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BQD  **青岛银行**

Bank of Qingdao Co., Ltd.*

青島銀行股份有限公司*

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

(H Shares Stock Code: 3866)

(Preference Shares Stock Code: 4611)

Annual Results for the year ended 31 December 2021

The board of directors (the “**Board**”) of Bank of Qingdao Co., Ltd. (the “**Bank**” or “**Bank of Qingdao**”) is pleased to announce the audited annual results (the “**Annual Results**”) of the Bank and its subsidiaries (the “**Company**”) for the year ended 31 December 2021 (the “**Reporting Period**”) prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board. The Board and its audit committee have reviewed and confirmed the Annual Results.

Unless otherwise stated, the currency of the amounts referred to in this results announcement is Renminbi (“**RMB**”). The financial information presented in this results announcement is the consolidated financial information of the Company.

SECTION 1 CORPORATE BASIC INFORMATION

1.1 Corporate Basic Information

Legal name in Chinese:	青島銀行股份有限公司 (Abbreviation: 青島銀行)
Legal name in English:	BANK OF QINGDAO CO., LTD. (Abbreviation: BANK OF QINGDAO)
Legal representative:	Guo Shaoquan
Authorised representatives:	Guo Shaoquan, Lu Lan

Class of Shares	Stock Abbreviation	Stock Code	Listing Exchange
A shares	BQD	002948	Shenzhen Stock Exchange
H shares	BQD	3866	The Stock Exchange of Hong Kong Limited (the “ Hong Kong Stock Exchange ”)
Offshore preference shares	BQD 17USDPREF	4611	Hong Kong Stock Exchange

1.2 Contact Persons and Contact Details

Secretary to the Board:	Lu Lan
Joint company secretaries:	Lu Lan, Yu Wing Sze
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SECTION 2 FINANCIAL HIGHLIGHTS

Key Accounting Data and Financial Indicators

Item	2021	2020	Year-on-year	2019	2018	2017
Business Performance (RMB' 000)			Change (%)			
Net interest income	7,645,625	8,146,531	(6.15)	6,846,055	4,464,029	4,802,408
Net non-interest income	3,492,748	2,401,543	45.44	2,776,054	2,900,809	765,185
Operating income	11,138,373	10,548,074	5.60	9,622,109	7,364,838	5,567,593
Operating expenses	(3,915,738)	(3,676,022)	6.52	(3,166,762)	(2,505,650)	(1,818,922)
Credit/Asset impairment losses ⁽¹⁾	(3,966,971)	(4,143,756)	(4.27)	(3,626,792)	(2,383,172)	(1,378,904)
Profit before taxation	3,225,410	2,728,296	18.22	2,828,555	2,476,016	2,369,767
Net profit	2,993,213	2,453,298	22.01	2,335,522	2,043,389	1,903,607
Net profit attributable to shareholders of the Bank	2,922,664	2,394,072	22.08	2,284,815	2,023,352	1,900,252
Per share (RMB/share)			Change (%)			
Earnings per share (before adjustment) ⁽²⁾						
Basic earnings per share	0.54	0.42	28.57	0.39	0.37	0.47
Diluted earnings per share	0.54	0.42	28.57	0.39	0.37	0.47
Earnings per share (after adjustment) ⁽²⁾						
Basic earnings per share	0.51	0.40	27.50	0.37	0.36	0.44
Diluted earnings per share	0.51	0.40	27.50	0.37	0.36	0.44
Dividend per share ⁽³⁾	0.16	0.18	(11.11)	0.20	0.20	0.20

Item	31 December 2021	31 December 2020	Year-on-year Change (%)	31 December 2019	31 December 2018	31 December 2017
Scale indicators (RMB' 000)			Change (%)			
Total assets ⁽⁴⁾	522,249,610	459,827,605	13.58	373,622,150	317,658,502	306,276,092
Loans and advances to customers:						
Total loans to customers ⁽⁴⁾	244,205,480	206,747,221	18.12	172,795,443	126,386,870	98,061,379
Add: Accrued interest	829,555	899,064	(7.73)	772,480	521,250	N/A
Less: Provision for impairment on loans and advances to customers measured at amortised cost ⁽¹⁾	(6,426,337)	(5,287,801)	21.53	(4,409,632)	(3,541,229)	(2,546,699)
Loans and advances to customers	238,608,698	202,358,484	17.91	169,158,291	123,366,891	95,514,680
Provision for loan impairment ⁽¹⁾	(6,439,606)	(5,302,582)	21.44	(4,422,549)	(3,557,806)	(2,546,699)
Of which: Impairment provision for loans and advances to customers at fair value through other comprehensive income ⁽¹⁾	(13,269)	(14,781)	(10.23)	(12,917)	(16,577)	N/A
Total liabilities ⁽⁴⁾	488,921,882	428,920,747	13.99	343,144,232	290,161,778	280,152,883
Deposits from customers:						
Total deposits from customers ⁽⁴⁾	313,524,923	272,231,484	15.17	212,790,909	175,675,849	160,083,783
Add: Accrued interest	4,440,884	3,519,226	26.19	2,634,494	2,235,398	N/A
Deposits from customers	317,965,807	275,750,710	15.31	215,425,403	177,911,247	160,083,783
Share capital	4,509,690	4,509,690	–	4,509,690	4,058,713	4,058,713
Equity attributable to equity shareholders of the Bank	32,635,495	30,285,174	7.76	29,915,460	26,984,973	25,629,854
Equity attributable to shareholders	33,327,728	30,906,858	7.83	30,477,918	27,496,724	26,123,209
Net capital base	47,075,226	37,806,580	24.52	39,252,505	36,021,656	33,806,113
Of which: Net core tier-one capital	24,910,985	22,384,998	11.28	22,224,697	19,268,600	17,733,763
Other tier-one capital	7,912,511	7,909,292	0.04	7,901,623	7,894,330	7,874,674
Tier-two capital	14,251,730	7,512,290	89.71	9,126,185	8,858,726	8,197,676
Total risk-weighted assets	297,412,693	267,941,143	11.00	265,908,365	229,776,495	203,708,884
Per share (RMB/share)			Change (%)			
Net assets per share attributable to shareholders of the Bank (before adjustment) ⁽⁵⁾	5.50	4.97	10.66	4.89	4.71	4.38
Net assets per share attributable to shareholders of the Bank (after adjustment) ⁽⁵⁾	5.20	4.71	10.40	4.63	4.47	4.15

Item	2021	2020	Year-on-year	2019	2018	2017
Profitability indicators (%)			Change			
Return on average total assets ⁽⁶⁾	0.61	0.59	0.02	0.68	0.66	0.65
Weighted average return on net assets ⁽²⁾	10.40	8.56	1.84	8.27	8.36	10.80
Net interest spread ⁽⁷⁾	1.87	2.14	(0.27)	2.10	1.67	1.57
Net interest margin ⁽⁸⁾	1.79	2.13	(0.34)	2.13	1.63	1.72
Net fee and commission income to operating income	17.55	16.04	1.51	12.65	11.76	14.89
Cost-to-income ratio ⁽⁹⁾	33.90	33.59	0.31	31.86	33.01	31.68

Item	31 December 2021	31 December 2020	Year-on-year	31 December 2019	31 December 2018	31 December 2017
Asset quality indicators (%)			Change			
Non-performing loan ratio	1.34	1.51	(0.17)	1.65	1.68	1.69
Provision coverage ratio	197.42	169.62	27.80	155.09	168.04	153.52
Loan provision ratio	2.64	2.56	0.08	2.56	2.82	2.60

