-one capital		
Share capital	5,980.1	5,980.1
Qualifying portion of capital reserve	4,947.6	4,947.6
Surplus reserve	1,225.7	1,225.7
General reserve	2,648.1	2,293.0
Other comprehensive income	(188.6)	(214.2)
Retained earnings	3,603.6	3,673.8
Qualifying portions of non-controlling interests	572.1	525.1
Total core tier-one capital	18,788.6	18,431.1
Core tier-one capital deductions	(35.6)	(39.0)
Net core tier-one capital	18,753.0	18,392.1
Other tier-one capital	3,075.9	3,069.7
Net tier-one capital	21,828.9	21,461.8
Tier-two capital	6,927.5	6,786.8
Total capital, net	28,756.4	28,248.6
Total risk-weighted assets	205,808.2	186,125.1
Including: Total credit risk-weighted assets	195,133.0	175,673.9
Total market risk-weighted assets	1,532.1	1,308.1
Total operational risk-weighted assets	9,143.1	9,143.1
Core tier-one capital adequacy ratio	9.11%	9.88%
Tier-one capital adequacy ratio	10.61%	11.53%
Capital adequacy ratio	13.97%	15.18%

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

As of the end of the Reporting Period, our capital adequacy ratio was 13.97%, representing a decrease of 1.21 percentage points as compared to the end of 2020; our tier-one capital adequacy ratio was 10.61%, representing a decrease of 0.92 percentage point as compared to the end of 2020; and our core tier-one capital adequacy ratio was 9.11%, representing a decrease of 0.77 percentage point as compared to the end of 2020. The decrease in capital adequacy ratio was mainly due to the increase in risk assets along with business development, which resulted in a decrease in capital adequacy ratio indicators.

Unit: RMB million

Basis of the Bank	June 30, 2021	December 31, 2020
Core tier-one capital		
Share capital	5,980.1	5,980.1
Qualifying portion of capital reserve	4,955.2	4,955.2
Surplus reserve	1,225.7	1,225.7
General reserve	2,487.4	2,156.5
Other comprehensive income	(188.6)	(214.2)
Retained earnings	3,183.2	3,343.3
Qualifying portions of non-controlling interests	N/A	N/A
Total core tier-one capital	17,643.0	17,446.6
Core tier-one capital deductions	(685.7)	(689.0)
Net core tier-one capital	16,957.3	16,757.6
Other tier-one capital	2,999.7	2,999.7
Net tier-one capital	19,957.0	19,757.3
Tier-two capital	6,483.2	6,293.4
Total capital, net	26,440.2	26,050.7
Total risk-weighted assets	189,281.5	170,398.3
Including: Total credit risk-weighted assets	179,523.3	160,864.1
Total market risk-weighted assets	1,532.1	1,308.1
Total operational risk-weighted assets	8,226.1	8,226.1
Core tier-one capital adequacy ratio	8.96%	9.83%
Tier-one capital adequacy ratio	10.54%	11.59%
Capital adequacy ratio	13.97%	15.29%

IX. CAPITAL MANAGEMENT (CONT'D)

9.1 Capital Adequacy Ratio (Cont'd)

As of the end of the Reporting Period, the Bank's capital adequacy ratio was 13.97%, representing a decrease of 1.32 percentage points as compared to the end of 2020, and its core tier-one capital adequacy ratio was 8.96%, representing a decrease of 0.87 percentage point as compared to the end of 2020.

9.2 Leverage Ratio Analysis

Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》) issued by the former China Banking Regulatory Commission and effective on April 1, 2015, a minimum leverage ratio of 4% is required for commercial banks. As of the end of the Reporting Period, our leverage ratio was 6.69%, which was higher than the regulatory requirements of the CBIRC and decreased by 0.44 percentage point as compared to the end of 2020. The above leverage ratio is calculated in accordance with the formula promulgated by the CBIRC.

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

	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Leverage ratio	6.69%	7.04%	7.13%	6.25%
Net tier-one capital	21,828.9	21,950.5	21,461.8	18,621.0
Balance of on – and off-balance sheet assets after adjustment	326,066.3	311,700.9	301,066.3	297,710.6

X. RISK MANAGEMENT

10.1 Organizational Structure and Management Functions of Risk Management System

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. It establishes a centralized and vertical risk management system in respect of all risk types including credit risk, market risk, operational risk, liquidity risk, bank account interest rate risk, information technology risk, strategic risk, reputational risk, concentration risk, compliance risk and money laundering and terrorist financing risk through the implementation of comprehensive risk management, in order to regulate the interactions among the front, middle and back offices and promote the sustainable and healthy development of the Bank's business.

The Board of Directors of the Bank undertakes the ultimate responsibility for comprehensive risk management, the senior management undertakes the responsibility for the implementation of comprehensive risk management, and the Board of Supervisors undertakes the responsibility for the supervision of comprehensive risk management. 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.

During the Reporting Period, there was no change in the organizational structure and management functions of the Bank's risk management system, objectives and processes of various risk management, which was consistent with the disclosure in the 2020 annual report.

X. RISK MANAGEMENT (CONT'D)

10.2 Credit Risk

Credit risk is the risk of potential loss by the Bank arising from the failure of a debtor or counterparty to perform its contractual agreement.

During the Reporting Period, the Bank established a scientific and applicable credit risk management system with clear categorization and comprehensive coverage, to consolidate the foundation for sound development. The Bank also established a series of policies on credit authorisation, industries, regions, customers, and products, etc., which were in line with the credit risk policy and management system in terms of the Bank's development strategies and risk preferences. In addition, the Bank developed credit risk management systems and measures on areas including credit approval, limit management, internal rating, credit authorization, credit management, collateral management, post-lending management, and disposal and written-off, so as to ensure that all risk management activities are traceable. The Bank continued to streamline and improve the specific management measures and operation specifications of each business, product, customer operation from each department and business line, so as to ensure the credit management policies and systems are thoroughly implemented. Those specific risk management and control measures include: firstly, the Bank has strictly kept the bottom-line of risks, fully controlled the new business risks, maintained the implementation of unified authorization and entry standard to strictly safeguard the credit authorisation entry point. Secondly, the Bank has further strengthened the management and control of customers with large credit limits, and promoted new breakthroughs in the resolution of non-performing loans. Thirdly, the Bank has continuously invested in "improving skills for risk management". By multidimensional risk screening and daily monitoring through risk management tools, it aims to realize earlier detection and disposal of risks, and promote the stable and positive development of asset quality.

10.3 Market Risk

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

During the Reporting Period, the Bank mainly adopted the following measures to strengthen market risk management: firstly, it continuously improved the market risk management policy, system and workflow, and continuously enhanced the construction of market risk management system. Secondly, it continuously identified, measured, monitored and controlled market risks, fully considered factors such as regulatory dynamics, macro-environment and business development status, set up limit on risks, and continuously monitored the implementation of the limits as well as market risk public opinion. As of the end of the Reporting Period, the Bank's relevant indicators did not exceed the market risk limits for 2021 as determined by the Board, so that the market risk assumed by the Bank was controlled within a tolerable and reasonable range.

X. RISK MANAGEMENT (CONT'D)

10.4 Operational Risk

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

During the Reporting Period, 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 activities including the “Year of Developing Internal Control and Compliance Management”, the “Year of Improving Industry Standardization”, and quarterly compliance inspections, during which the Bank adhered to the problem-oriented principle, strictly worked on rectification and accountability, and strengthened the knowledge test on swindle prevention. The Bank conducted two no-reference knowledge tests on swindle prevention and compliance each month as a substitute for training to strengthen employees’ awareness of swindle prevention and compliance, further improving the management and control of operational risks in key links and areas. During the Reporting Period, the Bank had no material operational risk loss event.

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.

During the Reporting Period, in accordance with the management and control requirements that “liquidity risk follows market movements closely”, the Bank paid close attention to market liquidity changes, made early deployment and timely adjustments to liquidity management measures based on changes in its assets and liabilities business and liquidity gap, and reasonably adjusted 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, the Bank strengthened the study on the orientation of the central bank’s monetary policy and analysis of market conditions. The Bank closely monitored the impact of macro policy adjustments and market changes on liquidity risk, adjusted the scale of assets and liabilities and maturity structure in a dynamic and timely manner with the changes in the Bank’s business taken into account, and responded to changes in liquidity risk situation actively and effectively. Secondly, the Bank continuously upgraded the liability structure. The Bank strengthened the marketing of deposits, and implemented multi-pronged strategies to promote the stable growth of deposits; coordinated the use of re-loans from the central bank, rediscounts and market funds, reasonably controlled the scale of interbank liabilities and improved debt stability. Thirdly, the Bank increased the monitoring frequency of liquidity indicators. The Bank increased the monitoring frequency for liquidity indicators and cash flow gaps with dynamic monitoring and evaluation, adjusted its business structure in a timely manner based on the monitoring situation, and promoted the continuous optimization of various liquidity indicators. Fourthly, the Bank strengthened emergency management of liquidity risks. The Bank increased special stress tests on top of regular quarterly stress tests, adjusted stress test scenarios and improved stress test plans in a timely manner, and enhanced the foresight and predictability of liquidity risk management.

X. RISK MANAGEMENT (CONT'D)

10.6 Bank Account Interest Rate Risk Management

Bank account interest rate risk is the risk of loss on the overall income and economic value of a bank account arising from adverse movements in elements such as interest rate and maturity structure.

During the Reporting Period, the Bank mainly adopted the following measures to enhance the bank account interest rate risk management in compliance with regulatory requirements: Firstly, the Bank strengthened limit management continuously. On the basis of integrated analysis of business structure and interest rate risk, the Bank optimized the limit indicators for bank account interest rate risk in 2021 and monitored the implementation of limits regularly. Secondly, the Bank regularly studied and determined the trends of interest rates, and closely followed the macroeconomic situation, monetary policies and changes in market interest rates, in order to actively adjust the structure and interest rate of the asset and liability business and achieve the steady growth of net interest income on the premise of ensuring that interest rate risks are generally controllable. Thirdly, the Bank attached great importance to sensitivity analysis and stress test of bank account interest rate risk in order to propose management advice and business adjustment strategies, which can be used to guide business development.

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

Unit: RMB million

	June 30, 2021		June 30, 2020	
	Net profit	Equity	Net profit	Equity
Increase by 100 basis points	238.8	208.1	167.2	302.3
Decrease by 100 basis points	(238.8)	(208.1)	(167.2)	(302.3)

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.

During the Reporting Period, the Bank continued to strengthen information technology risk management. Firstly, the Bank strengthened the maintenance, update and monitoring of its 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 the bank-wide system. Secondly, the Bank conducted in-depth investigation of information technology risks, continuously strengthened the construction of its 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, and 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.

During the Reporting Period, the Bank summarized and assessed the implementation of the “13th Five-Year” strategies, scientifically formulated the “14th Five-Year” development strategies, constantly followed the changes in external operating environment, dynamically monitored the progress of development strategies, carefully identified and evaluated potential strategic risks, regularly reported the management of strategic risks, and timely adjusted and optimized strategies and measures to ensure effective implementation of the Bank’s development strategies.

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.

During the Reporting Period, the Bank constantly improved its risk management processes. After collecting and mastering sources that might result in a negative impact or image crisis, making judgement on the rating of public opinion and verifying the source of the information, the Bank would report the sources promptly according to its process, formulate a preliminary emergency plan and discuss with relevant departments to formulate a consummate plan, which would be submitted to the leadership group in charge of handling reputational event emergencies for decision-making. The leadership group would then consider the feasibility of the emergency plan and direct relevant units to implement it. Such implementation would be followed up till the resolution of such crisis, with conclusions, comments and recommendations for improvement to be provided. In addition, the Bank proactively utilized press communications and other publication platforms to promote its positive image and corporate values such as positive cases that reflected its continued fulfillment of social responsibilities. During the Reporting Period, the Bank had no significant reputational risk incidents, and the reputational risk was under control.

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. The Bank has established a concentration risk management system and process based on the scale and complexity of its business to effectively identify, measure, monitor and report concentration risks.

During the Reporting Period, the Bank conducted stress tests on concentration risks, to effectively identify and address potential risks; managed and controlled limits for concentration risks and ensured that concentration limits were followed effectively by formulating annual risk appetite, adjusting entry and exit criteria and implementing list-based management. During the Reporting Period, the indicators related to concentration risk management and large risk exposure management of the Bank all complied with regulatory requirements.

X. RISK MANAGEMENT (CONT'D)

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.

During the Reporting Period, firstly, the Bank sorted out and revised relevant rules and regulations and operating procedures in accordance with the new regulatory rules and business development to ensure the compliance of operation management and business development; secondly, the Bank organized activities such as the “Year of Developing Internal Control and Compliance Management”, the “Year of Improving Industry Standardization” and quarterly compliance inspection 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 illegal and criminal activities such as money laundering and terrorist financing in the process of business operation and management.

During the Reporting Period, the Bank mainly adopted the following measures to manage its money laundering risk: The Bank has established a sound anti-money laundering organizational system, earnestly implemented anti-money laundering regulatory policies and work requirements, continuously improved its 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 anti-money laundering publicity, inspection and 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.

10.13 Legal Risk

Legal risks include but are 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 applies for arbitration due to breach of contract, infringement or other reasons; the Bank may be legally liable for administrative liabilities or criminal liabilities if its business activities are in violation of laws or administrative regulations.

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 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

In 2020, China led the world in achieving significant strategic results in its pandemic prevention and control, fully showcasing the great advantages of the leadership of the CPC Central Committee with Comrade Xi Jinping at its core and the system of socialism with Chinese characteristics. Since this year, despite some new cases arising in certain areas, the robust epidemic prevention and control mechanism and effective measures have provided strong assurance for maintaining the order of production and life.

We are of the view that there has been no material adverse impact on our business operations, liquidity position, asset quality and maturity profile of our loan portfolio, and that our impairment losses have not experienced any significant increase due to the COVID-19 Pandemic, taking into account our branch network, strong technical capability to deliver convenient online financial products and services, sound customer portfolio, stable asset quality, and the better pandemic situation in Shandong Province and Tianjin.

XII. FUTURE PROSPECTS

12.1 Analysis of the Operating Situation in the Second Half of the Year

In the first half of 2021, the economy continued its steady recovery with an unimpeded supply and demand cycle. Such fundamentals have laid a solid foundation for economic operation in the second half of the year. During the second half of the year, in view of the factors affecting economic trends, China's economy will continue its recovery momentum, with growing economic momentum domestically. Overall, there has been a gradual increase in the factors supporting further economic recovery and improvement. The macro policies will maintain their continuity, stability and sustainability to strengthen the support for the real economy, with implementation of the policies that support small and micro enterprises and individual businesses and constant efforts to resolve enterprises' difficulties. This will inject vitality into the market and bring about stronger growth with the full release of the effects from policies.

In the second half of the year, Shandong Province will extend its momentum of being stable and progressive with quality enhancement, focus on significant tasks such as "making a breakthrough within five years" in replacing old economic drivers with new ones and achieving carbon neutrality, continuously foster sound industrial ecology and improve the stability of industrial chains and supply chains, and accelerate the construction of the high standard market systems, in order to maintain stable market expectations, improve business confidence, and create a good operating environment.

12.2 Major Work Measures for the Second Half of the Year

In the second half of the year, the Bank will adhere to its working principle of "Stability, Accuracy, and Transcendence", make progress with solid efforts and innovation, and realize "Three Determinations (三個堅定)" and "Three Persistence (三個堅持)".

"Three Determinations" refers to the determination to follow the Party and its leadership, respond to its call and implement its decisions; the determination to pursue the goals, including those for the "14th Five-Year Plan", the year 2021, reform and transformation, as well as talents; and determination to have confidence to achieve transcendence, compete with the market, learn from peers, find the gap, formulate measures, and strive to transcend ourselves, standards and values.

"Three Persistence" refers to the persistence on further provision enhancement, giving full play to the top design of the headquarters, enhancing the provision of spirit, belief, mindset, methodology, pace and leadership for branches and agencies, enhancing the provision of attitude, products, channels, platforms and pace for customers; the persistence on efforts to make further breakthrough in spirit and promote the "Six Major Spirits (六大精神)" of learning, dedication, innovation, fighting, speed, and seeking truth; and the persistence on the reform for pursuing further happiness, unswervingly accelerating the reform on digital transformation, and exploring the reform on talents breakthrough system and the management affair system, to achieve joyous growth of employees and virtuous development of the organization through reform.