Indicators of capital adequacy ratio (%)			Change			
Core tier-one capital adequacy ratio ⁽¹⁰⁾	8.38	8.35	0.03	8.36	8.39	8.71
Tier-one capital adequacy ratio ⁽¹⁰⁾	11.04	11.31	(0.27)	11.33	11.82	12.57
Capital adequacy ratio ⁽¹⁰⁾	15.83	14.11	1.72	14.76	15.68	16.60
Total equity to total assets ratio	6.38	6.72	(0.34)	8.16	8.66	8.53

Other indicators (%)			Change			
Liquidity coverage ratio	179.54	152.42	27.12	142.27	125.95	173.05
Liquidity ratio	73.28	65.44	7.84	68.84	60.55	56.36

Notes :

- (1) After the adoption of International Financial Reporting Standard 9 (IFRS 9) – Financial Instruments in 2018, the expected credit loss model has replaced incurred loss model for the measurement of impairment of financial instruments. “Credit impairment losses” reflect the credit loss recognized by the provision for credit losses of financial instruments as required. “Provision for loan impairment” includes “provision for impairment on loans and advances to customers measured at amortised costs” and “impairment provision for loans and advances to customers measured at fair value through other comprehensive income”.
- (2) Earnings per share and weighted average return on net assets were calculated in accordance with the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Computation 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)》. The Bank completed A share and H share rights issue in January and February 2022 respectively. In accordance with the Accounting Standards for Enterprises No. 34 – Earnings per Share and the relevant application guidelines, Right issue is an offer of ordinary shares to all existing shares at a price lower than the prevailing market price of the shares. In fact, it can be construed as a hybrid of issuing shares at a market price and no-consideration shares. The Bank recalculated the earnings per Share for the period under comparison in consideration of the factors relating to stock dividend in the rights issue. For details, please refer to “13. Basic and Diluted Earnings per Share” under “Notes to the Financial Statements” in this results announcement. Weighted average return on net assets increased by 1.84 percentage points compared with the previous year, mainly due to the increase

in net profit attributable to ordinary shareholders of the Bank. The Bank issued offshore preference shares in 2017. Therefore, in calculating earnings per share and weighted average return on net assets for the period, the dividends for preference shares for the period have been deducted from the “net profit attributable to ordinary shareholders of the Bank” and the effect from preference shares has been deducted from the “weighted average net assets”.

- (3) Dividend per share represents actual dividend per share attributable to ordinary shareholders of the Bank (not adjusted with taking account of the bonus issue factors included in rights issue), and the dividend per share of 2021 is subject to approval by the general meeting.
- (4) For details of the structure of total assets, total liabilities, total loans to customers and total deposits from customers, please refer to “6. Analysis of Major Items of the Statement of Profit or Loss” under “Section 3 Management Discussion and Analysis” of this results announcement.
- (5) Net assets per share attributable to ordinary shareholders of the Bank = (equity attributable to equity shareholders of the Bank – other equity instruments)/the number of ordinary shares at the end of the period (the adjusted number of ordinary shares at the end of the period has taken account of the bonus issue factors included in rights issue).
- (6) Return on average total assets = net profit/average balance of total assets at the beginning and at the end of the period, of which total assets at the beginning of 2018 is the balance after the adoption of IFRS 9 - Financial Instruments, and total assets at the beginning of 2019 is the balance after the adoption of International Financial Reporting Standard 16 – Leases.
- (7) Net interest spread = average yield of interest-earning assets – average cost rate of interest-bearing liabilities.
- (8) Net interest margin = net interest income/average balance of interest-earning assets.
- (9) Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income.
- (10) The relevant indicators of capital adequacy ratio were calculated in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) 《商業銀行資本管理辦法(試行)》 and other relevant regulatory regulations.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

1. Status of the Industry Which We Was Engaged in during the Reporting Period

In 2021, the global economy continued to recover as the economic impact of COVID-19 was marginally weakening. In the context of complex, changeable domestic and international environments, China deepened the supply-side structural reform with firm, precise macroeconomic policies to provide key support for sustained, stable economic recovery. With the help of policies, China’s economy saw continued robust recovery, reasonable growth, resilient endogenous power, and, more prominently, high-quality development. Innovation-driven, green development became an important engine leading the high-quality development of China’s economy.

In 2021, the economy remained stable and improved in quality in Shandong Province and Qingdao City. Under pressure from a combination of normalized epidemic prevention and a complex external environment, Shandong Province succeeded in keeping a good momentum of high-quality development, improving consumption, investment and exporting both in size and quality, ever replacing old growth drivers with new ones, and continuously consolidating the economic foundation. Qingdao coincided with the province in significantly enhanced economic development. The continuously increasing development momentum provided a solid guarantee for the achievement of the goal of “steady growth” in 2022.

2. The Bank's Principal Business during the Reporting Period

The Bank, the predecessor of which known as Qingdao City Cooperative Bank and Qingdao City Commercial Bank, was established in November 1996 and is headquartered in Qingdao, Shandong Province. Having experienced several years of development, the Bank has constantly improved in terms of corporate governance, risk management and control and IT construction, and has developed distinctive features of “sound governance, attentive service, solid risk control and prominent technology”. In December 2015, the Bank's H shares were listed on the Hong Kong Stock Exchange; in January 2019, the Bank's A shares were listed on the Shenzhen Stock Exchange.

The Bank mainly offers several services and products such as corporate and personal deposits, loans, settlement to its customers, and its development is driven by three major business segments including retail banking, corporate banking and financial market business, which have formed a stronger customer base and shaped new financial business model of distinctive and high-quality development. The Bank's business is based in Qingdao with a footprint extending to other regions of Shandong Province. As at the end of the Reporting Period, there were 16 branches in major cities of Shandong Province such as Jinan, Yantai and Weihai. The total number of branch offices reached 166. The Bank has two subsidiaries. In February 2017, the Bank initiated the establishment of BQD Financial Leasing Company Limited (“**BQD Financial Leasing**”), which was owned as to 51% by the Bank. In September 2020, the Bank initiated the establishment of BQD Wealth Management Company Limited (“**BQD Wealth Management**”), which was wholly owned by the Bank. As at the end of the Reporting Period, the Bank had more than 4,000 employees.

As at the end of the Reporting Period, the Company's total assets amounted to RMB522.250 billion, total liabilities amounted to RMB488.922 billion, capital adequacy ratio was 15.83%, and non-performing loan ratio was 1.34%, down by 0.17 percentage point as compared with that at the end of the previous year. During the Reporting Period, the accumulated net profit was RMB2.993 billion, representing an increase of 22.01% over the same period of last year.

3. Analysis of the Core Competitiveness

The Bank continuously enhanced its sustainable development capacity around the development vision of “Innovative Finance, Brilliant Banking” firmly in line with the strategic goal of “being a bank that offers new quality financial products with advanced technology, lean management and outstanding features”. The Bank manifested its core competitiveness in the following aspects:

(1) **The high-quality and diversified shareholder structure and market-oriented management team have laid a solid foundation for corporate governance and business development.** After years of careful layout, the Bank has gradually formed a diversified shareholding structure covering private enterprises, overseas investors, professional institutional investors, state-owned enterprises and public shareholders, which is a typical representative of mixed ownership. The Bank's major shareholders have a balanced shareholding ratio and are all stable long-term investors who can act in a scientific and reasonable manner in accordance with the laws to support the Bank's long-term development. The senior management team of the Bank is hired through market-oriented recruitment and has in-depth industry knowledge and market-oriented management philosophy.