CHAPTER 6 CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

As at the end of the Reporting Period, the total number of share capital of the Bank was 5,980,058,344 Shares, including 4,971,197,344 Domestic Shares and 1,008,861,000 H Shares, and the registered capital was RMB5,980,058,344 in total.

	December 31, 2020		Changes during the Reporting Period Number of Shares (Shares)	June 30, 2021	
	Number of Shares (Shares)	Percentage of total Shares (%)		Number of Shares (Shares)	Percentage of total Shares (%)
Domestic State Shares	919,671,509	15.38	–	919,671,509	15.38
Domestic state-owned legal person shares	3,162,241,152	52.88	–	3,162,241,152	52.88
Domestic social legal person shares	810,319,383	13.55	–	810,319,383	13.55
Domestic natural person shares	78,965,300	1.32	–	78,965,300	1.32
H Shares	1,008,861,000	16.87	–	1,008,861,000	16.87
Total number of Shares	5,980,058,344	100.00	–	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.	Social legal person shares	164,163,991	2.75	Normal	–
6	Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd.	Social legal person shares	83,157,762	1.39	Normal	–
7	Shandong Homey Aquatic Development Co., Ltd.	Social legal person shares	71,463,546	1.20	Normal	–
8	Shandong Tianxicheng Enterprise Management Co., Ltd. (formerly known as Wendeng City Senlu Tanning Co., Ltd.)	Social legal person shares	69,253,090	1.16	Normal	–
9	Weihai Xinghai Trading Co., Ltd.	Social legal person shares	60,054,251	1.00	Normal	–
10	Hongan Group Co., Ltd.	Social legal person shares	59,828,711	1.00	Normal	–

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

As at the end of the Reporting Period, based on the register maintained 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.	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.	H Shares	Beneficial owner	111,852,000	Long position	1.87	11.09
Shandong Lulong Construction Co., Ltd. ⁽²⁾	H Shares	Beneficial owner	71,003,000	Long position	1.19	7.04
YANG Shulan ⁽²⁾	H Shares	Interest in controlled corporation	71,003,000	Long position	1.19	7.04
Xindu Group Limited ⁽²⁾	H Shares	Interest in controlled corporation	71,003,000	Long position	1.19	7.04
CICFH New Dynamics Investment SPC ⁽³⁾	H Shares	Beneficial owner	70,559,000	Long position	1.18	6.99
Dragonstone Capital Management Limited ⁽³⁾	H Shares	Investment manager	70,559,000	Long position	1.18	6.99
GMK Holdings Group Co., Ltd. ⁽⁴⁾	H Shares	Beneficial owner	68,712,000	Long position	1.15	6.81
LIU Xuejing ⁽⁴⁾	H Shares	Interest in controlled corporation	68,712,000	Long position	1.15	6.81
ZHANG Xiuying ⁽⁴⁾	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. ⁽⁵⁾	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. ⁽⁵⁾	H Shares	Beneficial owner	67,040,000	Long position	1.12	6.65
Tianjin Jizhou Xincheng Construction Investment Co., Ltd. ⁽⁵⁾	H Shares	Interest in controlled corporation	67,040,000	Long position	1.12	6.65
Global Miles International Holdings Limited ⁽⁶⁾	H Shares	Beneficial owner	62,472,000	Long position	1.04	6.19
LIU Zhiming ⁽⁶⁾	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., a wholly-owned subsidiary of Shandong SASAC, and Shandong Provincial Council for Social Security Fund 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 Limited indirectly holds 71,003,000 H Shares through its subsidiary, Shandong Lulong Construction Co., Ltd. Ms. YANG Shulan holds 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) Dragonstone Capital Management Limited indirectly holds 70,559,000 H Shares through its subsidiary, CICFH New Dynamics Investment SPC. Accordingly, Dragonstone Capital Management Limited is deemed to be interested in 70,559,000 H Shares for the purpose of the SFO.
- (4) 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.
- (5) 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.
- (6) 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 required to be recorded in the register 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 but have a significant influence 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, influencing 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

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. is the controlling shareholder of CNHTC, with Shandong SASAC as de facto controller and no persons acting in concert. The ultimate beneficiary is CNHTC. (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 Report, the relevant parties are in the process of completing the relevant procedures including the change of business registration in accordance with the laws.)

For Weihai Tianan Real Estate Development Co., Ltd., Weihai Tianan Construction Group Co., Ltd. is the controlling shareholder, GAI Bo (蓋波) is the de facto controller, with no persons acting in concert. The ultimate beneficiary is GAI Bo.

For Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd., ZHOU Xinliang is the controlling shareholder and de facto controller, with no persons acting in concert. The ultimate beneficiary is ZHOU Xinliang.

For Shandong Homey Aquatic Development Co., Ltd., Homey Group Co., Ltd. is the controlling shareholder, TANG Chuanqin is the de facto controller, with no persons acting in concert. The ultimate beneficiary is TANG Chuanqin.

IV. NOMINATION OF DIRECTORS AND SUPERVISORS BY SHAREHOLDERS

1. Shandong Hi-Speed Group Company nominated Mr. TAN Xianguo, Mr. SONG Bin and Mr. YIN Lin as Directors of the Bank;
2. Weihai Municipal Finance Bureau nominated Mr. ZHAO Bing as a Director of the Bank;
3. Shandong Hi-Speed nominated Mr. YI Jijun as a Director of the Bank;
4. CNHTC nominated Ms. ZHAO Yue as a Director of the Bank;
5. Weihai Tianan Real Estate Development Co., Ltd. nominated Ms. ZHAO Lijie as a Supervisor of the Bank;
6. Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd. nominated Mr. ZHOU Hao as a Supervisor of the Bank;
7. 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, 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. CURRENT 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 re-election, 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
Ms. TAO Zunjian	51	Executive Director, Vice President and Chief Accountant	January 2019
Mr. LU Jiliang	31	Executive Director, Vice President and Secretary to the Board	August 2021
Mr. ZHANG Wenbin	38	Executive Director and Vice President	August 2021
Mr. SONG Bin	48	Non-executive Director	August 2021
Mr. YIN Lin	46	Non-executive Director	August 2021
Mr. ZHAO Bing	53	Non-executive Director	August 2021
Mr. YI Jijun	56	Non-executive Director	June 2015
Ms. ZHAO Yue	39	Non-executive Director	August 2021
Mr. SUN Guomao	60	Independent Non-executive Director	September 2017
Mr. FAN Chi Chiu	35	Independent Non-executive Director	June 2020
Mr. LU Qing	54	Independent Non-executive Director	July 2016 ⁽²⁾
Mr. WANG Shaohong	57	Independent Non-executive Director	August 2021
Ms. SUN Zuying	58	Independent Non-executive Director	August 2021

Notes:

- (1) The date of appointment as a Director stated herein refers to the date on which the relevant Director obtained the qualification approval from CBIRC Shandong Office.
- (2) As resolved by the 2020 Annual General Meeting of the Bank, Mr. ZHANG Hongdi was appointed as independent non-executive Director, yet he had not received the qualification approval from CBIRC Shandong Office. According to the Articles of Association and the resolutions of the shareholders' general meeting, an existing Director shall continue to perform his/her duties as a Director until the new appointed Director has received the qualification approval. Therefore, Mr. LU Qing remains an independent non-executive Director of the Bank.

I. CURRENT 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. ZHANG Renzhao	50	Chairman of the Board of Supervisors and Employees' Representative Supervisor	June 2021
Ms. ZHAO Lijie	47	Shareholders' Representative Supervisor	May 2011
Mr. ZHOU Hao	41	Shareholders' Representative Supervisor	May 2011
Mr. FENG Yongdong	56	Shareholders' Representative Supervisor	April 2015
Mr. WANG Xifeng	52	Employees' Representative Supervisor	June 2021
Mr. ZHANG Chuanzheng	53	Employees' Representative Supervisor	June 2021
Mr. WANG Yong	47	External Supervisor	June 2021
Mr. YANG Yunhong	50	External Supervisor	June 2021
Ms. ZHU Yingwei	48	External Supervisor	June 2021

Note: The date of appointment of Supervisors shall commence from the date of approval at the general meeting and the employees' representative meeting, and the 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 ⁽¹⁾
Mr. MENG Dongxiao	49	President	February 2018
Ms. TAO Zunjian	51	Vice President	August 2021
		Chief Accountant	November 2018
Mr. ZHANG Xiaodong	51	Chief Risk Officer	June 2021 ⁽²⁾
Mr. LU Jiliang	31	Vice President	February 2021
		Secretary to the Board	August 2021
Mr. ZHANG Wenbin	38	Vice President	August 2021

Notes:

- (1) The date of appointment stated herein refers to the date on which he/she was appointed to the current position in the senior management and obtained the qualification approval from CBIRC Shandong Office.
- (2) As resolved at the Board of the Bank, Mr. ZHANG Xiaodong was appointed the Bank's Chief Risk Officer and ceased to be the Vice President of the Bank. His senior management qualification had been approved by CBIRC Shandong Office when he served as the Vice President. The date of appointment stated herein refers to the date on which the Board appointed Mr. ZHANG Xiaodong as the Chief Risk Officer.

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 had the following changes.

2.1 Changes in Directors

On June 11, 2021, as resolved at the 2020 Annual General Meeting of the Bank, Mr. LU Jiliang and Mr. ZHANG Wenbin were appointed as executive Directors; Mr. SONG Bin, Mr. YIN Lin, Mr. ZHAO Bing and Ms. ZHAO Yue were appointed as non-executive Directors; Mr. ZHANG Hongdi, Mr. WANG Shaohong and Ms. SUN Zuying were appointed as independent non-executive Directors. On August 2, 2021, the Directors mentioned above (except Mr. ZHANG Hongdi) obtained qualification approval from CBIRC Shandong Office. For changes and biographical details, please refer to the circular dated May 11, 2021 and the announcements dated May 10, 2021, June 11, 2021 and August 4, 2021, respectively, of the Bank.

Former executive Directors Mr. ZHANG Renzhao and Mr. BI Qiubo, former non-executive Directors Mr. LI Hang, Mr. WANG Qixiang, Mr. WANG Song and Mr. SUN Chenglong, former independent non-executive Directors Mr. LIU Xue and Mr. ZHANG Guanghong retired/ceased to serve as Directors.

2.2 Changes in Supervisors

On April 30, 2021, as resolved at the second meeting of the fifth session of the employees' representative meeting of the Bank, Mr. ZHANG Renzhao, Mr. WANG Xifeng and Mr. ZHANG Chuanzheng were elected and appointed as employees' representative Supervisors; on June 11, 2021, as resolved at the 2020 Annual General Meeting of the Bank, Mr. WANG Yong, Mr. YANG Yunhong and Ms. ZHU Yingwei were appointed the external Supervisors. For changes and biographical details, please refer to the circular dated May 11, 2021 and the announcements dated May 10, 2021 and June 11, 2021, respectively, of the Bank.

Former external Supervisors Mr. TAN Degui, Ms. TENG Bo and Ms. LI Yuanfen ceased to serve as external Supervisors; and former employees' representative Supervisors Mr. DENG Wei, Mr. LIU Changjie and Ms. ZHANG Xuening ceased to serve as employees' representative Supervisors.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD (CONT'D)

2.3 Changes in Senior Management

On January 15, 2021, as resolved at the twenty-first meeting of the seventh session of the Board of the Bank, Mr. LU Jiliang was appointed the vice president of the Bank, and on February 8, 2021, Mr. LU Jiliang's position qualification as vice president was approved by CBIRC Shandong Office;

On February 20, 2021, Mr. LIU He ceased to serve as the chief audit officer of the Bank due to his age;

On June 11, 2021, Mr. ZHANG Renzhao served as the chairman of the board of Supervisors of the Bank and ceased to serve as vice president of the Bank due to work adjustments;

On June 11, 2021, Mr. BI Qiubo ceased to serve as the secretary to the Board of the Bank due to his age;

On June 11, 2021, as resolved at the first meeting of the eighth session of the Board of the Bank, Mr. ZHANG Xiaodong was appointed the Chief Risk Officer of the Bank and ceased to be the vice president of the Bank. For his biographical details, please refer to the 2020 Annual Report of Weihai City Commercial Bank Co., Ltd. released by the Bank on April 28, 2021.

On June 11, 2021, as resolved at the first meeting of the eighth session of the Board of the Bank, Ms. TAO Zunjian was appointed as the Bank's vice president and chief accountant; Mr. LU Jiliang was appointed as the Bank's vice president and secretary to the Board; Mr. ZHANG Wenbin was appointed as the Bank's vice president. On August 2, 2021, the position qualifications of Ms. TAO Zunjian as vice president, Mr. LU Jiliang as the secretary to the Board, and Mr. ZHANG Wenbin as vice president were approved by CBIRC Shandong Office.

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

III. CHANGES IN JOINT COMPANY SECRETARIES

On June 11, 2021, Mr. BI Qiubo, the former joint company secretary of the Bank, ceased to serve as the joint company secretary of the Bank due to his age. On June 11, 2021, at the first meeting of the eighth session of the Board of the Bank, Mr. LU Jiliang and Ms. TAM Pak Yu, Vivien, the current company secretary of the Bank, were appointed as joint company secretaries of the Bank. The term of office will begin on June 11, 2021. For details, please refer to the announcement dated June 11, 2021 of the Bank.

IV. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK 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 ⁽⁴⁾ (%)	Percentage of total class shares ⁽⁴⁾ (%)	Long position/ short position
Mr. TAN Xianguo	Domestic Shares	Beneficial owner	491,426	0.0082	0.0099	Long position
Mr. BI Qiubo ⁽¹⁾	Domestic Shares	Beneficial owner	498,985	0.0083	0.0100	Long position
Ms. TAO Zunjian	Domestic Shares	Beneficial owner	143,804	0.0024	0.0029	Long position
Mr. ZHANG Wenbin ⁽²⁾	Domestic Shares	Beneficial owner	70,266	0.0012	0.0014	Long position
Ms. SUN Zuying ⁽²⁾	Domestic Shares	Beneficial owner	21,756	0.0004	0.0004	Long position
Mr. ZHANG Renzhao ⁽³⁾	Domestic Shares	Beneficial owner	495,656	0.0083	0.0100	Long position
Mr. WANG Xifeng	Domestic Shares	Interest of spouse	113,752	0.0019	0.0023	Long position
Mr. ZHANG Chuanzheng	Domestic Shares	Beneficial owner	295,011	0.0049	0.0059	Long position
		Beneficial owner	424,847	0.0071	0.0085	Long position

IV. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK OR ITS ASSOCIATED CORPORATIONS (CONT'D)

Notes:

- (1) Mr. BI Qiubo retired as executive Director on August 2, 2021.
- (2) Mr. ZHANG Wenbin and Ms. SUN Zuying were respectively approved as executive Director and independent non-executive Director of the Bank on August 2, 2021.
- (3) 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).
- (4) 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.

V. 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.

VI. STAFF AND HUMAN RESOURCE MANAGEMENT

6.1 Number of employees

As at the end of the Reporting Period, the total number of our regular employees reached 2,961, of which 26.4% were employees aged 30 or below, and 93.4% 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.

6.2 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 relevant regulatory requirements, the Bank delayed the payment of performance-based remuneration and compensation pay-back system for personnel with significant risk impact.

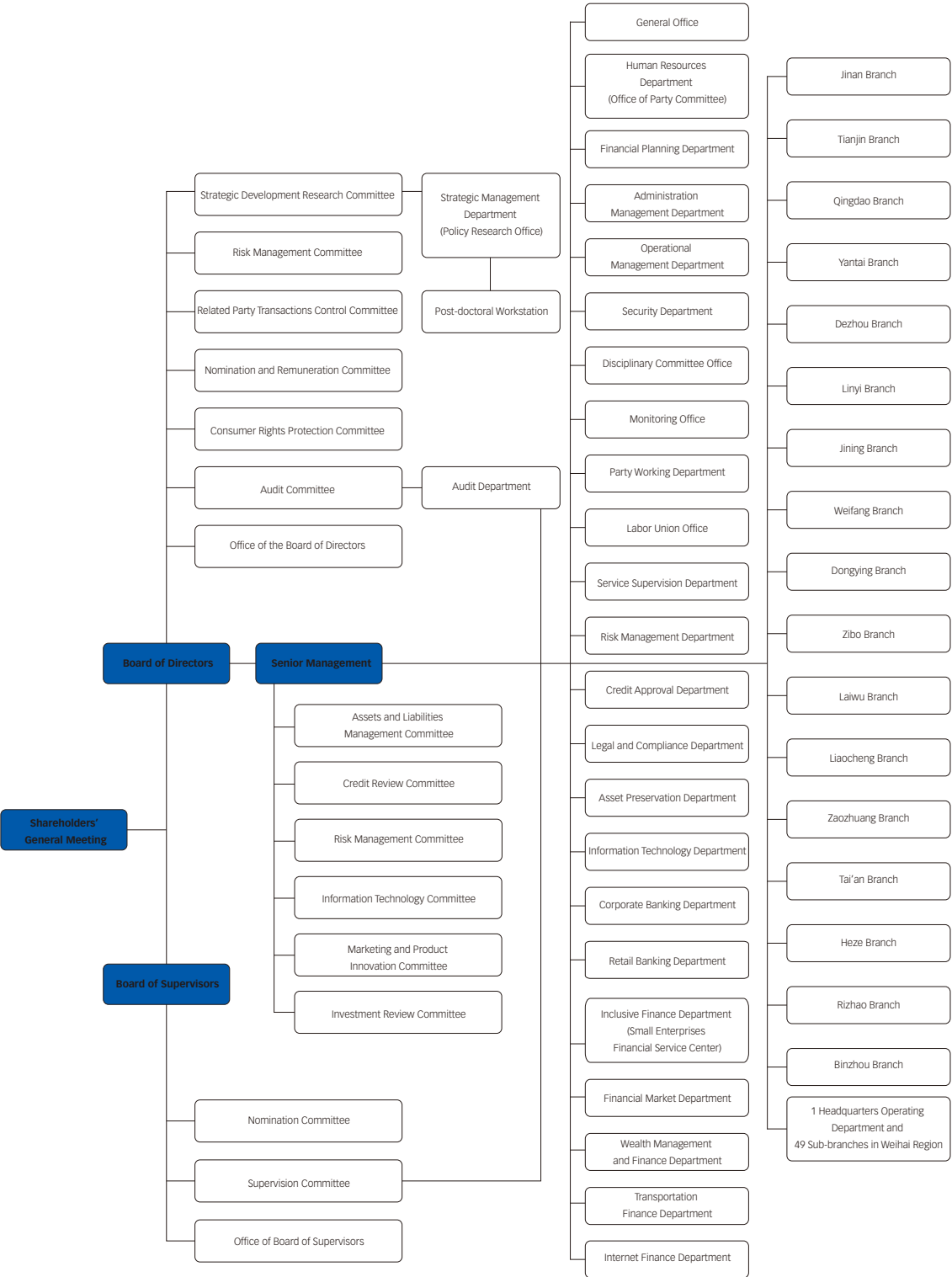
6.3 Training scheme

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 2021, following the Bank's development strategies 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 hired cadres and branch leaders, examination on systems, as well as trainings for new college students and internal trainers, to improve the overall competitiveness of the team and provide talent guarantee for the rapid development of the Bank through trainings in respect of different professions, categories and levels.

6.4 Share incentive plans

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

VII. ORGANIZATIONAL STRUCTURE CHART



CHAPTER 8 CORPORATE GOVERNANCE

I. GENERAL INFORMATION ON CORPORATE GOVERNANCE

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 compositions 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. During the Reporting Period, 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.

II. SHAREHOLDERS' GENERAL MEETING

The main duties of the general meeting include deciding on the Bank's business strategies and material investment plans, electing and replacing directors and non-employee supervisors, deciding on their remuneration, considering and approving annual financial budget proposals, financial final accounts, profit distribution proposals, and loss recovery proposals, and resolutions on the merger, demerger, dissolution and liquidation of the Bank or change of form of the Company, and amending the Articles of Association, etc. During the Reporting Period, the Bank held one annual general meeting, details of which are set out below:

On June 11, 2021, the Bank held the 2020 annual general meeting in Weihai City, with a total of 29 Shareholders and representatives of the Shareholders, representing 4,824,573,678 voting shares in aggregate and 80.68% of total share capital, attended and voted at the meeting. 17 resolutions were considered and approved, including the 2020 Final Accounts Report, the 2021 draft Financial Budget, the 2020 Profit Distribution Plan, and the resolutions on the re-election and appointment of the Eighth Session of Directors/Supervisors, 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.

III. MEETINGS OF THE BOARD AND ITS SPECIAL COMMITTEES

The main duties of the Board include convening general meetings, reporting to the general meetings and executing the resolutions of the general meetings, deciding on the Bank's development strategies, business plans and investment plans, formulating annual financial budget proposals, financial final accounts, profit distribution proposals and loss recovery proposals, formulating proposals for the merger, demerger, dissolution and change of form of the Company, formulating amendments to the Articles of Association and formulating the fundamental management system of the Bank. During the Reporting Period, the Board held 5 meetings, at which 55 resolutions were considered and approved. The special committees under the Board held 14 meetings in total, including 3 meetings convened by the Audit Committee, 2 meetings convened by the Strategic Development Research Committee, 4 meetings convened by the Nomination and Remuneration Committee, 2 meetings convened by the Risk Management Committee, 1 meeting convened by the Consumer Rights Protection Committee, and 2 meetings convened by the Related Party Transactions Control Committee.

IV. MEETINGS OF THE BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES

The main responsibilities of the Board of Supervisors include overseeing the financial operations of the Bank as well as the performance of the Board and senior management. The Board of Supervisors conducts special investigations and attends important meetings in specific areas to understand the Bank's operations and management and to provide supervisory advice. During the Reporting Period, the Board of Supervisors held three meetings, at which 47 resolutions were considered and approved. The special committees under the Board of Supervisors held four meetings, including two meetings convened by the Nomination Committee under the Board of Supervisors, and two meetings convened by the Supervision Committee under the Board of Supervisors.

V. PERFORMANCE OF DUTIES OF INDEPENDENT DIRECTORS

During the Reporting Period, the independent non-executive Directors discharged their statutory duties by attending meetings of the Board and the special committees in good faith and offering objective and independent advices to protect the interests of the Bank and its shareholders as a whole.

VI. PERFORMANCE OF DUTIES OF EXTERNAL SUPERVISORS

During the Reporting Period, the external Supervisors performed their supervisory duties independently, actively attended the meetings of the Board of Supervisors and relevant committees, participated in the Board meetings and shareholders' meetings, and expressed objective and impartial independent opinions on matters discussed at the shareholders' general meeting, the meetings of the Board and the Board of Supervisors of the Bank.

VII. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

To reflect the changes in the total issued share capital of the Bank after the completion of the Global Offering and the partial exercise of Over-allotment Option, the Bank made amendments to the relevant terms in relation to the registered capital and the structure of share capital of the Bank in the Articles of Association pursuant to the authorization granted by the Shareholder's general meeting held on February 29, 2020 and further authorization granted by the Board.

The above amendments have been approved by the CBIRC Shandong Office on June 11, 2021 with effect from the same date. For details of the amendments, investors may refer to the announcement of the Bank dated June 15, 2021 on the websites of the Bank (www.whccb.com/) and the Hong Kong Stock Exchange (www.hkexnews.hk).

VIII. IMPLEMENTATION OF DIVIDEND DISTRIBUTIONS

In accordance with the 2020 annual general meeting of the Bank convened on June 11, 2021, the Bank distributed 2020 dividends in cash amounted to RMB598 million (tax inclusive), distributing 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 final dividend was distributed to the Shareholders on July 2, 2021.

The Bank does not declare the 2021 interim dividend.

IX. EXTERNAL AUDITOR

Pursuant to the 2020 annual general meeting of the Bank convened on June 11, 2021, BDO China Shu Lun Pan Certified Public Accountants LLP and BDO Limited were approved to be re-appointed as our domestic and international auditors for 2021, respectively, with the term of office until the next annual general meeting of the Bank.

X. RISK MANAGEMENT AND INTERNAL CONTROL

10.1 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 operation with a strong check-and-balance.

The Bank has established comprehensive risk management policies, procedures and risk limit management systems. We have established a sound risk management policy covering credit risk, market risk, operational risk, liquidity risk, strategic risk, information technology risk and reputational risk, etc, and 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 control, 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 substantial impact on the Bank's operations, 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 under control.

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, kept promoting the application of big data risk control technology in post-loan management, introduced early warning risk system. It broke the isolation of individual information systems by building an early warning risk model and conducting in-depth exploration on data of the Bank and other banks 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.

X. RISK MANAGEMENT AND INTERNAL CONTROL (CONT'D)

10.2 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 five 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 revised and improved relevant management systems as and when appropriate according to the needs of the Bank’s operation and management. It 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 15 new systems were added, 375 systems were revised and improved, and 3 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 Year of Constructing Internal Control Compliance Management (內控合規管理建設年), Year of Improving Industry Standardization Construction (行業規範建設提升年) and quarterly compliance inspection. It enhanced the knowledge tests on case prevention with at least two closed-book knowledge tests on case prevention and compliance each month to replace trainings, which strengthened the awareness of employees on case prevention and compliance, 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”.

The Bank considers internal audit essential to the sustainable development of our business operations. 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 headquarters and branch level. 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’s Audit Department carried the annual audit plans strictly, conducted both on-site inspections and off-site monitoring during routine audits on the Bank’s operational and management activities, and conducted 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 during audits, the Audit Department gave timely audit advises to the relevant operation units and departments of the headquarters and supervised rectification.

X. RISK MANAGEMENT AND INTERNAL CONTROL (CONT'D)

10.2 Internal Control (cont'd)

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. (《威海市商業銀行股份有限公司信息披露管理制度》) and Administrative Measures for Inside Information of Weihai City Commercial Bank (《威海市商業銀行內幕消息管理辦法》) in accordance with the laws, regulations and regulatory documents of mainland China 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 of the stock exchanges where the stocks of the Bank are listed when there are “inside information” 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 of the stock exchanges where the stocks of the Bank are listed, unless exempted under the relevant laws and regulations and the rules governing the listing of securities of the stock exchanges where the stocks of the Bank are 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 Report.

CHAPTER 9 IMPORTANT EVENTS

USE OF PROCEEDS RAISED

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 million and net proceeds amounting to HKD3,277 million. The proceeds raised from this offering were used in accordance with the intended purposes as disclosed in the prospectus of the Bank. All of the proceeds were used to replenish the core tier-one capital to meet the needs of continuous business development.

ISSUE OF BONDS

During the Reporting Period, no bonds were issued by the Bank. Details of the bonds that were not issued during the Reporting Period are set out in note 29 to the financial statements in this Report.

MATERIAL LITIGATION OR ARBITRATION

As of the end of the Reporting Period, the Bank was the plaintiff in 20 outstanding litigations with a principal balance of over RMB30 million, involving an amount of RMB1,247 million. The Bank was not the defendant in any outstanding litigations or arbitrations with an amount subject to the disputes 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 report, the Bank had no other material litigation, arbitration and major case.

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, 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 specific details of the undertakings fulfilled by the Bank, its Shareholders, related parties and other parties are set out in "Chapter 11 Important Events – Fulfillment of Undertakings" in 2020 Annual Report of the Bank, and there were no other undertakings that were fulfilled during the Reporting Period and not yet fulfilled as at the end of the Reporting Period.

Chapter 9 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 balance of letters of guarantee and letters of credit of the Bank amounted to RMB757 million and RMB5,882 million, respectively. The guarantee business is carried out 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 acquisitions and disposal of assets nor mergers within the Bank.

MATERIAL RELATED PARTY 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 more favorable commercial terms 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 more favorable commercial terms to us), which are expected to constitute de minimis transactions under Chapter 14A of the Listing Rules. The transactions contemplated under 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.

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.

Chapter 9 Important Events

MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

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.

CONSUMER RIGHTS PROTECTION

The Bank attaches great importance to and actively promotes the protection of consumer rights and interests, strictly implements national laws and regulations on consumer rights and interests, protects the rights and interests of financial consumers in accordance with laws and regulations, and continuously enhances the sense of well-being, security and possession of financial consumers. During the Reporting Period, the Bank improved the system, strengthened the review of pre-sales consumer protection, protected the legitimate rights and interests of consumers from the source, 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. The Bank strengthened the management of customer complaints, improved the customer information confidentiality system to improve service quality, 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 and disclosed the 2020 Environmental, Social and Governance Report. 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"), "Campaign to Spread Financial Knowledge" ("金融知識金融萬里行") and "Keep Your Money Safe" ("守住「錢袋子」"), which effectively enhanced the awareness of financial protection of consumers. 3. According to the report of Shandong Provincial Banking Association, in respect of the followers of the platform "Luzhongxiaobao" ("魯眾小保") in the first quarter, the Bank ranked second among 63 institutions in Shandong province in terms of institutional promotion, and first among 16 city commercial banks. 4. 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. 5. Regular trainings on consumer rights protection were conducted and the consumer rights protection knowledge competitions were organized and attended to keep abreast of the new trend, new dynamics and new requirements of rights protection of the financial consumers.

SUFFICIENCY OF PUBLIC FLOAT

As of the date of this 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.

EVENTS AFTER THE REPORTING PERIOD

As at the date of this Report, the Bank had no significant events after the Reporting Period.

REVIEW REPORT ON INTERIM FINANCIAL INFORMATION



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永安中心25樓

TO THE BOARD OF DIRECTORS OF WEIHAI CITY COMMERCIAL BANK CO., LTD.

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 86 to 171, which comprises the condensed consolidated statement of financial position of Weihai City Commercial Bank Co., Ltd. (the “**Bank**”) and its subsidiary (together the “**Group**”) as at June 30, 2021, and the related condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”), issued by the International Accounting Standard Board. The directors are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on the interim financial information based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Review Report on Interim Financial Information

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that interim financial information is not prepared, in all material respects, in accordance with IAS 34.

BDO Limited

Certified Public Accountants

Chan Wing Fai

Practising Certificate no. P05443

Hong Kong, August 27, 2021

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	Six months ended June 30,	
		2021	2020
Interest income		6,346,542	5,157,551
Interest expense		(3,427,554)	(3,186,858)
Net interest income	4	2,918,988	1,970,693
Fee and commission income		378,293	286,781
Fee and commission expense		(31,971)	(27,934)
Net fee and commission income	5	346,322	258,847
Net trading losses	6	(26,688)	(98,532)
Net gains arising from investment securities	7	388,461	888,575
Other operating income	8	10,765	6,108
Operating income		3,637,848	3,025,691
Operating expenses	9	(750,645)	(685,984)
Impairment losses on assets	10	(1,723,047)	(1,250,045)
Profit before tax		1,164,156	1,089,662
Income tax expense	11	(202,334)	(207,435)
Net profit for the period		961,822	882,227
Net profit for the period attributable to:			
Equity shareholders of the Bank		882,858	814,316
Non-controlling interests		78,964	67,911
		961,822	882,227

Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	Six months ended June 30,	
		2021	2020
Other comprehensive income for the period:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Financial assets at fair value through other comprehensive income:			
– net movement in the fair value reserve, net of tax	32(d)	74,649	(167,734)
– net movement in the impairment reserve, net of tax	32(e)	4,654	7,498
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Financial assets at fair value through other comprehensive income:			
– net movement in the fair value reserve, net of tax	32(d)	(53,642)	(5,237)
Other comprehensive income for the period, net of tax		25,661	(165,473)
Total comprehensive income for the period		987,483	716,754
Total comprehensive income for the period attributable to:			
Equity shareholders of the Bank		908,519	648,843
Non-controlling interests		78,964	67,911
		987,483	716,754
Basic and diluted earnings per share (in RMB)	12	0.15	0.16

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at June 30, 2021	As at December 31, 2020
Assets			
Cash and deposits with the central bank	13	20,847,347	23,500,280
Deposits with banks and other financial institutions	14	3,248,384	4,875,347
Placements with banks	15	1,420,607	241,446
Financial assets held under resale agreements	16	635,473	605,131
Loans and advances to customers	17	136,673,622	117,749,061
Financial investments:	18		
Financial investments measured at fair value through profit or loss		14,058,538	14,896,962
Financial investments measured at fair value through other comprehensive income		22,235,835	18,272,189
Financial investments measured at amortised cost		68,001,810	68,052,213
Property and equipment	20	990,605	702,157
Right-of-use assets	21	415,652	453,977
Deferred tax assets	22	1,348,290	1,372,687
Other assets	23	18,502,224	16,880,198
Total assets		288,378,387	267,601,648
Liabilities and Equity			
Liabilities			
Borrowings from the central bank		9,482,010	7,240,711
Deposits from banks	25	2,988,184	3,085,763
Placements from banks and other financial Institutions	26	16,416,705	15,234,638
Financial assets sold under repurchase agreements	27	10,768,431	6,545,672
Deposits from customers	28	193,413,409	179,588,530
Income tax payable		70,568	345,375
Debt securities issued	29	30,301,459	30,872,662
Lease liabilities		397,467	423,602
Deferred tax liabilities	22	3,326	309
Other liabilities	30	2,473,605	2,590,643
Total liabilities		266,315,164	245,927,905