- (2) **Steady implementation of the double improvement plan and in-depth improvement of management.** The Bank initiated a double promotion plan for business and management in an all-round way. Leveraging technology empowerment development, business approval transformation and operation management optimization, the Bank will upgrade customer experience, optimize system processes, improve business processing efficiency, continuously develop business, deepen credit approval, optimize settlement and accounting management service, promote digital transformation to comprehensively enhance management.
- (3) **Adhering to excellent BQD services to improve customer experience.** Taking the opportunity of intelligent and digital upgrading, the Bank focused on creating user-friendly product experience and flexible, desirable service experience, further optimized and adjusted the service management path with measures including enhancing interaction, creating processes and strengthening experience and combined with studying data, underpinning intelligence, and improving management, overall coordinated, implemented responsibility, made concerted efforts to effectively strengthen the omni-channel customer experience, and further expanded the intension and extension of BQD service in the main tone of steady quality improvement.
- (4) **Constantly improved risk system with continuously strengthened risk control.** The Bank explored to implement unified credit granting, unified risk appetite, and unified loan approval standards, so as to upgrade the Group's ability to control risks and continuously improve a comprehensive, all-involved, whole-process risk management system. At the Group level, the unified credit granting and centralized approval system had been established, consolidated financial statement management and comprehensive risk management had been officially launched, the professional loan approval model had become ever mature, and industry and customer concentration management had been further strengthened. The Bank continued to tighten the comprehensive management of asset quality, strengthened the comprehensive improvement of overdue loans, non-performing loans and other risky loans, and strove to minimize the costs of various risks.
- (5) **Technology-empowered operation and management, and accelerated digital transformation.** The Bank vigorously promoted mobilization, onlineization and digitization, and actively enhanced quality and efficiency with cutting-edge financial technology. Ever accelerated digital transformation, continuously improved data governance system and an organic combination of management and technical means further promoted a light, agile, intelligent and efficient organizational structure. The Bank had built a multi-level, three-dimensional network security protection system to improve the level of security control and continued to improve the information technology risk management ability. The service system, operating stably and without major information technology events and network security incidents throughout the year, effectively supported the Bank's management, operation and service development.

4. Honors and Awards

In January 2021, the Bank was granted the “2020 Shandong Socially Responsible Enterprise” award jointly selected by Dazhong Daily, Federation of Industry and Commerce of Shandong Province, State-owned Assets Supervision and Administration Commission of Shandong Provincial People’s Government and Shandong Administration for Market Regulation.

In May 2021, the Bank was granted the award of “Most Valuable Brand in Qingdao in 2021 China Brand Day” in the activity of fifth China Brand Day.

In June 2021, the list of 2021 “China’s 500 Most Valuable Brands” was announced. With a brand value of RMB18.1 billion, the Bank was selected for the fifth time and ranked 360th.

In October 2021, the Bank entered the list of Top 500 Chinese Service Enterprises in 2021, ranking 270th.

In November 2021, at the 16th Annual Finance Summit of Asia, the Bank was awarded the “2021 Asian Outstanding Risk Management Bank”.

In November 2021, the China Banking Association released the 2021 “GYROSCOPE” evaluation result of steady development ability of commercial banks, in which the Bank ranked first in the corporate governance ability of city commercial banks.

In November 2021, at the 2021 China Banking Wealth Management Forum and the 2nd China Banking Wealth Management Golden Bull Award Ceremony, BQD Wealth Management, a subsidiary of the Bank, was granted the “Golden Bull Potential Award for Bank Wealth Management Company”, and its product was granted the “Golden Bull Award for Bank Financial Products”.

In December 2021, at the 18th International Finance Forum 2021 Annual Meeting by International Finance Forum (IFF), the blue finance project of the Bank was granted the “2021 Global Green Finance Innovation Award”.

In December 2021, the Bank was granted the “Five-Star Diamond Award”, the highest award in the global service field, for six consecutive years. It is the only city commercial bank in China that has been granted such award for six consecutive years.

5. Summary of Overall Operations

5.1 Status of Key Operational Indicators Achievements

- (1) Total assets amounted to RMB522.250 billion, representing an increase of RMB62.422 billion or 13.58% as compared with that at the end of the previous year;
- (2) Total loans to customers amounted to RMB244.205 billion, representing an increase of RMB37.458 billion or 18.12% as compared with that at the end of the previous year;
- (3) Total deposits from customers amounted to RMB313.525 billion, representing an increase of RMB41.293 billion or 15.17% as compared with that at the end of the previous year;
- (4) Operating income amounted to RMB11.138 billion, representing a year-on-year increase of RMB0.590 billion or 5.60%; net profit amounted to RMB2.993 billion, representing a year-on-year increase of RMB0.540 billion or 22.01%; net profit attributable to shareholders of the Bank amounted to RMB2.923 billion, representing a year-on-year increase of RMB0.529 billion or 22.08%;
- (5) Non-performing loan ratio was 1.34%, representing a decrease of 0.17 percentage point as compared with that at the end of the previous year; provision coverage ratio was 197.42%, representing an increase of 27.80 percentage points as compared with that at the end of the previous year; capital adequacy ratio was 15.83%, representing an increase of 1.72 percentage points as compared with that at the end of the previous year.
- (6) Return on average total assets was 0.61%, representing an increase of 0.02 percentage point as compared with that in the previous year;
- (7) Basic earnings per share (before adjustment) was RMB0.54, representing a year-on-year increase of RMB0.12 or 28.57%; basic earnings per share (after adjustment) was RMB0.51, representing a year-on-year increase of RMB0.11 or 27.50%; weighted average return on net assets was 10.40%, representing a year-on-year increase of 1.84 percentage points.

5.2 Major Tasks of Operational Management

- (1) The Bank reached a new level in terms of size, ushering in a new development stage. As at the end of the Reporting Period, the Company's total assets surpassed RMB500.0 billion, amounting to RMB522.250 billion, representing an increase of RMB62.422 billion or 13.58% as compared with that at the end of the previous year. Total deposits from customers amounted to RMB313.5 billion and total loans to customers amounted to RMB244.2 billion, both with double-digit year-over-year increase, and operating income surpassed RMB11.0 billion.

- (2) The Bank focused on the customer group to consolidate foundation and adopted hierarchical operation to improve structure. For the retail business, the Bank continued to deepen the construction of the “full product, full channel and full customer base” system. As at the end of the Reporting Period, our total number of retail customers reached 8.22 million, an increase of 1.89 million over the end of the previous year, of which, there were 53,100 new customers with financial assets of more than RMB200 thousand, a year-on-year increase of 21.53%. As at the end of the Reporting Period, through services benefiting farmers and community services, we acquired over 100 thousand customers. For the wholesale business, the Bank kept “improving on both ends and driving the middle tier” to focus on the construction of customer bases. As at the end of the Reporting Period, our number of corporate customers^{Note 1} reached 179.7 thousand, an increase of 29.9 thousand over the end of the previous year. The number of strategic customers increased by 47.
- (3) Businesses are connected and interacted to improve services and increase the synergy of group development. The Bank focused on interactive development of financial investment, bond underwriting and deposit and loan business, so as to continuously improve the comprehensive service capacity. BQD Leasing explored special business fields such as Benefiting Agriculture, Blue Ocean(藍色海洋) and Green Finance(綠色金融). During the Reporting Period, new investment in leasing assets was RMB6.699 billion, with the asset size standing at the milestone of RMB10.0 billion. BQD Wealth Management continued to expand agency sales and direct sales channels. As at the end of the Reporting Period, the scale of wealth management was RMB167.804 billion and the the scale of wealth management was RMB181.745 billion, the Bank continued to improve its net-worth transformation, and the net-worth wealth management products accounted for 100% of the Bank’s products.
- (4) The risk control system continued to improve and risk control continued to be enhanced. The Group established a unified credit and centralized approved system. The professional loan review model gradually became matured, and our management on the industry and customer concentration has further strengthened. During the Reporting Period, the system for unified credit approval, credit risk and financial consolidation management was officially launched. This ensured the control and integrated operation of credit approval by our headquarters. We continued to strengthen our full control on asset quality, strengthened the comprehensive management of risk loans, including overdue loans and non-performing loan. We included all loans due over 60 days and corporate loans due over 30 days into non-performing loans. At the end of the Reporting Period, the non-performing loan ratio was 1.34%, representing a decrease of 0.17 percentage point as compared with that at the end of the previous year.