Unaudited Condensed Consolidated Statement of Financial Position

As at June 30, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Notes</i>	As at June 30, 2021	As at December 31, 2020
Equity			
Share capital	31	5,980,058	5,980,058
Capital reserve	32(a)	4,947,553	4,947,553
Surplus reserve	32(b)	1,225,715	1,225,715
General reserve	32(c)	2,648,092	2,293,035
Fair value reserve	32(d)	(204,637)	(225,644)
Impairment reserve	32(e)	16,076	11,422
Retained earnings	33	3,603,647	3,673,849
<hr/>			
Total equity attributable to equity shareholders of the Bank		18,216,504	17,905,988
Perpetual bonds	32(f)	2,999,675	2,999,675
Non-controlling interests		847,044	768,080
<hr/>			
Total equity		22,063,223	21,673,743
<hr/>			
Total liabilities and equity		288,378,387	267,601,648

Approved and authorised for issue by the board of directors on 27 August 2021 and signed on its behalf by

Tan Xianguo
Chairman

Meng Dongxiao
President

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

Notes	Attributable to equity shareholders of the Bank								Perpetual bonds	Non-controlling interests	Total
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment Reserve	Retained earnings	Subtotal			
Balance at January 1, 2021	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
Changes in equity for the period:											
Net profit for the period	-	-	-	-	-	-	882,858	882,858	-	78,964	961,822
Other comprehensive income	-	-	-	-	21,007	4,654	-	25,661	-	-	25,661
Total comprehensive income	-	-	-	-	21,007	4,654	882,858	908,519	-	78,964	987,483
Appropriation of profit											
- Appropriation to general reserve 32(c)	-	-	-	355,057	-	-	(355,057)	-	-	-	-
- Appropriation to shareholders 33	-	-	-	-	-	-	(598,003)	(598,003)	-	-	(598,003)
Balance at June 30, 2021	5,980,058	4,947,553	1,225,715	2,648,092	(204,637)	16,076	3,603,647	18,216,504	2,999,675	847,044	22,063,223

Notes	Attributable to equity shareholders of the Bank								Perpetual bonds	Non-controlling interests	Total
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Retained earnings	Subtotal			
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 period:											
Net profit for the period	-	-	-	-	-	-	814,316	814,316	-	67,911	882,227
Other comprehensive income	-	-	-	-	(172,971)	7,498	-	(165,473)	-	-	(165,473)
Total comprehensive income	-	-	-	-	(172,971)	7,498	814,316	648,843	-	67,911	716,754
Capital contribution by non-controlling interests	-	(7,642)	-	-	-	-	-	(7,642)	-	139,942	132,300
Appropriation of profit											
- Appropriation to general reserve 32(c)	-	-	-	213,803	-	-	(213,803)	-	-	-	-
- Appropriation to non-controlling interests	-	-	-	-	-	-	-	-	-	(35,000)	(35,000)
- Appropriation to shareholders 33	-	-	-	-	-	-	(497,121)	(497,121)	-	-	(497,121)
Balance at June 30, 2020	4,971,197	3,112,322	1,089,080	2,293,035	(202,802)	16,653	3,263,974	14,543,459	2,999,675	697,297	18,240,431

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	Six months ended June 30,	
		2021	2020
Cash flows from operating activities			
Profit before income tax		1,164,156	1,089,662
<i>Adjustments for:</i>			
Impairment losses on assets	10	1,723,047	1,250,045
Depreciation and amortisation	9	103,153	101,549
Unrealised foreign exchange loss/(gains)	6	18,742	(17,977)
Net losses on disposal of property and equipment	8	32	111
Net trading losses	6	7,946	116,509
Net gains on disposal of investment securities	7	(388,461)	(888,575)
Interest expenses on debt securities issued	4	524,876	533,969
Interest expenses on lease liabilities	9	9,432	10,925
Interest income from financial investments	4	(1,955,858)	(1,695,260)
		1,207,065	500,958
<i>Changes in operating assets</i>			
Net increase in deposits with the central bank		(909,701)	(319,507)
Net increase in loans and advances to customers		(19,346,523)	(16,121,910)
Net increase in finance lease receivables		(1,613,493)	(2,815,294)
Net (increase)/decrease in other operating assets		(102,770)	5,339,442
		(21,972,487)	(13,917,269)
<i>Changes in operating liabilities</i>			
Net increase in borrowings from the central bank		2,240,887	2,602,672
Net decrease in deposits from banks		(96,776)	(1,747,199)
Net increase in placements from banks and other financial institutions		1,184,021	3,142,065
Net increase in financial assets sold under repurchase agreements		4,220,914	331,253
Net increase in deposits from customers		13,698,985	25,089,912
Income tax paid		(458,281)	(556,694)
Net increase/(decrease) in other operating liabilities		320,167	(2,312,143)
		21,109,917	26,549,866
Net cash flows generated from operating activities		344,495	13,133,555

Unaudited Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,		
	Notes	2021	2020
Cash flows from investing activities			
Proceeds from disposal and redemption of financial investments		62,972,653	305,204,491
Return on investments		2,344,319	2,539,406
Payments on acquisition of financial investments		(70,194,832)	(323,139,927)
Payments on acquisition of property and equipment, intangible assets and other assets		(26,920)	(19,636)
Proceeds from disposal of property and equipment and other assets		21	6,792
Net cash flows used in investing activities		(4,904,759)	(15,408,874)
Cash flows from financing activities			
Proceeds from capital contribution by non-controlling shareholders		–	132,300
Proceeds from issuance of debt securities		24,191,226	15,880,620
Repayment of debt securities issued		(24,790,000)	(14,980,000)
Interest paid on debt securities issued		(497,304)	(461,184)
Capital element of lease liabilities paid		(53,676)	(39,189)
Interest element of lease liabilities paid		(9,432)	(10,925)
Dividends paid		(103,361)	(532,120)
Net cash flows used in financing activities		(1,262,547)	(10,498)
Effect of foreign exchange rate changes on cash and cash equivalents		(3,383)	990
Net decrease in cash and cash equivalents		(5,826,194)	(2,284,827)
Cash and cash equivalents as at January 1		27,895,102	35,241,608
Cash and cash equivalents as at June 30		22,068,908	32,956,781
Interest received		6,989,976	6,505,050
Interest paid (excluding interest expense on debt securities issued)		(2,607,675)	(2,419,929)

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

1. GENERAL INFORMATION

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 June 30, 2021, 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. The Bank is regulated by the CBIRC authorized by the State Council.

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. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“**IAS**”) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (“**IASB**”). These interim condensed consolidated financial statements were authorised for issue on August 27, 2021.

These interim condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2020 annual consolidated financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial report. Details of any changes in accounting policies are set out in Note 3.

The preparation of these interim condensed consolidated financial statements in compliance with IAS 34 requires use of certain judgements, estimates and assumptions made by management that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense on a year to date basis. Actual results may differ from these estimates. There have been no material revisions to the nature and amount of changes in estimates of amounts reported in prior periods.

These interim condensed consolidated financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated. These interim condensed consolidated financial statements and notes thereon do not include all the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (the “**IFRSs**”) and should be read in conjunction with the 2020 annual consolidated financial statements.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

2. BASIS OF PREPARATION (CONT'D)

These interim condensed consolidated financial statements are unaudited, but has been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, Review of Financial Information Performed by the Independent Auditor of the Entity, issued by the Hong Kong Institute of Certified Public Accountants. BDO Limited's independent review report to the Board of Directors is included on pages 84 to 85.

The financial information relating to the financial year ended December 31, 2020 that is included in these interim condensed consolidated financial statements as comparative information does not constitute the Bank's statutory annual consolidated financial statements for that financial year but is derived from those consolidated financial statements.

3. NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

Except as described below accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in preparation of the 2020 annual consolidated financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The adoption of the amendments to IFRs above does not have a material impact on the interim condensed consolidated financial statements of the Group.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

4. NET INTEREST INCOME

	Six months ended June 30,	
	2021	2020
Interest income arising from		
Deposits with the central bank	134,119	117,428
Deposits with banks and other financial institutions	1,498	1,081
Placements with banks	38,488	32,034
Loans and advances to customers		
– Corporate loans and advances	2,442,448	1,906,634
– Personal loans and advances	1,041,580	706,984
– Discounted bills	137,543	171,054
Financial assets held under resale agreements	17,711	25,403
Financial investments	1,955,858	1,695,260
Finance leases	577,297	501,673
Sub-total	6,346,542	5,157,551
Interest expense arising from		
Borrowing from the central bank	(89,838)	(73,455)
Deposits from banks	(45,990)	(60,792)
Placements from banks and other financial institutions	(335,180)	(272,680)
Deposits from customers	(2,351,167)	(2,182,972)
Financial assets sold under repurchase agreements	(69,250)	(49,440)
Debt securities issued	(524,876)	(533,969)
Discounted bills	(11,253)	(13,550)
Sub-total	(3,427,554)	(3,186,858)
Net interest income	2,918,988	1,970,693

Total interest income arising from financial assets that are not at fair value through profit or loss (“FVTPL”) for the six months ended June 30, 2021 amounted to RMB6,347 million (six months ended June 30, 2020: RMB5,158 million).

Total interest expense arising from financial liabilities that are not at FVTPL for the six months ended June 30, 2021 amounted to RMB3,428 million (six months ended June 30, 2020: RMB3,187 million).

Interest income arising from impaired loan for the six months ended June 30, 2021 amounted to RMB25 million (six months ended June 30, 2020: RMB21 million).

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

5. NET FEE AND COMMISSION INCOME

(a) Income and expense streams:

	Six months ended June 30,	
	2021	2020
Fee and commission income		
Acceptance and guarantee services fees	32,069	22,158
Agency services fees	129,009	97,367
Bank card services fees	16,660	17,068
Consultancy services fees	111,224	49,511
Finance leases services fees	38,562	45,526
Settlement and clearing fees	40,553	43,927
Others	10,216	11,224
Sub-total	378,293	286,781
Fee and commission expense		
Bank card services fees	(8,306)	(7,182)
Settlement and clearing fees	(20,428)	(15,665)
Others	(3,237)	(5,087)
Sub-total	(31,971)	(27,934)
Net fee and commission income	346,322	258,847

(b) Disaggregation of income:

	Six months ended June 30,			
	2021		2020	
	At a point in time	Over time	At a point in time	Over time
Acceptance and guarantee services fees	–	32,069	–	22,158
Agency services fees	–	129,009	–	97,367
Bank card services fees	16,660	–	17,068	–
Consultancy services fees	–	111,224	–	49,511
Finance leases services fees	–	38,562	–	45,526
Settlement and clearing fees	40,553	–	43,927	–
Others	10,216	–	11,224	–
Total	67,429	310,864	72,219	214,562

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

6. NET TRADING LOSSES

	Six months ended June 30,	
	2021	2020
Net gains/(losses) from debt securities	5,525	(119,110)
Net (losses)/gains from funds	(6,055)	7,420
Net losses from investment management products	(11,561)	(5,737)
Net gains from derivatives	4,145	918
Exchange (losses)/gains	(18,742)	17,977
Total	(26,688)	(98,532)

7. NET GAINS ARISING FROM INVESTMENT SECURITIES

	Six months ended June 30,	
	2021	2020
Net gains of financial investments at fair value through profit or loss	335,095	693,333
Net gains of financial investments at fair value through other comprehensive income	21,113	150,814
Net gains of financial investments at amortised costs	31,282	–
Net gains of investment on derivatives	971	44,428
Total	388,461	888,575

8. OTHER OPERATING INCOME

Other operating income streams:

	Six months ended June 30,	
	2021	2020
Penalty income	187	555
Rental income	346	1,001
Government grants	10,226	483
Net losses on disposal of property, plant and equipment	(32)	(111)
Others	38	4,180
Total	10,765	6,108

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

9. OPERATING EXPENSES

	Note	Six months ended June 30,	
		2021	2020
Staff costs			
– Salaries, bonuses and allowances		304,765	319,186
– Social insurance		42,690	19,010
– Housing allowances		20,404	19,261
– Staff welfares		2,442	1,630
– Employee education expenses and labour union expenses		10,659	11,216
– Supplementary retirement benefits	(a)	11,342	10,467
Sub-total		392,302	380,770
Rental and property management expenses		7,754	6,136
Depreciation and amortisation		46,720	46,261
Depreciation charge for the right-of-use assets		56,433	55,288
Interest expense on lease liabilities		9,432	10,925
Taxes and surcharges		40,783	29,103
Office expenses		149,678	117,343
Other general and administrative expenses		47,543	40,158
Total		750,645	685,984

Note:

(a) There were no forfeited contributions utilised by the Group to reduce existing level of contributions for each of the reporting period.

10. IMPAIRMENT LOSSES ON ASSETS

	Six months ended June 30,	
	2021	2020
Financial assets held under resale agreements	20	(2,639)
Loans and advances to customers	1,460,546	889,731
Financial investments	124,688	248,934
Finance lease receivables	104,956	63,024
Credit commitments	5,002	9,599
Deposits with banks and other financial institutions	401	–
Placements with banks	1,119	10
Others	26,315	41,386
Total	1,723,047	1,250,045

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

11. INCOME TAX EXPENSE

(a) Income tax expense:

	Note	Six months ended June 30,	
		2021	2020
Current tax		183,474	450,727
Deferred tax	22	18,860	(243,292)
Total		202,334	207,435

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

	Note	Six months ended June 30,	
		2021	2020
Profit before tax		1,164,156	1,089,662
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		291,039	272,416
Non-deductible expenses		20	8,608
Non-taxable income	(i)	(88,725)	(73,589)
Income tax expense		202,334	207,435

(i) The non-taxable income mainly represents the interest income arising from the People's Republic of China ("PRC") government bonds.

12. BASIC AND DILUTED EARNINGS PER SHARE

	Note	Six months ended June 30,	
		2021	2020
Net profit attributable to equity shareholders of the Bank		882,858	814,316
Weighted average number of ordinary shares (in thousands)	(a)	5,980,058	4,971,197
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.15	0.16

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the reporting period.

(a) Weighted average number of ordinary shares (in thousands)

	Six months ended June 30,	
	2021	2020
Weighted average number of ordinary shares at beginning and end of the period	5,980,058	4,971,197

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13. CASH AND DEPOSITS WITH THE CENTRAL BANK

	Notes	June 30, 2021	December 31, 2020
Cash on hand		213,130	218,265
Deposits with the central bank			
– Statutory deposit reserves	(a)	16,271,489	15,419,165
– Surplus deposit reserves	(b)	4,260,175	7,817,674
– Fiscal deposits		102,553	45,176
Sub-total		20,634,217	23,282,015
Total		20,847,347	23,500,280

- (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:

	June 30, 2021	December 31, 2020
Reserve ratio for RMB deposits	9.0%	9.0%
Reserve ratio for foreign currency deposits	7.0%	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.

14. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	June 30, 2021	December 31, 2020
Deposits in mainland China		
– Banks	2,726,188	3,110,834
– Other financial institution	–	7
Sub-total	2,726,188	3,110,841
Deposits outside mainland China		
– Banks	522,549	1,764,437
Sub-total	522,549	1,764,437
Interests accrued	48	69
Less: Provision for impairment losses	(401)	–
Total	3,248,384	4,875,347

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15. PLACEMENTS WITH BANKS

Analysed by type and location of counterparty

	June 30, 2021	December 31, 2020
Placements in mainland China – Banks	1,421,222	241,421
Sub-total	1,421,222	241,421
Interests accrued	505	26
Less: Provision for impairment losses	(1,120)	(1)
Total	1,420,607	241,446

16. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	June 30, 2021	December 31, 2020
In mainland China – Banks	635,335	605,050
Sub-total	635,335	605,050
Interests accrued	556	479
Less: Provision for impairment losses	(418)	(398)
Total	635,473	605,131

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16. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (CONT'D)

(b) Analysed by type of collateral held

	June 30, 2021	December 31, 2020
Securities		
– Government	295,175	100,800
– Policy Banks	340,160	504,250
Sub-total	635,335	605,050
Interests accrued	556	479
Less: Provision for impairment losses	(418)	(398)
Total	635,473	605,131

As at June 30, 2021 and December 31, 2020, certain financial assets held under resale agreements were pledged for repurchase agreements Note 24(a).

17. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	June 30, 2021	December 31, 2020
Loans and advances to customers measured at amortised cost:		
Corporate loans and advances	92,499,198	79,233,264
Personal loans		
– Residential mortgage loans	16,667,507	13,913,613
– Personal consumption loans	3,344,591	3,173,655
– Personal business loans	18,215,753	15,704,617
– Credit cards	975,803	741,489
Sub-total	39,203,654	33,533,374
Interests accrued	551,128	522,713
Less: Provision for loans and advances to customers measured at amortised cost	(3,525,055)	(3,067,076)
Sub-total	128,728,925	110,222,275
Loans and advances to customers measured at fair value through other comprehensive income:		
Discounted bills	7,944,697	7,526,786
Net loans and advances to customers	136,673,622	117,749,061

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17. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(b) Loans and advances to customers (exclusive interests accrued) analysed by industry sector

	June 30, 2021		
	Amount	Percentage	Loans and advances secured by collaterals
Leasing and business services	20,794,744	14.89%	8,408,937
Manufacturing	19,554,507	14.00%	6,358,347
Water conservancy, environment and public facilities management	14,927,590	10.69%	5,789,950
Construction	9,604,005	6.88%	3,825,332
Real estate	7,423,739	5.32%	7,386,369
Wholesale and retail	6,433,821	4.61%	3,419,645
Agriculture, forestry, animal husbandry and fishery	3,081,386	2.21%	1,707,658
Transportation, warehousing and postal services	2,426,248	1.74%	1,109,016
Electricity, heat, gas and water production and supply	2,358,950	1.69%	377,800
Education	1,948,653	1.40%	781,510
Hygiene and social welfare	855,910	0.61%	295,100
Culture, sports and entertainment	247,399	0.18%	102,580
Information transmission, software and information technology services	206,100	0.15%	165,200
Others	2,636,146	1.87%	497,697
Sub-total of corporate loans and advances	92,499,198	66.24%	40,225,141
Personal loans	39,203,654	28.07%	26,111,127
Discounted bills	7,944,697	5.69%	7,944,697
Gross loans and advances to customers	139,647,549	100.00%	74,280,965

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17. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(b) Loans and advances to customers (exclusive interests accrued) analysed by industry sector (Cont'd)

	December 31, 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

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17. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(c) Analysed by type of collateral

	June 30, 2021	December 31, 2020
Unsecured loans	12,206,157	10,072,870
Guaranteed loans	53,160,427	46,346,388
Collateralised loans	58,562,427	50,123,066
Pledged loans	7,773,841	6,224,314
Discounted bills	7,944,697	7,526,786
Sub-total	139,647,549	120,293,424
Interests accrued	551,128	522,713
Gross loans and advances to customers	140,198,677	120,816,137
Less: Provision for loans and advances to customers measured at amortised cost	(3,525,055)	(3,067,076)
Net loans and advances to customers	136,673,622	117,749,061

(d) Overdue loans (exclusive interests accrued) analysed by overdue period

	June 30, 2021				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	81,483	23,079	22,668	467	127,697
Guaranteed loans	642,598	1,202,094	291,651	22,808	2,159,151
Collateralised loans	421,333	229,590	97,569	3,626	752,118
Pledged loans	-	9,990	2,200	-	12,190
Total	1,145,414	1,464,753	414,088	26,901	3,051,156
As a percentage of gross loans and advances to customers	0.82%	1.05%	0.29%	0.02%	2.18%

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17. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(d) Overdue loans (exclusive interests accrued) analysed by overdue period (Cont'd)

	December 31, 2020				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
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%

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

	June 30, 2021			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses (Note(i))	
Total loans and advances to customers measured at amortised cost	122,743,996	7,452,950	2,057,034	132,253,980
Less: Provision for impairment losses	(1,503,207)	(1,005,290)	(1,016,558)	(3,525,055)
Carrying amount of loans and advances to customers measured at amortised cost	121,240,789	6,447,660	1,040,476	128,728,925
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	7,944,697	–	–	7,944,697
Total carrying amount of loans and advances to customers	129,185,486	6,447,660	1,040,476	136,673,622

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17. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(e) Analysis of loans and advances and provision for impairment losses (Cont'd)

	December 31, 2020			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses (Note(i))	
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

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.

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17. 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:*

	Six months ended June 30, 2021			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	
As at January 1	1,253,271	960,840	852,965	3,067,076
Transferred:				
– to expected credit losses over the next 12 months	119,951	(119,951)	–	–
– to lifetime expected credit losses: not credit-impaired loans	(56,791)	56,824	(33)	–
– to lifetime expected credit losses: credit-impaired loans	(2,950)	(190,722)	193,672	–
Charge for the period	189,727	298,299	970,076	1,458,102
Recoveries	–	–	7,601	7,601
Write-offs and others	–	–	(1,007,724)	(1,007,724)
As at June 30	1,503,208	1,005,290	1,016,557	3,525,055

	Year ended December 31, 2020			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	
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

As at June 30, 2021, the Group adjusted the customer rating of loans and advance to customers. The loan principal transferred from stage 1 to stage 2 and stage 3 was RMB2,418.8 million, and corresponding impairment provision increased by RMB313.8 million. The loan principal transferred from stage 2 to stage 3 was RMB901.0 million, impairment provision increasing by RMB227.0 million. The loan principal transferred from stage 2 to stage 1 was RMB600.4 million, impairment provision decreasing by RMB115.3 million. The loan principal transferred from stage 3 to stage 1 and stage 2 was not significant.

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17. 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:*

	Six months ended June 30, 2021			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	
As at January 1	8,341	-	-	8,341
Charge for the period	2,444	-	-	2,444
As at June 30	10,785	-	-	10,785

	Year ended December 31, 2020			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	
As at January 1	7,626	-	-	7,626
Charge for the year	715	-	-	715
As at December 31	8,341	-	-	8,341

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 statements 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 six months ended June 30, 2021, the Group transferred (i) loans and advances with principal amount of RMB200.0 million (December 31, 2020: RMB163.3 million); and (ii) relevant interests of RMB7.9 million and (December 31, 2020: RMB16.9 million), to independent third parties, and the transfer price was RMB24.3 million, and (December 31, 2020: RMB98.4 million).

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18. FINANCIAL INVESTMENTS

	<i>Notes</i>	June 30, 2021	December 31, 2020
Financial investments measured at fair value through profit or loss	<i>(a)</i>	14,058,538	14,896,962
Financial investments measured at fair value through other comprehensive income	<i>(b)</i>	22,235,835	18,272,189
Financial investments measured at amortised cost	<i>(c)</i>	68,001,810	68,052,213
		104,296,183	101,221,364

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

	June 30, 2021	December 31, 2020
Debt securities issued by the following institutions in mainland China		
– Policy banks	1,669,823	1,156,408
– Banks and other financial institutions	581,146	593,769
– Corporate	1,654,270	1,900,986
Sub-total	3,905,239	3,651,163
– Unlisted	3,905,239	3,651,163
Asset-backed securities		
– Unlisted	402,466	418,590
Investment funds		
– Unlisted	3,208,644	714,700
Investment management products		
– Unlisted	6,542,189	10,112,509
Total	14,058,538	14,896,962

Note: As at the end of each of the reporting period, there were no investments subject to material restrictions in the realisation.

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18. FINANCIAL INVESTMENTS (CONT'D)

(b) Financial investments measured at fair value through other comprehensive income

	June 30, 2021	December 31, 2020
Debt securities issued by the following institutions in mainland China		
– Government	1,226,976	19,448
– Policy banks	11,774,980	10,648,726
– Banks and other financial institutions	439,695	130,472
– Corporate	6,671,542	6,105,653
Sub-total	20,113,193	16,904,299
Interests accrued	467,159	408,517
– Unlisted	20,580,352	17,312,816
Interbank deposits		
– Unlisted	1,113,575	615,818
Asset-backed securities	80,157	79,807
Interest accrued	2,404	5,255
– Unlisted	82,561	85,062
Equity investments		
– Unlisted	459,347	258,493
Total	22,235,835	18,272,189

Notes:

- (i) As at the end of each of the reporting period, there were no investments subject to material restrictions in the realisation.
- (ii) The Group designates part of non-trading equity investments as financial investments measured at fair value through other comprehensive income.
- (iii) For the six months ended June 30, 2021 and 2020, there were no cash dividends received from equity investments measured at fair value through other comprehensive income.
- (iv) Movements of provision for impairment losses of financial investments measured at fair value through other comprehensive income are as follows:

	Six months ended June 30, 2021			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	6,888	–	–	6,888
Charge for the period	3,762	–	–	3,762
Balance at June 30	10,650	–	–	10,650

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18. FINANCIAL INVESTMENTS (CONT'D)

(b) Financial investments measured at fair value through other comprehensive income (Cont'd)

Notes: (Cont'd)

- (iv) Movements of provision for impairment losses of financial investments measured at fair value through other comprehensive income are as follows: (Cont'd)

	Expected credit losses over the next 12 months	Year ended December 31, 2020		Total
		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

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 statements of financial position, and impairment loss or gain is recognised in the profit or loss.

(c) Financial investments measured at amortised cost

	Notes	June 30, 2021	December 31, 2020
Debt securities issued by the following institutions in mainland China	(i)		
– Government		18,798,580	18,020,703
– Policy banks		14,985,052	15,171,785
– Banks and other financial institutions		520,000	760,000
– Corporate		19,720,968	19,006,796
Interests accrued		1,050,357	1,182,753
Sub-total		55,074,957	54,142,037
Investment management products		13,023,957	13,793,613
Interests accrued		175,031	238,975
– Unlisted		13,198,988	14,032,588
Asset-backed securities		472,780	492,868
Interests accrued		7,819	16,528
– Unlisted		480,599	509,396
Less: Provision for impairment losses	(ii)	(752,734)	(631,808)
Total		68,001,810	68,052,213

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18. 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 24(a)).
- (ii) Movements of provision for impairment losses of financial investments measured at amortised cost are as follows:

	Six months ended June 30, 2021			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	149,090	32,870	449,848	631,808
Transfers:				
– to lifetime expected credit losses not credit impaired	(183)	183	–	–
(Reversal)/charge for the period	(7,708)	13,608	115,026	120,926
Balance at June 30	141,199	46,661	564,874	752,734

	Year ended December 31, 2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	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

19. INVESTMENT IN A SUBSIDIARY

	June 30, 2021	December 31, 2020
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 six months ended June 30, 2021, the registered capital of Tongda was RMB1,100 million. The principal activities of Tongda are the provision of financial leasing services. As at June 30, 2021 and December 31, 2020, the Bank holds 59.1% of equity interest.

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19. INVESTMENT IN A SUBSIDIARY (CONT'D)

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.

20. PROPERTY AND EQUIPMENT

	Premises	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost					
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 and January 1, 2021	671,965	249,734	407,484	18,424	1,347,607
Additions	288,967	11,914	8,331	–	309,212
Transfer from investment properties	36,911	–	–	–	36,911
Disposals	–	–	(1,039)	–	(1,039)
As at June 30, 2021	997,843	261,648	414,776	18,424	1,692,691
Accumulated depreciation					
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
Disposal	–	–	(10,874)	(237)	(11,111)
As at December 31, 2020 and January 1, 2021	142,991	158,629	323,012	15,138	639,770
Charge for the period	9,694	12,094	14,586	375	36,749
Transfer to investment properties	20,873	–	–	–	20,873
Disposals	–	–	(986)	–	(986)
As at June 30, 2021	173,558	170,723	336,612	15,513	696,406
Impairment loss					
As at January 1, 2020	–	–	–	–	–
Transfer from investment properties	5,680	–	–	–	5,680
As at December 31, 2020 and June 30, 2021	5,680	–	–	–	5,680
Net book value					
As at June 30, 2021	818,605	90,925	78,164	2,911	990,605
As at December 31, 2020	523,294	91,105	84,472	3,286	702,157

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20. 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:

	At June 30, 2021	At December 31, 2020
Held in mainland China		
– Medium-term leases (10-50 years)	794,316	498,359
– Long-term leases (over 50 years)	24,289	24,935
	818,605	523,294

21. RIGHT-OF-USE ASSETS

	Motor vehicles	Properties	Total
Net book value			
As at January 1, 2020	324	476,527	476,851
Additions	–	88,380	88,380
Depreciation charge for the year	(230)	(111,024)	(111,254)
As at December 31, 2020 and January 1, 2021	94	453,883	453,977
Additions	347	17,761	18,108
Depreciation charge for the period	(149)	(56,284)	(56,433)
As at June 30, 2021	292	415,360	415,652

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22. DEFERRED TAX

a) Analysed by nature

	June 30, 2021		December 31, 2020	
	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	4,603,744	1,150,936	4,731,651	1,182,913
– Fair value changes of financial assets	380,799	95,200	388,794	97,199
– Accrued staff costs	390,406	97,603	357,885	89,472
– Others	18,202	4,551	12,412	3,103
Subtotal	5,393,151	1,348,290	5,490,742	1,372,687
Deferred income tax liability				
– Fair value changes of financial assets	(13,304)	(3,326)	(1,236)	(309)
Subtotal	(13,304)	(3,326)	(1,236)	(309)
Net balances	5,379,847	1,344,964	5,489,506	1,372,378

b) Movements of deferred tax

	Allowance for impairment losses <i>Note(i)</i>	Accrued staff costs	Changes in fair value <i>Note(ii)</i>	Others	Net balance of deferred tax assets
As at 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 and January 1, 2021	1,182,913	89,472	96,890	3,103	1,372,378
Recognised in profit or loss	(31,977)	8,131	1,986	1,448	(20,412)
Recognised in other comprehensive income	–	–	(7,002)	–	(7,002)
As at June 30, 2021	1,150,936	97,603	91,874	4,551	1,344,964

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22. DEFERRED TAX (CONT'D)

b) Movements of deferred tax (Cont'd)

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 periods, 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.

23. OTHER ASSETS

	Notes	June 30, 2021	December 31, 2020
Interest receivable	(a)	464,024	322,557
Prepaid expenses		10,828	351,391
Intangible assets	(b)	36,264	40,026
Long-term deferred expenses		3,875	4,354
Repossessed assets	(c)	19,683	19,683
Land use rights	(d)	10,816	10,951
Investment properties	(e)	14,113	30,590
Finance lease receivables	(f)	18,026,958	16,413,465
Others		591,239	235,252
Subtotal		19,177,800	17,428,269
Less: Provision for impairment losses		(675,576)	(548,071)
Total		18,502,224	16,880,198

(a) Interest receivable

	June 30, 2021	December 31, 2020
Interest receivable arising from:		
Financial investments	428,355	201,663
Loans and advances to customers	35,669	120,894
Sub-total	464,024	322,557
Less: Provision for impairment losses	(79,040)	(56,529)
Total	384,984	266,028

As at the end of each of the 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 Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

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23. OTHER ASSETS (CONT'D)

(b) Intangible assets

	Computer software and system development
Cost	
As at January 1, 2020	142,863
Additions	16,773
As at December 31, 2020 and January 1, 2021	159,636
Additions	4,517
As at June 30, 2021	164,153
Accumulated amortisation	
As at January 1, 2020	102,550
Charge for the year	17,060
As at December 31, 2020 and January 1, 2021	119,610
Charge for the period	8,279
As at June 30, 2021	127,889
Net book value	
As at June 30, 2021	36,264
As at December 31, 2020	40,026

(c) Repossessed assets

	June 30, 2021	December 31, 2020
Land use right and buildings	19,683	19,683
Less: impairment allowances	(11,448)	(11,448)
Net balances	8,235	8,235

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

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23. OTHER ASSETS (CONT'D)

(d) Land use rights

	June 30, 2021	December 31, 2020
Located in mainland China: 10-50 years	10,816	10,951

(e) Investment properties

	Investment properties
Cost	
As at January 1, 2020	121,539
Transfer to property and equipment	(61,982)
As at December 31, 2020 and January 1, 2021	59,557
Transfer to property and equipment	(36,911)
As at June 30, 2021	22,646
Accumulated depreciation and impairment	
As at January 1, 2020	44,943
Charge for the year	1,609
Transfer to property and equipment	(17,585)
As at December 31, 2020 and January 1, 2021	28,967
Charge for the period	439
Transfer to property and equipment	(20,873)
As at June 30, 2021	8,533
Impairment loss	
As at January 1, 2020	5,680
Transfer to property and equipment	(5,680)
As at December 31, 2020 and June 30, 2021	-
Net book value	
As at June 30, 2021	14,113
As at December 31, 2020	30,590

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For the six months ended June 30, 2021

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23. 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:

	June 30, 2021	December 31, 2020
Total minimum finance lease receivables		
Within 1 year (inclusive)	9,686,964	7,934,080
1 year to 5 years	9,808,235	9,860,962
Over 5 years	104,992	142,088
Gross amount of finance lease receivables	19,600,191	17,937,130
Less: Unearned finance income	(1,674,887)	(1,553,650)
Less: Unrealised VAT	(190,716)	(213,232)
Net amount of finance lease receivables	17,734,588	16,170,248
Interests accrued	292,370	243,217
Less: Provision for impairment loss	(584,347)	(479,391)
Carrying amount of finance lease receivables	17,442,611	15,934,074
Present value of minimum lease receivables		
Within 1 year (inclusive)	8,721,755	7,150,152
1 year to 5 years	8,627,200	8,659,151
Over 5 years	93,656	124,771
Total	17,442,611	15,934,074

The Group applies general approach on measure expected credit loss ("ECL") on finance lease receivables based on the ECL measurement. The Group's credit policy and exposure to credit risk on finance lease receivables are disclosed in note 39(a).