Note 1: Unlike previous years’ statistical information, the Bank collected statistics on the number of customers of the Company as at the end of the Reporting Period based on valid accounts.

- (5) Digital transformation accelerated, and technology empowered operation and management. 47 projects, including the loan approval system named “Xingyun Intelligent”(星雲智慧) platform, were successfully launched, and 43 projects, including the “digital transformation of corporate business”, were under construction. Our first self-operated online product “Easy loans for marine financing (海融易貸)” was officially put into operation, achieving innovative development of inclusive finance; the mobile bank app ver. 6.0 was launched, and monthly active users exceeded one million; and AI customer service robots were set in all channels, and served more than 3 million users in total. The second phase of “Eagle Eye 360 Intelligent Risk Monitoring Platform”(鷹眼360智能風控平台) were completed, and 4,016 accounts with major risk were discovered and blocked during the year; the first phase of the smart enterprise management system was launched, doubling work efficiency.

6. Analysis of Major Items of the Statement of Profit or Loss

6.1 Financial Performance Summary

In 2021, the Company’s profit before taxation amounted to RMB3.225 billion, representing a year-on-year increase of RMB497 million or 18.22%; net profit amounted to RMB2.993 billion, representing a year-on-year increase of RMB540 million or 22.01%. During the Reporting Period, while the Company continued to expand its scale, it guaranteed the growth of operating income by continuously adjusting its asset structure guided by the regulatory policy, and achieved relatively rapid profit growth by strictly controlling asset quality, expenses and tax cost. Our effective income tax rate was 7.20%, representing a year-on-year decrease of 2.88 percentage points, mainly due to the year-on-year increase in tax-free income from government bonds, local government bonds and funds. The following table sets forth the changes in the Company’s major profit items during the periods indicated.

Unit: RMB’ 000

Item	2021	2020	Change in amount	Change (%)
Net interest income	7,645,625	8,146,531	(500,906)	(6.15)
Net fee and commission income	1,955,126	1,691,624	263,502	15.58
Net trading gains, net gains arising from investments and other operating income	1,537,622	709,919	827,703	116.59
Operating expenses	(3,915,738)	(3,676,022)	(239,716)	6.52
Credit impairment loss	(3,966,971)	(4,143,756)	176,785	(4.27)
Other assets impairment losses	(30,254)	-	(30,254)	N/A
Profit before taxation	3,225,410	2,728,296	497,114	18.22
Income tax expense	(232,197)	(274,998)	42,801	(15.56)
Net profit	2,993,213	2,453,298	539,915	22.01
Of which: Net profit attributable to shareholders of the Bank	2,922,664	2,394,072	528,592	22.08
Net profit attributable to non-controlling interests	70,549	59,226	11,323	19.12

6.2 Operating Income

In 2021, the Company's operating income amounted to RMB11.138 billion, representing a year-on-year increase of RMB590 million or 5.60%, mainly due to the fact that while boosting support for the real economy and increasing loan supply, the Company vigorously expanded intermediary services such as wealth management and credit cards businesses, and increased the proportion of non-interest investments based on the overall trend of the bond market, resulting in relatively rapid growth in non-interest income such as net fee and commission income and investment and valuation income. Among the operating income, net non-interest income accounted for 31.36%, representing a year-on-year increase of 8.59 percentage points, of which, net fee and commission income accounted for 17.55%, representing a year-on-year increase of 1.51 percentage points. The following table sets forth the principal components of the Company's operating income and the changes during the periods indicated.

Unit: RMB' 000

Item	2021		2020		Percentage changes (percentage point)
	Amount	Percentage (%)	Amount	Percentage (%)	
Net interest income	7,645,625	68.64	8,146,531	77.23	(8.59)
Interest income	18,208,935	163.48	17,168,922	162.77	0.71
Among which: Loans and advances to customers	11,556,834	103.76	10,328,702	97.91	5.85
Financial investments	5,264,161	47.26	5,517,641	52.31	(5.05)
Deposits with banks and other financial institutions	25,529	0.23	7,146	0.07	0.16
Placements with banks and other financial institutions	8,194	0.07	82,898	0.79	(0.72)
Deposits with central bank	385,253	3.46	360,330	3.42	0.04
Financial assets held under resale agreements	347,966	3.12	246,435	2.34	0.78
Long-term receivables	620,998	5.58	625,770	5.93	(0.35)
Interest expense	(10,563,310)	(94.84)	(9,022,391)	(85.54)	(9.30)
Net non-interest income	3,492,748	31.36	2,401,543	22.77	8.59
Including: Net fee and commission income	1,955,126	17.55	1,691,624	16.04	1.51
Net trading losses, net gains arising from investments and other operating income	1,537,622	13.81	709,919	6.73	7.07
Operating income	11,138,373	100.00	10,548,074	100.00	-

6.3 Net Interest Income

In 2021, the Company's net interest income amounted to RMB7.646 billion, representing a year-on-year decrease of RMB501 million or 6.15%, mainly due to a downward interest rate of the market, the lower yield of interest-earning assets such as loans and the narrowing of the net interest margin. The following table sets forth the average balance of interest-earning assets and interest-bearing liabilities items, interest income/expense and average yield/cost rate of the Company for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities represent the daily average balances.

Unit: RMB' 000

Item	2021			2020		
	Average Balance	Interest Income/Expense	Average Yield/Cost Rate	Average Balance	Interest Income/Expense	Average Yield/Cost Rate
Interest-earning assets						
Loans and advances to customers	227,377,059	11,556,834	5.08%	193,737,884	10,328,702	5.33%
Financial investments	136,807,646	5,264,161	3.85%	132,770,352	5,517,641	4.16%
Deposits and placements with banks and other financial institutions ⁽¹⁾	23,150,856	381,689	1.65%	19,658,882	336,479	1.71%
Deposits with central bank	30,102,244	385,253	1.28%	25,631,386	360,330	1.41%
Long-term receivables	10,761,896	620,998	5.77%	11,177,576	625,770	5.60%
Total	428,199,701	18,208,935	4.25%	382,976,080	17,168,922	4.48%
Interest-bearing liabilities						
Deposits from customers	286,986,218	5,986,659	2.09%	248,143,839	5,058,536	2.04%
Deposits and placements from banks and other financial institutions ⁽²⁾	49,895,666	1,249,457	2.50%	51,285,774	1,219,121	2.38%
Debt securities issued	89,279,171	2,927,687	3.28%	79,022,457	2,539,802	3.21%
Borrowings from central bank	17,127,859	399,507	2.33%	7,793,986	204,932	2.63%
Total	443,288,914	10,563,310	2.38%	386,246,056	9,022,391	2.34%
Net interest income	/	7,645,625	/	/	8,146,531	/
Net interest spread	/	/	1.87%	/	/	2.14%
Net interest margin	/	/	1.79%	/	/	2.13%

Notes:

- Deposits and placements with banks and other financial institutions include financial assets held under resale agreements.
- Deposits and placements from banks and other financial institutions include financial assets sold under repurchase agreements.

In 2021, the average balance of interest-earning assets was RMB428.200 billion, representing a year-on-year increase of RMB45.224 billion or 11.81%. Net interest margin was 1.79%, representing a year-on-year decrease of 0.34 percentage point. Net interest spread was 1.87%, representing a year-on-year decrease of 0.27 percentage point. Although the scale of interest-earning assets greatly expanded, the fierce competition of market bidding, together with the factors such as increasingly supporting the real economy and reducing the financing cost for enterprises reduced the yield of interest-earning assets such as loans.

The following table sets forth the breakdown of changes in the Company's interest income and interest expense due to volume and rate changes for the periods indicated. The volume changes were measured by changes in average balance; rate changes were measured by changes in average rate, and changes in interest income and expense due to volume and rate changes were included in the changes in interest income and expense due to volume changes.