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(Expressed in thousands of Renminbi, unless otherwise stated)

23. OTHER ASSETS (CONT'D)

(f) Finance lease receivables (Cont'd)

Analysis of finance lease receivables and provision for impairment losses

	June 30, 2021			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	17,584,909	128,118	313,931	18,026,958
Less: Provision for impairment losses	(427,875)	(24,453)	(132,019)	(584,347)
Total carrying amount of finance lease receivables	17,157,034	103,665	181,912	17,442,611

	December 31, 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

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(Expressed in thousands of Renminbi, unless otherwise stated)

23. OTHER ASSETS (CONT'D)

(f) Finance lease receivables (Cont'd)

Movements of provision for impairment losses of finance lease receivables is as follow:

	June 30, 2021			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	340,030	82,385	56,976	479,391
Transferred:				
– to lifetime expected credit losses: not credit-impaired	35,116	(35,116)	–	–
– to lifetime expected credit losses: credit-impaired	(2,531)	(9,766)	12,297	–
Charge for the period, net	55,260	(13,050)	62,746	104,956
As at June 30	427,875	24,453	132,019	584,347

	December 31, 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

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24. PLEDGED ASSETS

(a) Assets pledged as collateral

	June 30, 2021	December 31, 2020
For borrowing from the central bank		
– Financial investments measured at amortised costs	6,333,665	6,178,794
– Financial investments measured at other comprehensive income	2,496,733	272,997
For repurchase agreements:		
– Financial investments measured at amortised costs	10,090,255	5,684,802
– Discounted bills	1,155,480	1,441,132
Total	20,076,133	13,577,725

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. The Group's balance of the financial assets held under resale agreements is disclosed in note 16. The fair value of such collateral accepted by the Group was RMB672 million as at June 30, 2021 (December 31, 2020: RMB642 million). These transactions were conducted under standard terms in the normal course of business.

25. DEPOSITS FROM BANKS

Analysed by type of and location of counterparty

	June 30, 2021	December 31, 2020
Deposits in mainland China		
– Banks	2,980,083	3,076,859
Sub-total	2,980,083	3,076,859
Interests accrued	8,101	8,904
Total	2,988,184	3,085,763

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26. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	June 30, 2021	December 31, 2020
Placements in mainland China		
– Banks	16,257,371	14,923,350
– Other financial institutions	–	150,000
Sub-total	16,257,371	15,073,350
Interests accrued	159,334	161,288
Total	16,416,705	15,234,638

27. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	June 30, 2021	December 31, 2020
In mainland China		
– Banks	10,766,305	6,545,391
Sub-total	10,766,305	6,545,391
Interests accrued	2,126	281
Total	10,768,431	6,545,672

(b) Analysed by type of collateral held

	June 30, 2021	December 31, 2020
Debt securities	9,597,600	5,098,200
Bank acceptances	1,168,705	1,447,191
Sub-total	10,766,305	6,545,391
Interests accrued	2,126	281
Total	10,768,431	6,545,672

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28. DEPOSITS FROM CUSTOMERS

	June 30, 2021	December 31, 2020
Demand deposits		
– Corporate customers	53,780,097	56,744,565
– Individual customers	10,491,014	9,270,807
Sub-total	64,271,111	66,015,372
Time deposits		
– Corporate customers	54,751,950	47,525,968
– Individual customers	72,091,689	63,882,187
Sub-total	126,843,639	111,408,155
Inward and outward remittances	65,361	57,599
Interests accrued	2,233,298	2,107,404
Total	193,413,409	179,588,530

29. DEBT SECURITIES ISSUED

	<i>Notes</i>	June 30, 2021	December 31, 2020
Interbank deposits issued	<i>(a)</i>	25,106,989	23,706,222
Tier-two capital debts issued	<i>(b)</i>	4,997,374	4,997,198
Financial bonds issued	<i>(c)</i>	–	1,999,718
Sub-total		30,104,363	30,703,138
Interests accrued		197,096	169,524
Total		30,301,459	30,872,662

Notes:

a) Interbank deposit issued

- i. During the six months ended June 30, 2021, the Bank issued a number of certificates of interbank deposit with total nominal amount RMB24,200 million and duration between 1 to 12 months. The coupon interest rates ranged from 2.00% to 3.27% 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 June 30, 2021, the fair value of interbank deposits issued was RMB25,106 million (December 31, 2020: RMB23,717 million).

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29. DEBT SECURITIES ISSUED (CONT'D)

Notes: (Cont'd)

- b) Tier-two capital debts issued
- i. 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%.
 - ii. 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%.
 - iii. As at June 30, 2021, the fair value of the tier-two capital debts issued was RMB4,915 million (December 31, 2020: RMB4,833 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%. The amount has been redeemed on March 23, 2021.
 - ii. No financial bonds issued during the six months ended June 30, 2021.
 - iii. As at June 30, 2021, there was no outstanding balance of financial bonds issued (December 31, 2020: RMB2,012 million).

30. OTHER LIABILITIES

	Note	June 30, 2021	December 31, 2020
Interest payable		9,085	11,395
Agency business liabilities		125,807	231,564
Accrued staff costs	(a)	511,061	545,370
Dividend payable		497,167	1,627
Settlement and clearing accounts		185,260	570,379
Output VAT payable		71,906	79,561
Contract liabilities	(b)	111,931	132,434
Provisions	(c)	82,076	77,074
Deposits received		340,196	396,808
Others		539,116	544,431
Total		2,473,605	2,590,643

a) Accrued staff costs

	June 30, 2021	December 31, 2020
Salary, bonuses and allowances payable	453,211	491,959
Pension insurance and annuity payable	1,638	1,626
Other social insurance payable	52	-
Others	56,160	51,785
Total	511,061	545,370

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30. OTHER LIABILITIES (CONT'D)

b) Contract liabilities

As at June 30, 2021, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB112 million (December 31, 2020: RMB132 million). Such amount represents 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.

c) Provisions

	June 30, 2021	December 31, 2020
Provision for credit commitments	82,076	77,074

Movements of provisions for credit commitments are as follows:

	Six months ended June 30, 2021			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	77,074	–	–	77,074
Charge for the period	5,002	–	–	5,002
As at June 30	82,076	–	–	82,076

	Year ended December 31, 2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	61,259	–	–	61,259
Charge for the year	15,815	–	–	15,815
As at December 31	77,074	–	–	77,074

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31. SHARE CAPITAL

Authorised and issued share capital

	Note	June 30, 2021	December 31, 2020
Number of shares authorised, issued and fully paid at par value of RMB1 each			
At beginning of period/year		5,980,058	4,971,197
Issued during the period/year	(a)	–	1,008,861
At end of period/year		5,980,058	5,980,058

Note:

- (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.

32. RESERVES

a) Capital reserve

	June 30, 2021	December 31, 2020
Share premium	4,933,399	4,933,399
Other capital reserve	14,154	14,154
Total	4,947,553	4,947,553

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 may also appropriate discretionary surplus reserve in accordance with the resolution of the shareholders. For the six months ended June 30, 2021, no resolution of discretionary surplus reserve was made by the shareholders.

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32. RESERVES (CONT'D)

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.

d) Fair value reserve

	Six months period ended June 30, 2021	Year ended December 31, 2020
As at January 1	(225,644)	(29,831)
Changes in fair value recognised in other comprehensive income	28,009	(261,084)
Less: deferred tax	(7,002)	65,271
As at June 30/December 31	(204,637)	(225,644)

e) Impairment reserve

	Six months period ended June 30, 2021	Year ended December 31, 2020
As at January 1	11,422	9,155
Impairment losses recognised in other comprehensive income	6,206	3,022
Less: deferred tax	(1,552)	(755)
As at June 30/December 31	16,076	11,422

f) Other equity instruments

On November 28, 2019, the Group issued a perpetual debt of RMB3,000.0 million with no fixed maturity date, resulting in credit 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.

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.

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33. RETAINED EARNINGS

a) Appropriation of profits

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.

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.

34. 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 June 30, 2021 and December 31, 2020:

	June 30, 2021		December 31, 2020	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	9,750,833	9,750,833	10,827,209	10,827,209
Financial investments at amortised cost	12,311,150	12,311,150	13,787,471	13,787,471
Total	22,061,983	22,061,983	24,614,680	24,614,680

As at June 30, 2021 and December 31, 2020, the carrying amounts of the unconsolidated structured entities are equal to the maximum exposures.

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34. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONT'D)

(b) Structured entities sponsored by the Group in 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. The Group does not control these structured entities and therefore, these structured entities are not consolidated. These structured entities are financed through the issue of units to investors. The Group earns commission fee by providing management services to the investors of these structured entities. As at June 30, 2021 and December 31, 2020, the management fee receivables being recognised are not material in the consolidated statement of financial position.

For the six months ended June 30, 2021, the amount of fee and commission income received from the abovementioned structured entities by the Group are RMB112 million (six months ended June 30, 2020: RMB71 million).

As at June 30, 2021, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products sponsored by the Group is RMB39,059 million (December 31, 2020: RMB33,648 million).

(c) Unconsolidated structure entities sponsored by the Group during the period in which the Group does not have an interest in as at June 30, 2021:

For the six months ended June 30, 2021, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before June 30 amounted to RMB5,118 million (six months ended June 30, 2020: RMB31,252 million).

35. 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 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

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35. CAPITAL MANAGEMENT (CONT'D)

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.

The Group's capital adequacy ratios at June 30, 2021 and December 31, 2020 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

	June 30, 2021	December 31, 2020
Total core tier-one capital		
– Share capital	5,980,058	5,980,058
– Qualifying portion of capital reserve	4,947,553	4,947,553
– Surplus reserve	1,225,715	1,225,715
– General reserve	2,648,092	2,293,035
– Other comprehensive income	(188,561)	(214,222)
– Retained earnings	3,603,647	3,673,849
– Qualifying portions of non-controlling interests	572,129	525,159
Core tier-one capital	18,788,633	18,431,147
Core tier-one capital deductions	(35,652)	(39,017)
Net core tier-one capital	18,752,981	18,392,130
Other tier-one capital	3,075,958	3,069,696
Net tier-one capital	21,828,939	21,461,826
Tier-two capital		
– Instruments issued and share premium	5,000,000	5,000,000
– Surplus provision for loan impairment	1,774,913	1,646,750
– Qualifying portions of non-controlling interests	152,568	140,042
Net tier-two capital	6,927,481	6,786,792
Net capital base	28,756,420	28,248,618
Total risk weighted assets	205,808,161	186,125,052
Core tier-one capital adequacy ratio	9.11%	9.88%
Tier-one capital adequacy ratio	10.61%	11.53%
Capital adequacy ratio	13.97%	15.18%

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36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

a) Net decrease in cash and cash equivalents

	Six months ended June 30,	
	2021	2020
Cash and cash equivalents as at June 30	22,068,908	32,956,781
Less: Cash and cash equivalents as at January 1	(27,895,102)	(35,241,608)
Net decrease in cash and cash equivalents	(5,826,194)	(2,284,827)

b) Cash and cash equivalents

	At June 30, 2021	At June 30, 2020
Cash on hand	213,130	279,089
Deposits with central bank other than restricted deposits	4,260,175	6,897,469
Deposits with banks and other financial institutions	3,248,737	1,177,160
Placements with banks	419,907	1,253,072
Debt investments with maturity three months or less	13,926,959	23,349,991
Total	22,068,908	32,956,781

37. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties of the Group

i. Major shareholders

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholding, or with the right to appoint a director, member of the Board of Supervisors in the Bank.

Shareholding in the Bank:

	June 30, 2021	December 31, 2020
Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)	37.06%	37.06%
Weihai Municipal Finance Bureau (威海市財政局)	15.38%	15.38%
Shandong Hi-Speed Company Limited (山東高速股份有限公司)	11.60%	11.60%
China Heavy Truck Group Co., Limited (中國重型汽車集團有限公司)	4.06%	4.06%
Weihai Tianan Real Estate Development Co., Ltd. (威海天安房地產開發有限公司)	2.75%	2.75%
Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd. (山東環球漁具股份有限公司)	1.39%	1.39%
Shandong Homey Aquatic Development Co., Ltd. (山東好當家海洋發展股份有限公司)	1.20%	1.20%

The official names of these related parties are in Chinese. The English translation is for reference only.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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(Expressed in thousands of Renminbi, unless otherwise stated)

37. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

(a) Related parties of the Group (Cont'd)

ii. *Subsidiary of the Bank*

The detailed information of the Bank's subsidiary is set out in Note 19.

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 37(a) or their controlling shareholders.

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

i. *Transactions between the Bank and major shareholders:*

	Six months ended June 30,	
	2021	2020
Transactions during the period		
Interest income	3,564	4
Interest expense	32,403	62,363
Fee and commission income	954	17
Rental expenses	1,460	–
	June 30,	December 31,
	2021	2020
Balances at end of the period/year		
Deposits from customers	4,066,982	3,781,264
Financial investments	201,810	–

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37. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

(b) Transactions with related parties other than key management personnel (Cont'd)

ii. Transactions between the Bank and subsidiary:

	Six months ended June 30,	
	2021	2020
Transactions during the period		
Interest income	40,822	29,607
Interest expense	1,641	4,403
Rental income	1,100	1,048
Fee and commission income	–	13
	June 30,	December 31,
	2021	2020
Balances at end of the period/year		
Loans and advances to customers	2,183,279	1,551,465
Deposits from customers	265,827	70,268

iii. Transactions between the Bank and other related parties:

	Six months ended June 30,	
	2021	2020
Transactions during the period		
Interest income	64,256	65,228
Interest expense	21,375	13,459
Fee and commission income	460	565
Rental expenses	1,117	1,117
	June 30,	December 31,
	2021	2020
Balances at end of the period/year		
Loans and advances to customers	2,893,741	2,225,448
Deposits from customers	4,487,643	3,328,901
Bank acceptances	335,000	91,220
Letters of guarantees	150,016	116,648
Letters of credit	598,040	53,045

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37. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

(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

	Six months ended June 30,	
	2021	2020
Transactions during the period		
Interest income	24	43
Interest expense	355	228

	June 30,	December 31,
	2021	2020
Balances at end of the period/year		
Loans and advances to customers	1,067	3,005
Deposits from customers	10,695	58,599

ii. Key management personnel compensation

The aggregate compensation to key management personnel is listed as follows:

	Six months ended June 30,	
	2021	2020
Key management personnel compensation	7,185	7,170

(d) Loans and advances to directors, supervisors and officers

	June 30,	December 31,
	2021	2020
Aggregate amount of relevant loans outstanding at the end of the period/year	1,066	550
Maximum aggregate amount of relevant loans outstanding during the period/year	4,363	1,803

There were no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at June 30, 2021 and December 31, 2020.

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38. 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.