Unit: RMB' 000

Item	Due to volume	2021 vs. 2020 Due to rate	Net increase (decrease)
Interest-earning assets			
Loans and advances to customers	1,712,477	(484,345)	1,228,132
Financial investments	158,108	(411,588)	(253,480)
Deposits and placements with banks and other financial institutions	57,005	(11,795)	45,210
Deposits with central bank	58,244	(33,321)	24,923
Long-term receivables	(23,774)	19,002	(4,772)
Interest income changes	1,962,060	(922,047)	1,040,013
Interest-bearing liabilities			
Deposits from customers	804,051	124,072	928,123
Deposits and placements from banks and other financial institutions	(31,207)	61,543	30,336
Debt securities issued	332,569	55,316	387,885
Borrowings from central bank	217,957	(23,382)	194,575
Interest expense changes	1,323,370	217,549	1,540,919
Net interest income changes	638,690	(1,139,596)	(500,906)

6.4 Interest Income

In 2021, the Company's interest income was RMB18.209 billion, representing a year-on-year increase of RMB1.040 billion or 6.06%, mainly due to the increase in the size of loans and the rapid growth in loan interest income. The interest income from loans and advances to customers and from financial investments constituted major components of the interest income of the Company.

Interest income from loans and advances

In 2021, the Company's interest income from loans and advances to customers amounted to RMB11.557 billion, representing a year-on-year increase of RMB1.228 billion or 11.89%, mainly due to the Company's increased credit support for the real economy, deepened risk management and control, and expanded size of loans issued. Although the rate of return of loans has declined, the interest income of loans has increased stably. The following table sets forth the average balance, interest income and average yield of each component of the Company's loans and advances to customers for the periods indicated.

Unit: RMB' 000

Item	2021			2020		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	147,578,018	7,489,738	5.08%	128,798,862	6,880,335	5.34%
Personal loans	64,774,609	3,630,074	5.60%	55,744,560	3,163,664	5.68%
Discounted bills	15,024,432	437,022	2.91%	9,194,462	284,703	3.10%
Total	227,377,059	11,556,834	5.08%	193,737,884	10,328,702	5.33%

Interest income from financial investments

In 2021, the Company's interest income from financial investments was to RMB5.264 billion, representing a year-on-year decrease of RMB253 million or 4.59%, mainly because the Company adopted a prudent financial investment strategy by appropriately increasing low-risk investment such as government bonds based on market situation for the intensive use of capital, which resulted in a lower interest yield on financial investment and a decreased interest income correspondingly.

Interest income from deposits and placements with banks and other financial institutions

In 2021, the Company's interest income from deposits and placements with banks and other financial institutions amounted to RMB382 million, representing a year-on-year increase of RMB45 million or 13.44%, mainly due to the Company's timely adjustment of capital allocation based on the inter-bank market situation, in a way to increase interest income from financial assets held under resale agreements.

6.5 Interest Expense

In 2021, the Company's interest expense amounted to RMB10.563 billion, representing a year-on-year increase of RMB1.541 billion or 17.08%, mainly due to the Company's expansion of debt scale, increased interest expense on deposits and debt securities issued. Interest expense on deposits from customers and bond interest payable were major components of the interest expense of the Company.

Interest expense on deposits from customers

In 2021, the Company's interest expense on deposits from customers was to RMB5.987 billion, representing a year-on-year increase of RMB928 million or 18.35%, mainly due to an increase in interest expenses from time deposits which had a larger proportion in our increased deposit size. The following table sets forth the average balance, interest expense and average cost rate of each component of the Company's deposits from customers for the periods indicated.

Unit: RMB' 000

Item	Average balance	2021 Interest expense	Average cost ratio	Average balance	2020 Interest expense	Average cost ratio
Corporate deposits						
Demand	104,086,236	956,260	0.92%	92,228,295	784,525	0.85%
Time	<u>85,356,079</u>	<u>2,360,319</u>	<u>2.77%</u>	<u>77,811,017</u>	<u>2,222,754</u>	<u>2.86%</u>
Sub-total	<u>189,442,315</u>	<u>3,316,579</u>	<u>1.75%</u>	<u>170,039,312</u>	<u>3,007,279</u>	<u>1.77%</u>
Personal deposits						
Demand	24,019,742	72,768	0.30%	21,267,610	64,522	0.30%
Time	<u>73,524,161</u>	<u>2,597,312</u>	<u>3.53%</u>	<u>56,836,917</u>	<u>1,986,735</u>	<u>3.50%</u>
Sub-total	<u>97,543,903</u>	<u>2,670,080</u>	<u>2.74%</u>	<u>78,104,527</u>	<u>2,051,257</u>	<u>2.63%</u>
Total deposits from customers	<u>286,986,218</u>	<u>5,986,659</u>	<u>2.09%</u>	<u>248,143,839</u>	<u>5,058,536</u>	<u>2.04%</u>

Interest expense on deposits from banks and other financial institutions

In 2021, the Company's interest expense on deposits and placements from banks and other financial institutions amounted to RMB1.249 billion, representing a year-on-year increase of RMB30 million or 2.49%, mainly because the Company continued to improve the interbank borrowing structure, with a decrease in deposits and placements from banks and other financial institutions, while interbank repo rates moves upward and interest expense on financial assets sold under repurchase agreements increased.

Interest expense on debt securities issued

In 2021, the Company's interest expense on debt securities issued amounted to RMB2.928 billion, representing a year-on-year increase of RMB388 million or 15.27%, mainly because the Company expanded the scale of debt securities issued and interbank certificates of deposit, and the interest expenses on the debt securities issued increased moderately.

6.6 Net Non-interest Income

In 2021, the Company's net non-interest income was RMB3.493 billion, representing an increase of RMB1.091 billion or 45.44%. The following table sets forth the components of the Company's net non-interest income for the periods indicated.

	<i>Unit: RMB' 000</i>	
Item	2021	2020
Fee and commission income	2,175,357	1,855,260
Less: Fee and commission expense	(220,231)	(163,636)
Net fee and commission income	1,955,126	1,691,624
Net trading losses, net gains arising from investments and other operating income	1,537,622	709,919
Total net non-interest income	<u>3,492,748</u>	<u>2,401,543</u>

6.7 Net Fee and Commission Income

In 2021, the Company's net fee and commission income amounted to RMB1.955 billion, representing a year-on-year increase of RMB264 million or 15.58%, mainly because the Company expanded intermediary services such as wealth management and credit cards which relatively increased its net fee and commission income. The following table sets forth the components of the Company's net fee and commission income for the periods indicated.

Unit: RMB' 000

Item	2021	2020
Fee and commission income	2,175,357	1,855,260
Of which: Wealth management service fees	1,264,544	1,008,499
Agency service fees	506,887	454,522
Custody and bank card service fees	228,180	170,260
Financial leasing service fees	86,800	158,463
Settlement fees	65,142	35,635
Others	23,804	27,881
	<hr/>	<hr/>
Less: Fee and commission expenses	(220,231)	(163,636)
	<hr/>	<hr/>
Net fee and commission income	<u>1,955,126</u>	<u>1,691,624</u>

In 2021, the Company's wealth management service fees amounted to RMB1.265 billion, representing a year-on-year increase of RMB256 million or 25.39%, mainly due to increased fixed management service fees from expanded scale of wealth management products and to rapidly increased floating management service fees from improved trading profitability under the premise of strict risk control; agency service fees amounted to RMB507 million, representing a year-on-year increase of RMB52 million or 11.52%, mainly due to increased service fees from agency business for insurance, funds, etc.; custody and bank card service fees amounted to RMB228 million, representing a year-on-year increase of RMB58 million or 34.02%, mainly due to increased credit card service fees; Financial leasing service fees amounted to RMB87 million, representing a year-on-year decrease of RMB72 million or 45.22%, mainly due to decreased new leasing businesses and charges; settlement fees amounted to RMB65 million, representing a year-on-year increase of RMB30 million or 82.80%, mainly due to increased letters of credit fees.

6.8 Net Trading Losses, Net Gains Arising from Investments and Other Net Operating Income

In 2021, the Company's net trading losses, net gains arising from investments and other net operating income amounted to RMB1.538 billion, representing a year-on-year increase of RMB828 million or 116.59%, mainly due to the relatively rapid increase in the net investment income from a larger proportion of non-interest investments arranged by the Company based on the overall bond market situation and the increase in exchange gains and losses when the market saw exchange rate fluctuations. The following table sets forth the components of the Company's net trading losses, net gains arising from investments and other net operating income for the periods indicated.

Unit: RMB' 000

Item	2021	2020
Net trading loss	(171,489)	(567,428)
Net gains arising from investments	1,680,445	1,248,600
Other net operating income	28,666	28,747
Total	1,537,622	709,919

6.9 Operating Expenses

In 2021, the Company's operating expenses amounted to RMB3.916 billion, representing a year-on-year increase of RMB240 million or 6.52%. While the Company strove to expand its operation and strictly controlled its expenses, employee compensation, property and equipment expenses increased moderately in line with its business development and management. The following table sets forth the components of the Company's operating expenses for the periods indicated.

Unit: RMB' 000

Item	2021	2020
Staff costs	1,891,637	1,713,683
Property and equipment expenses	741,613	643,720
Tax and surcharges	139,602	133,315
Other general and administrative expenses	1,142,886	1,185,304
Total operating expenses	3,915,738	3,676,022

6.10 Credit Impairment Losses

In 2021, the Company's credit impairment losses amounted to RMB3.967 billion, representing a year-on-year decrease of RMB177 million or 4.27%. Among which, credit impairment losses from loans and advances to customers constituted the largest component of the credit impairment losses, representing an increase of RMB135 million; At the same time, the credit impairment loss of financial investment measured at amortised cost decreased by RMB576 million as compared with the previous year. The following table sets forth the main components of the Company's credit impairment losses for the periods indicated.

Unit: RMB' 000

Item	2021	2020
Deposits with banks and other financial institutions	565	334
Placements with banks and other financial institutions	4,910	(16,568)
Financial assets held under resale agreements	12,470	7,698
Loans and advances to customers	3,110,029	2,974,836
Financial investments measured at amortised cost	351,302	927,234
Financial investments measured at fair value through other comprehensive income	347,477	21,776
Long-term receivables	86,472	206,123
Credit commitments	35,178	2,548
Others	18,568	19,775
Total credit impairment losses	<u>3,966,971</u>	<u>4,143,756</u>

7. Analysis of the Major Items of the Statement of Financial Position

7.1 Assets

As at the end of 2021, the Company's total assets amounted to RMB522.250 billion, representing an increase of RMB62.422 billion or 13.58% as compared with that at the end of last year. The following table sets forth the components of the Company's total assets as at the dates indicated.

Unit: RMB' 000

Item	31 December 2021		31 December 2020		Compared with the End of Last Year Change		31 December 2019	
	Amount	% of total	Amount	% of total	in amount (%)	Change in % of total	Amount	% of total
Loans and advances to customers	238,608,698	45.69	202,358,484	44.01	17.91	1.68	169,158,291	45.28
Financial investments measured at amortised cost	61,422,152	11.76	74,157,602	16.13	(17.17)	(4.37)	64,491,058	17.26
Financial investments measured at fair value through other comprehensive income	72,613,395	13.90	66,828,002	14.53	8.66	(0.63)	54,973,781	14.71
Financial investments measured at fair value through profit or loss	55,947,254	10.71	37,250,405	8.10	50.19	2.61	22,912,561	6.13
Cash and deposits with central bank	53,241,394	10.19	47,219,397	10.27	12.75	(0.08)	39,704,840	10.63
Deposits with banks and other financial institutions	2,126,922	0.41	2,568,919	0.56	(17.21)	(0.15)	1,312,468	0.35
Placements with banks and other financial institutions	5,108,646	0.98	–	–	N/A	0.98	3,313,603	0.89
Derivative financial assets	146,617	0.03	286,400	0.06	(48.81)	(0.03)	12,436	–
Financial assets held under resale agreements	12,288,925	2.35	9,726,476	2.12	26.35	0.23	2,325,771	0.62
Long-term receivables	11,688,253	2.24	11,001,178	2.39	6.25	(0.15)	9,037,819	2.42
Property and equipment	3,390,193	0.65	3,247,768	0.71	4.39	(0.06)	3,048,813	0.82
Right-of-use assets	845,889	0.16	826,821	0.18	2.31	(0.02)	818,928	0.22
Deferred tax assets	2,505,442	0.48	2,468,017	0.54	1.52	(0.06)	1,581,905	0.42
Other assets	2,315,830	0.45	1,888,136	0.40	22.65	0.05	929,876	0.25
Total assets	522,249,610	100.00	459,827,605	100.00	13.58	–	373,622,150	100.00

7.1.1 Loans and Advances to Customers

As at the end of 2021, the Company's loans and advances to customers amounted to RMB238.609 billion, representing an increase of RMB36.250 billion or 17.91% as compared with that at the end of last year; accounting for 45.69% of the Company's total assets, representing an increase of 1.68 percentage points as compared with that at the end of last year. During the Reporting Period, by implementing the national monetary policy guidance, the Company enhanced credit support for the real economy, optimized the allocation of credit resources, achieving rapid growth in various loans. The following table sets forth the components of the loans and advances to customers of the Company by customer type and product type as at the dates indicated.

Unit: RMB' 000

Item	31 December 2021		31 December 2020		Compared with the End of Last Year Change in		31 December 2019	
	Amount	% of total	Amount	% of total	amount (%)	Change in % of total	Amount	% of total
Corporate loans	149,822,068	61.35	138,776,966	67.12	7.96	(5.77)	112,036,804	64.83
Personal loans	76,743,188	31.43	60,755,096	29.39	26.32	2.04	54,508,817	31.55
Discounted bills	17,640,224	7.22	7,215,159	3.49	144.49	3.73	6,249,822	3.62
Total customer loans	244,205,480	100.00	206,747,221	100.00	18.12	-	172,795,443	100.00
Add: Accrued interest	829,555	/	899,064	/	(7.73)	/	772,480	/
Less: Provision for impairment on loans and advances to customers measured at amortised cost	(6,426,337)	/	(5,287,801)	/	21.53	/	(4,409,632)	/
Loans and advances to customers	238,608,698	/	202,358,484	/	17.91	/	169,158,291	/

Corporate loans

As at the end of 2021, the Company's corporate loans amounted to RMB149.822 billion, an increase of RMB11.045 billion or 7.96% as compared with that at the end of last year; accounting for 61.35% of the total customer loans (excluding accrued interest, the same below), representing a decrease of 5.77 percentage points as compared with that at the end of last year. During the Reporting Period, the Company focused on supporting the demand for credit funds for the recovery of the real economy, industrial upgrading and the transformation of old and new kinetic energy in accordance with the credit policy; and the Company continued to increase credit support for green, low-carbon, private enterprises, inclusive small and micro enterprises, and high-tech manufacturing.

Personal loans

As at the end of 2021, the Company's personal loans amounted to RMB76.743 billion, representing an increase of RMB15.988 billion or 26.32% as compared with that at the end of last year; accounting for 31.43% of the total customer loans, representing an increase of 2.04 percentage points as compared with that at the end of last year. During the Reporting Period, the Company, under the premise of meeting the regulatory requirements, steadily developed housing mortgage loans, steadily developed inclusive financial services for individual businesses and small and micro enterprises, and promoted the growth of consumer loans such as credit cards.