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 Unaudited Interim Condensed Consolidated Financial Statements

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(Expressed in thousands of Renminbi, unless otherwise stated)

38. SEGMENT REPORTING (CONT'D)

	Six months ended June 30, 2021				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income/(expense)	1,677,572	(243,863)	1,485,279	–	2,918,988
Internal net interest income/(expense)	311,149	1,002,108	(1,313,257)	–	–
Net interest income	1,988,721	758,245	172,022	–	2,918,988
Net fee and commission income	197,416	61,373	86,851	682	346,322
Net trading (losses)/gains	(30,267)	–	3,579	–	(26,688)
Net gains arising from investment securities	–	–	388,461	–	388,461
Other operating income	9,000	–	–	1,765	10,765
Operating income	2,164,870	819,618	650,913	2,447	3,637,848
Operating expenses	(392,884)	(252,552)	(98,436)	(6,773)	(750,645)
Impairment losses on assets	(1,246,646)	(270,043)	(202,741)	(3,617)	(1,723,047)
Profit/(loss) before tax	525,340	297,023	349,736	(7,943)	1,164,156
Segment assets	120,183,835	47,865,271	118,043,586	937,405	287,030,097
Deferred tax assets	–	–	–	1,348,290	1,348,290
Total assets	120,183,835	47,865,271	118,043,586	2,285,695	288,378,387
Segment liabilities	132,276,220	84,080,755	47,590,187	2,368,002	266,315,164
Total liabilities	132,276,220	84,080,755	47,590,187	2,368,002	266,315,164
Other segment information					
– Depreciation and amortisation	51,080	38,525	13,110	438	103,153
– Capital expenditure	156,017	117,669	40,043	–	313,729

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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38. SEGMENT REPORTING (CONT'D)

	Six months ended June 30, 2020				Total
	Corporate banking	Retail banking	Financial market business	Others	
Operating income					
External net interest income/(expense)	948,704	(291,270)	1,313,259	–	1,970,693
Internal net interest income/(expense)	608,876	933,350	(1,542,226)	–	–
Net interest income	1,557,580	642,080	(228,967)	–	1,970,693
Net fee and commission income	121,700	63,270	74,920	(1,043)	258,847
Net trading gains/(losses)	4,678	–	(103,210)	–	(98,532)
Net gains arising from investment securities	–	–	888,575	–	888,575
Other operating income	4,910	–	–	1,198	6,108
Operating income	1,688,868	705,350	631,318	155	3,025,691
Operating expenses	(384,888)	(208,353)	(91,219)	(1,524)	(685,984)
Impairment losses on assets	(798,263)	(261,844)	(189,938)	–	(1,250,045)
Profit/(loss) before tax	505,717	235,153	350,161	(1,369)	1,089,662
Other segment information					
– Depreciation and amortisation	61,498	34,680	3,879	1,492	101,549
– Capital expenditure	10,405	5,868	656	–	16,929
	Year ended December 31, 2020				Total
	Corporate banking	Retail banking	Financial market business	Others	
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

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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39. 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 department for credit risk management 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.

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39. 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 the 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.

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39. 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; or
- Principal or interest of the instrument 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.

The Group has not used the low credit risk exemption for any financial assets in each of the end of reporting period.

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39. 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 assets because of financial difficulties of the issuer; or
- principal or interest of the instrument is more than 90 days past due.

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.

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39. 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 at 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 defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

- 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 Unaudited Interim Condensed Consolidated Financial Statements

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39. 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 ECLs, including the changes in PD and the value of collaterals under the different time limits.

As at June 30, 2021 and December 31, 2020, there has been no significant changes in the estimate techniques and key assumptions of the Group.

Forward-looking information included in the ECL model is as follows:

- Both the assessment of significant increase in credit risk and the measurement of ECLs involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and ECLs 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 PD historically by conducting regression analysis, and identified the expected PD 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 highly 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 ECLs were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

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(Expressed in thousands of Renminbi, unless otherwise stated)

39. 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 assets as at the end of each of the reporting period.

ii. Financial assets analysed by credit quality are summarised as follows:

	June 30, 2021				
	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	962,700	–	–	–	–
– Neither overdue nor credit-impaired	129,314,749	4,669,959	635,335	85,584,639	17,591,673
Sub-total	130,277,449	4,669,959	635,335	85,584,639	17,591,673
Balance of financial assets that are not credit-impaired and assessed for lifetime ECLs					
– Overdue but not credit-impaired	2,681,403	–	–	1,003,064	–
– Neither overdue nor credit-impaired	4,636,057	–	–	310,906	126,051
Sub-total	7,317,460	–	–	1,313,970	126,051
Balance of credit-impaired financial assets that are assessed for lifetime ECLs					
– Overdue and credit-impaired	1,992,219	–	–	1,889,000	721,731
– Credit-impaired but not overdue	60,421	–	–	500,000	–
Sub-total	2,052,640	–	–	2,389,000	721,731
Interests accrued	551,128	553	556	1,702,770	292,370
Less: Provision for impairment losses	(3,525,055)	(1,521)	(418)	(752,734)	(665,467)
Net value	136,673,622	4,668,991	635,473	90,237,645	18,066,358

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39. 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)

	December 31, 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	82,368,373	15,740,211
Sub-total	111,527,182	5,116,699	605,050	82,368,373	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	86,324,402	16,403,560

Notes:

- i. Financial investments include 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.
- iii. As at June 30, 2021, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB2,578 million (December 31, 2020: RMB4,405 million). The fair value of collaterals held against loans and advances that are credit-impaired and assessed for lifetime expected credit losses amounted to RMB727 million (December 31, 2020: RMB798 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.

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39. 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

	June 30, 2021								
	Balance				Provision for impairment losses				ECL Rate
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Total
Financial assets measured at amortised cost									
Cash and deposits with the central bank	20,847,347	-	-	20,847,347	-	-	-	-	N/A
Deposits with banks and other financial institutions	3,248,737	-	-	3,248,737	(401)	-	-	(401)	0.01%
Placements with banks	1,421,222	-	-	1,421,222	(1,120)	-	-	(1,120)	0.08%
Financial assets held under resale agreements	635,335	-	-	635,335	(418)	-	-	(418)	0.07%
Loans and advances to Customers	122,332,752	7,317,460	2,052,640	131,702,852	(1,497,525)	(979,807)	(1,016,489)	(3,493,821)	2.65%
Financial investments	63,818,367	1,313,970	2,389,000	67,521,337	(138,376)	(43,822)	(564,873)	(747,071)	1.11%
Other assets	17,558,801	148,009	732,645	18,439,455	(430,278)	(29,481)	(205,708)	(665,467)	3.61%
Total	229,862,561	8,779,439	5,174,285	243,816,285	(2,068,118)	(1,053,110)	(1,787,070)	(4,908,298)	2.01%
Financial assets at fair value through other comprehensive income									
Loans and advances to customers	7,944,697	-	-	7,944,697	(10,785)	-	-	(10,785)	0.14%
Financial investments	21,766,272	-	-	21,766,272	(10,650)	-	-	(10,650)	0.05%
Total	29,710,969	-	-	29,710,969	(21,435)	-	-	(21,435)	0.07%
Credit commitments	44,222,060	-	-	44,222,060	(82,076)	-	-	(82,076)	0.19%

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39. 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)

	December 31, 2020				December 31, 2020				ECL Rate Total
	Stage 1	Balance Stage 2	Stage 3	Total	Stage 1	Provision for impairment losses 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%

Note: The amount represented an ECL rate of below 0.01%.

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39. 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

	June 30, 2021			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	0.90%	12.00%	34.54%	2.01%
Financial assets at fair value through other comprehensive income	0.07%	N/A	N/A	0.07%
Credit commitments	0.19%	N/A	N/A	0.19%

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	0.93%	13.08%	25.92%	1.83%
Financial assets 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%

iii. Rescheduled loans and advances to customers

The Group has no rescheduled loans and advances to customer at June 30, 2021 and December 31, 2020.

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39. 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 periods are as follows:

	June 30, 2021	December 31, 2020
Neither overdue nor impaired		
Ratings		
– AAA	19,802,693	17,809,324
– AA- to AA+	21,755,616	20,312,968
– below AA-	1,008,091	1,270,469
Sub-total	42,566,400	39,392,761
Unrated	35,118,336	33,735,623
Total	77,684,736	73,128,384

(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.

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39. 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 financial market 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 reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	At June 30, 2021					
	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	20,847,347	315,683	20,531,664	-	-	-
Deposits with banks and other financial institutions	3,248,384	48	3,248,336	-	-	-
Placements with banks	1,420,607	505	419,576	1,000,526	-	-
Financial assets held under resale agreements	635,473	556	634,917	-	-	-
Loans and advances to customers (Note (i))	136,673,622	519,894	15,397,503	36,692,585	48,758,424	35,305,216
Financial investments (Note (ii))	104,296,183	2,436,934	8,665,585	9,664,591	45,317,415	38,211,658
Other assets	21,256,771	3,559,189	2,255,500	6,391,126	8,883,717	167,239
Total assets	288,378,387	6,832,809	51,153,081	53,748,828	102,959,556	73,684,113
Liabilities						
Borrowing from the central Bank	9,482,010	698,124	2,775,782	6,008,104	-	-
Deposits from banks	2,988,184	304,184	2,660,000	24,000	-	-
Placements from banks and other financial institutions	16,416,705	159,334	5,427,370	10,750,001	80,000	-
Financial assets sold under repurchase agreements	10,768,431	2,126	10,766,305	-	-	-
Deposits from customers	193,413,409	2,298,658	84,733,921	39,512,336	66,159,394	709,100
Debt securities issued	30,301,459	197,096	11,111,462	13,995,527	-	4,997,374
Other liabilities	2,944,966	2,123,735	54,319	161,616	513,913	91,383
Total liabilities	266,315,164	5,783,257	117,529,159	70,451,584	66,753,307	5,797,857
Asset-liability gap	22,063,223	1,049,552	(66,376,078)	(16,702,756)	36,206,249	67,886,256

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39. 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 reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier: (Cont'd)

	Total	Non-interest bearing	December 31, 2020			
			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
Others	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	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:

- i. As at June 30, 2021, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB1,124.6 million (December 31, 2020: RMB1,417.2 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.

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39. 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.

	June 30, 2021	December 31, 2020
Change in net profit		
Up 100 bps parallel shift in yield curves	238,770	167,199
Down 100 bps parallel shift in yield curves	(238,770)	(167,199)
	June 30, 2021	December 31, 2020
Change in equity		
Up 100 bps parallel shift in yield curves	208,086	302,302
Down 100 bps parallel shift in yield curves	(208,086)	(302,302)

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;

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39. 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.

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39. 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:

	June 30, 2021			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central Bank	20,721,078	126,269	–	20,847,347
Deposits with banks and other financial institutions	264,467	284,121	2,699,796	3,248,384
Placements with banks	–	1,420,607	–	1,420,607
Financial assets held under resale Agreements	635,473	–	–	635,473
Loans and advances to customers	136,140,721	532,901	–	136,673,622
Financial investments (Note)	104,270,103	26,080	–	104,296,183
Others	21,239,490	17,266	15	21,256,771
Total assets	283,271,332	2,407,244	2,699,811	288,378,387
Liabilities				
Borrowing from the central bank	9,482,010	–	–	9,482,010
Deposits from banks	2,988,184	–	–	2,988,184
Placements from banks and other financial institutions	16,092,949	323,756	–	16,416,705
Financial assets sold under repurchase agreements	10,768,431	–	–	10,768,431
Deposits from customers	191,458,864	1,935,231	19,314	193,413,409
Debt securities issued	30,301,459	–	–	30,301,459
Others	2,757,384	179,446	8,136	2,944,966
Total liabilities	263,849,281	2,438,433	27,450	266,315,164
Net position	19,422,051	(31,189)	2,672,361	22,063,223
Off-balance sheet credit commitments	41,733,494	2,464,901	23,665	44,222,060

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Foreign currency risk (Cont'd)

	RMB	At December 31, 2020		Total (RMB Equivalent)
		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 (<i>Note</i>)	101,221,364	–	–	101,221,364
Others	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	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
Others	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

Note:

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.

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39. 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.

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39. 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 reporting period:

	June 30, 2021							Total
	Indefinite <i>Note (i)</i>	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	16,374,042	4,473,305	-	-	-	-	-	20,847,347
Deposit with banks and other financial institutions	-	3,248,384	-	-	-	-	-	3,248,384
Placements with banks	-	-	355,061	64,562	1,000,984	-	-	1,420,607
Financial assets held under resale agreements	-	-	635,473	-	-	-	-	635,473
Loans and advances to customers	1,236,712	227,496	4,706,552	9,451,778	36,778,272	48,918,268	35,354,544	136,673,622
Financial investments	3,708,593	-	2,444,372	3,100,728	12,858,756	45,117,415	37,066,319	104,296,183
Others	181,917	3,377,272	961,935	1,293,565	6,391,126	8,883,717	167,239	21,256,771
Total assets	21,501,264	11,326,457	9,103,393	13,910,633	57,029,138	102,919,400	72,588,102	288,378,387
Liabilities								
Borrowing from the central bank	-	-	869,819	1,921,368	6,690,823	-	-	9,482,010
Deposits from banks	-	297,236	2,134,488	532,180	24,280	-	-	2,988,184
Placements from banks and other financial institutions	-	-	2,303,125	3,221,829	10,811,502	80,249	-	16,416,705
Financial assets sold under repurchase agreements	-	-	10,466,661	301,770	-	-	-	10,768,431
Deposit from customers	-	64,348,339	10,831,036	9,673,933	39,724,059	68,109,608	726,434	193,413,409
Debt securities issued	-	197,096	4,115,007	6,996,455	13,995,527	-	4,997,374	30,301,459
Others	-	2,123,735	13,479	40,840	161,616	513,913	91,383	2,944,966
Total liabilities	-	66,966,406	30,733,615	22,688,375	71,407,807	68,703,770	5,815,191	266,315,164
Net position	21,501,264	(55,639,949)	(21,630,222)	(8,777,742)	(14,378,669)	34,215,630	66,772,911	22,063,223

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(c) Liquidity risk (Cont'd)

	Indefinite Note (i)	Repayable on demand	Within one month	December 31, 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
Deposit 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

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 financial investments represents impaired financial investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

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39. 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 each of the reporting period:

	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	June 30, 2021				
				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	9,482,010	9,565,017	50,000	820,237	1,955,324	6,739,456	-	-
Deposits from banks	2,988,184	3,328,419	1,589,180	1,166,059	548,207	24,973	-	-
Placements from banks and other financial institutions	16,416,705	16,670,169	-	2,310,065	3,252,726	11,075,236	32,142	-
Financial assets sold under repurchase agreements	10,768,431	10,771,363	-	10,468,363	303,000	-	-	-
Deposits from customers	193,413,409	203,986,208	64,354,818	11,669,698	10,185,617	42,381,326	75,394,749	-
Debt securities issued	30,301,459	32,890,967	-	4,268,972	7,250,046	14,637,949	904,000	5,830,000
Other financial liabilities	2,347,693	2,399,145	1,526,462	14,990	43,755	172,874	543,196	97,868
Total non-derivative financial liabilities	265,717,891	279,611,288	67,520,460	30,718,384	23,538,675	75,031,814	76,874,087	5,927,868

	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	December 31, 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

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

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39. 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 and reduction 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.

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40. 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, loans and advances to customers, and investments.

Deposits with the central bank, receivables 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 and the carrying amounts of investments classified as receivables are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

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40. FAIR VALUE (CONT'D)

(b) Fair value measurement (Cont'd)

(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 29. The carrying amounts of other financial liabilities approximate their fair value.

(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.

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40. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

	June 30, 2021			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial investments measured at fair value through profit or loss				
– debt securities	–	3,905,239	–	3,905,239
– investment funds	–	3,208,644	–	3,208,644
– asset-backed securities	–	402,466	–	402,466
– investment management products	–	–	6,542,189	6,542,189
Financial investments measured at fair value through other comprehensive income				
– debt securities	–	20,580,352	–	20,580,352
– equity investments	–	–	459,347	459,347
– assets-backed securities	–	82,561	–	82,561
– interbank deposits	–	1,113,575	–	1,113,575
Total	–	29,292,837	7,001,536	36,294,373

	December 31, 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

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40. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

The movement during the each of the reporting period in the balance of Level 3 fair value measurements is as follows:

	January 1, 2021	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				June 30, 2021	Unrealised gains or losses for the period included in profit or loss for assets and liabilities held at the end of the period	
				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												
- investment management products	10,112,509	-	-	(11,560)	-	-	-	(1,351,212)	(2,207,548)	6,542,189	-	-
Financial investments measured at fair value through other comprehensive income												
- equity investments	258,493	-	-	-	(71,523)	277,510	-	(5,133)	-	459,347	-	-
Total	10,371,002	-	-	(11,560)	(71,523)	277,510	-	(1,356,345)	(2,207,548)	7,001,536	-	-

	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 and liabilities 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	-

During each of the period ended June 30, 2021 and year ended December 31, 2020, there were no significant transfers among instruments in Level 1, Level 2 and Level 3 of the Group.

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40. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised are within Level 3.