Discounted bills

As at the end of the year 2021, the Company's discounted bills amounted to RMB17.640 billion, representing an increase of RMB10.425 billion or 144.49% as compared with that at the end of last year, and accounted for 7.22% of the total customer loans, representing an increase of 3.73 percentage points as compared with that at the end of last year. During the Reporting Period, to meet the customers' demand, the Company moderately increased discounted bills with less capital consumption and low customer financing cost, and actively applied the re-discounting policy of the central bank, thus achieving rapid growth in discounted bills.

7.1.2 Financial Investments

As at the end of 2021, the Company's carrying value of financial investments amounted to RMB189.983 billion, representing an increase of RMB11.747 billion or 6.59% as compared with that at the end of last year. The following table sets forth the components of the Company's financial investment portfolios as of the dates indicated.

Unit: RMB' 000

Item	31 December 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Financial investments measured at fair value through profit or loss	55,947,254	29.45	37,250,405	20.90
Financial investments measured at fair value through other comprehensive income	72,613,395	38.22	66,828,002	37.49
Financial investments measured at amortised cost	61,422,152	32.33	74,157,602	41.61
Total financial investments	189,982,801	100.00	178,236,009	100.00

Financial investments measured at fair value through profit or loss

As at the end of 2021, the Company's carrying value of financial investments measured at fair value through profit or loss amounted to RMB55.947 billion in book value, representing an increase of RMB18.697 billion or 50.19% as compared with that at the end of last year, mainly due to less capital consumed, tax-free public fund investments. The following table sets forth the components of the Company's financial investments measured at fair value through profit or loss as at the dates indicated.

Unit: RMB' 000

Item	31 December 2021	31 December 2020
Debt securities issued by banks and other financial institutions	877,656	704,792
Debt securities issued by corporate entities	106,924	178,160
Investment funds	39,973,092	24,363,870
Asset management plans	13,488,145	9,998,794
Trust fund plans	1,501,437	2,004,789
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Financial investments measured at fair value through profit or loss	55,947,254	37,250,405
	<hr/> <hr/>	<hr/> <hr/>

Financial investments measured at fair value through other comprehensive income

As at the end of 2021, the Company's carrying value of financial investments measured at fair value through other comprehensive income amounted to RMB72.613 billion, representing an increase of RMB5.785 billion or 8.66% as compared with that at the end of last year, mainly because the Company actively managed the risks, adjusted the investment structure, and moderately increased the size of investments in low-risk government bonds based on the bond market situation. The following table sets forth the components of the Company's financial investments measured at fair value through other comprehensive income as at the dates indicated.

Unit: RMB' 000

Item	31 December 2021	31 December 2020
Government bonds	31,766,923	15,330,316
Debt securities issued by policy banks	1,075,384	6,437,969
Debt securities issued by banks and other financial institutions	11,447,917	11,039,796
Debt securities issued by corporate entities	22,697,107	26,338,440
Asset management plans	3,755,953	5,680,647
Other investments	701,504	703,121
Equity investments	23,250	23,250
Add: Accrued interest	1,145,357	1,274,463
Financial investments measured at fair value through other comprehensive income	<u>72,613,395</u>	<u>66,828,002</u>

Financial investments measured at amortised cost

As at the end of 2021, the Company's carrying value of financial investments measured at amortised cost amounted to RMB61.422 billion, representing a decrease of RMB12.735 billion or 17.17% as compared with that at the end of last year, mainly because the Company decreased the size of bond investments measured at amortised cost according to the trend of market yields while reducing asset management plans. The following table sets forth the components of the Company's financial investments measured at amortised cost as at the dates indicated.

	<i>Unit: RMB' 000</i>	
Item	31 December 2021	31 December 2020
Government bonds	27,859,492	26,717,042
Debt securities issued by policy banks	9,989,948	11,799,924
Debt securities issued by banks and other financial institutions	10,543,252	18,552,129
Debt securities issued by corporate entities	1,073,845	1,823,781
Asset management plans	4,340,630	7,585,510
Trust fund plans	1,768,700	1,434,700
Other investments	6,080,000	6,150,000
Total financial investments measured at amortised cost	61,655,867	74,063,086
Add: Accrued interest	1,014,107	1,191,036
Less: Provision for impairment losses	(1,247,822)	(1,096,520)
Carrying value of financial investments measured at amortised cost	61,422,152	74,157,602

7.2 Liabilities

As at the end of 2021, the Company's total liabilities amounted to RMB488.922 billion, an increase of RMB60.001 billion or 13.99% as compared with that at the end of last year. The following table sets forth the components of the Company's total liabilities as of the dates indicated.

Unit: RMB' 000

Item	31 December 2021		31 December 2020		Compared with the End of Last Year Change in		31 December 2019	
	Amount	% of total	Amount	% of total	amount (%)	Change in % of total	Amount	% of total
Deposits from customers	317,965,807	65.03	275,750,710	64.29	15.31	0.74	215,425,403	62.78
Deposits from banks and other financial institutions	6,341,814	1.30	17,024,732	3.97	(62.75)	(2.67)	16,462,527	4.80
Borrowings from central bank	25,494,116	5.21	11,207,069	2.61	127.48	2.60	5,536,650	1.61
Placements from banks and other financial institutions	16,904,500	3.46	12,947,575	3.02	30.56	0.44	9,916,257	2.89
Derivative financial liabilities	144,689	0.03	288,347	0.07	(49.82)	(0.04)	8,805	-
Financial assets sold under repurchase agreements	25,305,596	5.18	33,099,349	7.72	(23.55)	(2.54)	16,027,082	4.67
Income tax payable	124,032	0.03	431,921	0.10	(71.28)	(0.07)	187,027	0.05
Debt securities issued	92,218,300	18.86	72,834,508	16.98	26.61	1.88	76,858,899	22.40
Lease liabilities	505,895	0.10	453,671	0.11	11.51	(0.01)	427,429	0.12
Other liabilities	3,917,133	0.80	4,882,865	1.13	(19.78)	(0.33)	2,294,153	0.68
Total liabilities	488,921,882	100.00	428,920,747	100.00	13.99	-	343,144,232	100.00

7.2.1 Deposits from Customers

As at the end of 2021, the Company's deposits from customers amounted to RMB317.966 billion, representing an increase of RMB42.215 billion or 15.31% as compared with that at the end of last year; accounting for 65.03% of the Company's total representing an increase of 0.74 percentage point as compared with that at the end of last y. During the Reporting Period, the Company continued to strengthen its market expansion, intensified its customer base, and constantly improved its layered customer marketing and product service model; therefore, deposits from customers grew rapidly and further consolidated the fundamental position in the source of operating funds. The following table sets forth the components of Company's deposits from customers by product type and customer type as of the dates indicated.

Unit: RMB' 000

Item	31 December 2021		31 December 2020		Compared with the End of Last Year Change in		31 December 2019	
	Amount	% of total	Amount	% of total	amount Change in (%)	% of total	Amount	% of total
Corporate deposits	202,889,723	64.71	183,447,242	67.38	10.60	(2.67)	147,880,817	69.49
Demand deposits	118,280,119	37.73	111,491,369	40.95	6.09	(3.22)	92,593,934	43.51
Time deposits	84,609,604	26.98	71,955,873	26.43	17.59	0.55	55,286,883	25.98
Personal deposits	110,430,522	35.22	88,339,315	32.45	25.01	2.77	64,796,343	30.45
Demand deposits	29,923,260	9.54	22,899,499	8.41	30.67	1.13	20,622,060	9.69
Time deposits	80,507,262	25.68	65,439,816	24.04	23.02	1.64	44,174,283	20.76
Outward remittance and remittance payables	80,246	0.03	428,585	0.16	(81.28)	(0.13)	100,697	0.05
Fiscal deposits to be transferred	124,432	0.04	16,342	0.01	661.42	0.03	13,052	0.01
Total customer deposits	313,524,923	100.00	272,231,484	100.00	15.17	-	212,790,909	100.00
Add: Accrued interests	4,440,884	/	3,519,226	/	26.19	/	2,634,494	/
Deposits from customers	317,965,807	/	275,750,710	/	15.31	/	215,425,403	/

During the Reporting Period, the Company improved the stability of its deposits. Personal deposits accounted for 35.22% of the total customer deposits (excluding accrued interest, the same below), representing an increase of 2.77 percentage points as compared with that at the end of last year; corporate deposits accounted for 64.71% of total customer deposits, representing a decrease of 2.67 percentage points as compared with that at the end of last year; demand deposits accounted for 47.27% of the total customer deposits, representing a decrease of 2.09 percentage points as compared with that at the end of last year.