Quantitative information of Level 3 fair value measurement is as below:

	Fair value as at June 30, 2021	Valuation techniques	Unobservable input
Financial investments measured at fair value through profit or loss – investment management products	6,542,189	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments measured at fair value through other comprehensive income – equity investments	459,347	Discounted cash flow	Risk-adjusted discount rate, cash flow

	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

During the six months ended June 30, 2021 and December 31, 2020, there were no significant change in the valuation techniques.

As at June 30, 2021 and December 31, 2020, 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 and investment management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

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40. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

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.

	June 30, 2021			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets measured at fair value through profit or loss				
– investment management products	49,066	(49,066)	–	–
Financial investments measured at fair value through other comprehensive income				
– equity investments	–	–	3,445	(3,445)

	December 31, 2020			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets 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)

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41. 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 entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the consolidated statements of financial position. Surplus funding is accounted for as deposits from customers.

	June 30, 2021	December 31, 2020
Entrusted loans	10,031,711	10,454,472
Entrusted funds	10,031,711	10,454,472

(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 each of the reporting period, funds received from customers under unconsolidated non-principal-guaranteed wealth management services were as follows:

	June 30, 2021	December 31, 2020
Funds received from customers under wealth management services	39,058,922	33,647,885

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42. 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.

	June 30, 2021	December 31, 2020
Acceptances	35,778,112	32,890,827
Letters of credit	5,882,441	2,024,745
Letters of guarantees	757,341	715,953
Credit card commitments	1,804,166	1,482,247
Total	44,222,060	37,113,772

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

	June 30, 2021	December 31, 2020
Credit risk-weighted amounts	7,306,463	6,731,339

The credit risk-weighted amount for credit commitments represents the amount calculated with reference to the guidelines issued by the former CBRC.

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42. COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

(c) Capital commitments

As at the end of each of the reporting period, the Group's authorised capital commitments are as follows:

	June 30, 2021	December 31, 2020
Property and equipment		
– Contracted but not paid for	22,150	21,007
Intangible assets		
– Contracted but not paid for	65,099	58,596
Total	87,249	79,603

(d) Outstanding litigations and disputes

As at June 30, 2021 and December 31, 2020, 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 case. 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 12 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

- Liquidity coverage ratio

Liquidity coverage ratio (RMB'000)	June 30, 2021	December 31, 2020
Qualified and quality liquidity assets	59,438,563	65,932,239
Amount of net cash outflows in the next 30 days	31,143,285	29,181,509
Liquidity coverage ratio	190.86%	225.94%

According to the Administrative Measures on the Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018.

- Leverage ratio

	June 30, 2021	December 31, 2020
Leverage ratio	6.69%	7.13%

Pursuant to Administrative Measures on the Leverage Ratio Management 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 since April 1, 2015, a minimum leverage ratio of 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	June 30, 2021	December 31, 2020
1	Consolidated total assets	288,372,776	267,142,967
2	Consolidated adjustments	–	–
3	Adjustments for client assets	–	–
4	Adjustments for derivatives	34,423	12,182
5	Adjustments for securities finance transactions	–	–
6	Adjustments for off-balance sheet items	37,694,748	33,950,203
7	Other adjustments	(35,652)	(39,017)
8	Balance of on-and off-balance sheet assets after adjustments	326,066,295	301,066,335

Chapter 12 Unaudited Supplementary Financial Information

1. LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONT'D)

- **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	June 30, 2021	December 31, 2020
1	On-balance sheet assets (excluding derivatives and securities finance transactions)	288,372,776	267,142,967
2	Less: Tier-one capital deductions	(35,652)	(39,017)
3	Balance of on-balance sheet assets after adjustments (excluding derivatives and securities finance transactions)	288,337,124	267,103,950
4	Replacement cost of various derivatives (net of qualified security deposits)	–	–
5	Potential risk exposure of various derivatives	34,423	12,182
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	34,423	12,182
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	37,694,748	33,950,203
18	Less: Balance of off-balance sheet items deducted by credit conversion	–	–
19	Balance of off-balance sheet items after adjustments	37,694,748	33,950,203
20	Net tier-one capital	21,828,939	21,461,826
21	Balance of on – and off-balance sheet assets after adjustments	326,066,295	301,066,335
	Leverage ratio	6.69	7.13

1. LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONT'D)

- Net stable funding ratio

Net stable funding ratio (RMB'000)	June 30, 2021	December 31, 2020
Available stable funding	179,104,030	169,483,790
Required stable funding	149,600,425	132,693,469
Net stable funding ratio	119.72%	127.73%

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》), a minimum net stable funding ratio of 100% is required for commercial banks.

The above liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the formulae announced by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.

2. CURRENCY CONCENTRATIONS

Unit: RMB'000

	June 30, 2021			
	USD	HKD	Others	Total
Spot assets	2,388,290	2,680,708	19,103	5,088,101
Spot liabilities	(2,429,359)	(8,123)	(19,327)	(2,456,809)
Net position	(41,069)	2,672,585	(224)	2,631,292

	December 31, 2020			
	USD	HKD	Others	Total
Spot assets	2,033,166	2,819,036	9,607	4,861,809
Spot liabilities	(2,050,394)	(22,759)	(9,760)	(2,082,913)
Net position	(17,228)	2,796,277	(153)	2,778,896

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 shall be immediately reported if it constitutes 10% or more of the aggregate amount of an international claim, after taking into account all of its risk transfers. A risk transfer shall only be made if the guarantor of a claim is located in a country different from that of a counterparty, or if a claim is made against an overseas branch of a bank whose head-office is located in another country.

Unit: RMB'000

	June 30, 2021		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	30,258	–	30,258
Europe	14,255	–	14,255
Total	44,513	–	44,513

	December 31, 2020		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	26,695	–	26,695
Europe	6,747	–	6,747
Total	33,442	–	33,442

4. RISK EXPOSURE ANALYSIS

(1) Credit risk exposure and assessment

In accordance with the relevant provisions of the Guidelines of Risk-based Classification of Loans (《貸款風險分類指引》) issued by the CBIRC and the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》), 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-mentioned, substandard, doubtful and loss. Special-mentioned 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, 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 RMB321.438 billion. Among which, the on-balance sheet credit risk exposure was RMB283.824 billion, while the off-balance sheet credit risk exposure was RMB37.614 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 leasing and business services and manufacturing.

When we measure the credit risk-weighted assets, the risk weights of each asset are in accordance with the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》). Credit risk exposures by level of risk weights are detailed in the following table:

Unit: RMB million

	Risk exposure	Unmitigated risk exposure
0% combined	86,058.2	55,880.1
20% combined	21,439.2	21,439.2
25% combined	7,741.7	5,696.7
50% combined	16,464.3	16,464.3
75% combined	24,561.4	23,921.9
100% combined	163,360.1	155,462.0
250% combined	1,488.7	1,488.7
400% combined	273.2	262.9
1,250% combined	50.7	50.7
Total	321,437.5	280,666.5

4. RISK EXPOSURE ANALYSIS (CONT'D)

(1) Credit risk exposure and assessment (cont'd)

The details of the credit risk exposures by entity during the Reporting Period are as follows:

Unit: RMB million

	Risk exposure	Unmitigated risk exposure
Cash assets	20,744.8	20,744.8
Claims to the Central Government and the Central Bank	5,283.9	5,283.9
Claims to public sector entities	17,765.0	17,765.0
Claims to PRC financial institutions	41,406.0	38,897.7
Claims to financial institutions registered in other countries/regions	522.5	522.5
Claims to general businesses	152,258.0	144,996.3
Claims to qualified small and micro enterprises	2,393.5	1,800.0
Claims to individuals	38,632.2	38,586.3
Residual value of leased assets	21.4	20.1
Equity investments	311.5	301.2
Others	3,932.3	3,932.3
On-balance sheet items of asset securitization	552.9	552.9
Off-balance sheet credit risk exposure	37,613.5	7,263.5
Total	321,437.5	280,666.5

We continue to standardize the management of credit risk mitigation tools, and have formulated the 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 have facilitated the effective function of risk mitigation. Our credit risk mitigation tools include collateral, pledges and guarantees. The pledge includes financial pledge, accounts receivable and other pledge (warehouse receipts, intellectual property rights, inventories, machinery and equipment, etc.). The collaterals mainly include land, real estate and other real estates. 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 qualified mitigation tools calculated by us in accordance with the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) amounted to RMB40.771 billion, all of which are in substance.

4. 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, equity 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	114.1
General risk	82.5
Specific risk	31.6
Equity risk	—
General risk	—
Specific risk	—
Exchange rate risk	—
Commodity risk	—
Option risk	—
Specific risk to risk exposure of asset securitization in transaction accounts	—
Total	114.1

(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) (《商業銀行資本管理辦法(試行)》), operational risk capital covers our overall business scale and corresponding operational risk exposure.

5. MATERIAL RELATED PARTY TRANSACTIONS

In accordance with the requirements of the CBIRC, during the Reporting Period, on a group basis, there were two resolutions on material related party transactions approved by the Board, namely Shandong Hi-Speed Group Co., Ltd. and Shandong Tongda Financial Leasing Co., Ltd.. The material related party transactions were related party transactions with 18 companies including 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 balance of material related party transactions (excluding net deposits, and security deposits, etc.) was RMB5,096,552 thousand, details of which are as follows:

Unit: RMB'000

Name of related party	Type of business	Major type of guarantee	Credit balance of material related party transactions (excluding net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Tongda Financial Leasing Co., Ltd.	Interbank borrowing	Credit	300,000	1.13%
Shandong Tongda Financial Leasing Co., Ltd.	Interbank borrowing	Credit	300,000	1.13%
Shandong Tongda Financial Leasing Co., Ltd.	Interbank borrowing	Credit	300,000	1.13%
Shandong Tongda Financial Leasing Co., Ltd.	Interbank borrowing	Credit	250,000	0.95%
Shandong Tongda Financial Leasing Co., Ltd.	Interbank borrowing	Credit	200,000	0.76%
Shandong Tongda Financial Leasing Co., Ltd.	Interbank borrowing	Credit	200,000	0.76%
Shandong Tongda Financial Leasing Co., Ltd.	Interbank borrowing	Credit	200,000	0.76%
Shandong Tongda Financial Leasing Co., Ltd.	Interbank borrowing	Credit	200,000	0.76%
Shandong Hi-Speed Investment Holdings Co., Ltd.	Loan	Guarantees	500,000	1.89%
Dongying United Petrochemical Company Limited	Letters of credit	Guarantees	352,968	1.33%
Dongying United Petrochemical Company Limited	Letters of credit	Guarantees	86,850	0.33%
Dongying United Petrochemical Company Limited	Letters of credit	Guarantees	54,662	0.21%
Shangao International Commercial Factoring (Shenzhen) Co., Ltd. Jinan Branch	Loan	Guarantees	188,500	0.71%
Shangao International Commercial Factoring (Shenzhen) Co., Ltd. Jinan Branch	Loan	Guarantees	140,000	0.53%
Shangao International Commercial Factoring (Shenzhen) Co., Ltd. Jinan Branch	Loan	Guarantees	140,000	0.53%
Shandong Hi-Speed Tongda Financial Leasing Co., Ltd.	Loan	Guarantees	198,000	0.75%
Shandong Hi-Speed Tongda Financial Leasing Co., Ltd.	Loan	Guarantees	98,000	0.37%
Shandong Hi-Speed Tonghe Investment Co., Ltd.	Loan	Guarantees	283,510	1.07%
Shandong Hi-Speed Group Co., Ltd.	Debt investment	Credit	200,000	0.76%
Shandong Hi-Speed Group Co., Ltd.	Held-for-trading financial asset	Credit	800	0.00%
Shandong Hi-Speed Group Co., Ltd.	Held-for-trading financial asset	Credit	400	0.00%

5. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of material related party transactions (excluding net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong High-Speed Forest Industry Supply Chain Co., Ltd.	Loan	Collateral	200,000	0.76%
Shandong Hi-Speed Weihai Development Company Limited	Loan	Collateral	20,000	0.08%
Shandong Hi-Speed Weihai Development Company Limited	Loan	Collateral	19,500	0.07%
Shandong Hi-Speed Weihai Development Company Limited	Loan	Collateral	19,500	0.07%
Shandong Hi-Speed Weihai Development Company Limited	Loan	Collateral	10,000	0.04%
Shandong Hi-Speed Weihai Development Company Limited	Loan	Collateral	9,950	0.04%
Shandong Hi-Speed Weihai Development Company Limited	Loan	Collateral	9,800	0.04%
Shandong Hi-Speed Weihai Development Company Limited	Loan	Collateral	8,600	0.03%
Shandong Hi-Speed Weihai Development Company Limited	Bank acceptance bills	Collateral	6,000	0.02%
Shandong Hi-Speed Weihai Development Company Limited	Loan	Collateral	4,400	0.02%
Shandong Hi-Speed Weihai Development Company Limited	Loan	Collateral	2,800	0.01%
Shandong Hi-Speed Weihai Development Company Limited	Loan	Collateral	1,400	0.01%
Shandong Hi-Speed Weihai Development Company Limited	Loan	Collateral	840	0.00%
Shandong Hi-Speed Weihai Development Company Limited	Loan	Collateral	550	0.00%
Shandong Hi-Speed Weihai Development Company Limited	Loan	Collateral	450	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Loan	Collateral	98,500	0.37%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	2,000	0.01%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	1,500	0.01%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	655	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	452	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	450	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	400	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	350	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	300	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	200	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	200	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	200	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	200	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	200	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	200	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	24	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	20	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	5	0.00%
Shandong Hi-Speed Information Engineering Co., Ltd.	Letters of Guarantee	Guarantees	3	0.00%
Shandong Hi-Speed Lunan Logistics Development Co., Ltd.	Loan	Guarantees	85,990	0.33%
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	11,023	0.04%

5. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of material related party transactions (excluding net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	8,484	0.03%
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	7,835	0.03%
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	6,448	0.02%
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	2,000	0.01%
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	2,000	0.01%
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	2,000	0.01%
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	1,002	0.00%
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	951	0.00%
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	788	0.00%
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	500	0.00%
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	390	0.00%
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	267	0.00%
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	249	0.00%
Shandong High Speed Building Materials Group Co., Ltd.	Letters of Guarantee	Guarantees	240	0.00%
Shandong Rural Revitalization Big Data Co., Ltd.	Loan	Guarantees	40,000	0.15%
Qilu Wisdom (Shandong) Digital Technology Co., Ltd.	Loan	Guarantees	30,000	0.11%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	6,292	0.02%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	3,650	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	3,520	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	3,513	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	2,764	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	2,426	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	1,660	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	1,553	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	1,007	0.00%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	756	0.00%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	711	0.00%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	504	0.00%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	258	0.00%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	255	0.00%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	239	0.00%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	50	0.00%
Shandong High-Speed Engineering Project Management Co., Ltd.	Letters of Guarantee	Guarantees	48	0.00%
Shandong Hi-Speed Service Area Management Co., Ltd.	Letters of Guarantee	Guarantees	25,345	0.10%
Shandong Hi-Speed Xinlian Technology (Holding) Co., Ltd.	Letters of Guarantee	Guarantees	8,000	0.03%
Shandong Hi-Speed Xinlian Technology (Holding) Co., Ltd.	Letters of Guarantee	Guarantees	4,000	0.02%

5. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of material related party transactions (excluding net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Hi-Speed Xinlian Technology (Holding) Co., Ltd.	Letters of Guarantee	Guarantees	3,500	0.01%
Shandong Hi-Speed Xinlian Technology (Holding) Co., Ltd.	Letters of Guarantee	Guarantees	2,000	0.01%
Shandong Hi-Speed Xinlian Technology (Holding) Co., Ltd.	Letters of Guarantee	Guarantees	2,000	0.01%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	1,656	0.01%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	1,144	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	1,063	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	733	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	605	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	437	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	372	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	340	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	339	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	320	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	304	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	264	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	206	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	193	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	185	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	159	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	113	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	112	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	109	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	96	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	82	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	63	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	62	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	19	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd.	Letters of Guarantee	Guarantees	19	0.00%
Total			5,096,552	19.28%

During the reporting period, there were material non-credit related party transactions between the Bank and the related companies of Shandong Hi-Speed Group Co., Ltd., including the Commodity Procurement Contract for Procurement Project of Video Conferencing Equipment for Weihai City Commercial Bank Co., Ltd. signed by the Bank and Shandong Hi-Speed Information Engineering Co., Ltd. at a contract price of RMB1,067 thousand.

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