7.2.2 Deposits from Banks and Other Financial Institutions

As at the end of 2021, the Company's deposits from banks and other financial institutions amounted to RMB6.342 billion, representing a decrease of RMB10.683 billion or 62.75% as compared with that at the end of last year, mainly because the Company strengthened its inter-bank active liability management, moderately adjusted its inter-bank liability structure, and appropriately reduced the size of inter-bank deposits while issuing more negotiable certificates of deposit.

7.2.3 Borrowings from Central Bank

As at the end of 2021, the Company's borrowings from the central bank amounted to RMB25.494 billion, representing an increase of RMB14.287 billion or 127.48% as compared with that at the end of last year, mainly because the Company implemented the central bank's policies by actively applying for funds with low costs through re-lending or rediscounting to small and micro enterprises, increasing the source of credit funds for small and micro enterprises, and actively participating in the operation of medium-term lending facilities.

7.2.4 Financial Assets Sold under Repurchase Agreements

As at the end of 2021, the Company's financial assets sold under repurchase agreements amounted to RMB25.306 billion, representing a decrease of RMB7.794 billion or 23.55% as compared with that at the end of last year, mainly because the Company strengthened the active interbank liability management and moderately reduced the size of its bonds sold under repurchase agreements.

7.2.5 Debt Securities Issued

As at the end of 2021, the Company's debt securities issued amounted to RMB92.218 billion, representing an increase of RMB19.384 billion or 26.61% as compared with that at the end of last year, mainly because the Company strengthened capital supplement and active liability management, issued RMB6 billion tier-two capital debts, and appropriately increased the size of negotiable certificates of deposit based on the capital market situation. For details of the bonds, please refer to Note 34 "Debt Securities Issued" to the Financial Statements of this results announcement.

7.3 Equity Attributable to Shareholders

As at the end of 2021, the shareholders' equity of the Company amounted to RMB33.328 billion, representing an increase of RMB2.421 billion or 7.83% as compared with that at the end of last year; Equity attributable to equity shareholders of the Bank amounted to RMB32.635 billion, representing an increase of RMB2.350 billion or 7.76% as compared with that at the end of last year, mainly due to the increased accrued and retained earnings. During the Reporting Period, the Company distributed RMB812 million dividends to ordinary shareholders and RMB474 million to preference shareholders. The following table sets forth the components of the Company's shareholders' equity as of the dates indicated.

Unit: RMB' 000

Item	31 December 2021	31 December 2020
Share capital	4,509,690	4,509,690
Other equity instruments		
Of which: Preference shares	7,853,964	7,853,964
Capital reserve	8,337,869	8,337,869
Other comprehensive income	746,499	32,717
Surplus reserve	2,103,883	1,859,737
General risk reserve	5,576,461	5,072,217
Retained earnings	3,507,129	2,618,980
	<hr/>	<hr/>
Total equity attributable to equity shareholders of the Bank	32,635,495	30,285,174
Non-controlling interests	692,233	621,684
	<hr/>	<hr/>
Total equity	<u>33,327,728</u>	<u>30,906,858</u>

8. Analysis of the Cash Flow Statement

In 2021, the net cash flows generated from operating activities amounted to RMB3.005 billion, representing a decrease of RMB42.288 billion from the previous year, mainly due to RMB18.147 billion less in the net increase in deposits from customers and RMB24.857 billion less in the net change in financial assets sold under repurchase agreements. Among them, cash outflows generated from operating assets decreased by RMB5.590 billion and cash inflows generated from operating liabilities decreased by RMB48.045 billion.

The net cash flows generated from financing activities amounted to RMB-4.450 billion, representing a year-on-year increase of RMB25.921 billion, mainly due to RMB29.760 billion less in payments on acquisition of investments.

The net cash flows generated from financing activities amounted to RMB15.032 billion, representing a year-on-year increase of RMB23.145 billion, mainly due to RMB22.486 billion more in net proceeds from debt securities issued.

9. Segment Analysis

The following segment operating performance is presented by business segment. The Company's main businesses include corporate banking, retail banking and financial market business and others. The following table shows a summary of the operating performance of each business segment of the Company during the periods presented.

Unit: RMB' 000

Item	2021		2020	
	Segment operating income	Ratio (%)	Segment operating income	Ratio (%)
Corporate banking	5,995,169	53.82	5,796,398	54.95
Retail banking	2,235,658	20.07	1,950,640	18.49
Financial markets	2,542,273	22.82	2,322,088	22.01
Un-allocated items and others	365,273	3.29	478,948	4.55
Total	11,138,373	100.00	10,548,074	100.00

Unit: RMB' 000

Item	2021		2020	
	Segment profit before taxation	Ratio (%)	Segment profit before taxation	Ratio (%)
Corporate banking	1,028,559	31.89	891,877	32.69
Retail banking	657,239	20.38	604,925	22.17
Financial markets	1,325,693	41.10	1,062,602	38.95
Un-allocated items and others	213,919	6.63	168,892	6.19
Total	3,225,410	100.00	2,728,296	100.00

10. Analysis of Assets and Liabilities

10.1 Significant Changes in Major Assets

10.1.1 Significant Changes in Major Assets

During the Reporting Period, there was no significant change in the Company's major assets. For details of changes in assets, please refer to 7. Analysis of the Major Items of the Balance Sheet, Section 3 Management's Discussion and Analysis in this results announcement.

10.1.2 Major Overseas Assets

Not applicable.

10.2 Assets and Liabilities Measured at Fair Value

Unit: RMB' 000

Major item	31 December 2020	Changes in fair value included in profit or loss for the current period	Cumulative changes in fair value recognized in equity	Impairment provided during the current period	31 December 2021
Financial investments measured at fair value through profit or loss	37,250,405	471,754	N/A	N/A	55,947,254
Loans and advances measured at fair value through other comprehensive income	7,215,159	N/A	7,874	(1,512)	17,640,224
Financial investments measured at fair value through other comprehensive income	66,828,002	N/A	507,395	347,477	72,613,395
Derivative financial assets	286,400	(139,783)	N/A	N/A	146,617
Derivative financial liabilities	(288,347)	143,658	N/A	N/A	(144,689)

10.3 Restricted Asset Rights as at the End of the Reporting Period

Please refer to Note 46(6) “Pledged Assets” to the financial statements of this results announcement.

11. Analysis of Quality of Loans

During the Reporting Period, the Company strengthened the control over the quality of credit assets. While the credit assets grew steadily, the non-performing loan ratio decreased significantly, and the quality of credit assets continuously improved. As at the end of the Reporting Period, the total amount of loans of the Company (excluding accrued interest) was RMB244.205 billion; total non-performing loans amounted to RMB3.262 billion; non-performing loan ratio was 1.34%. For the purpose of discussion and analysis, unless otherwise specified, the amount of loans presented in the analysis below excludes accrued interest.

11.1 Distribution of Loans by Five Categories

Unit: RMB' 000

Item	31 December 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Normal loan	238,428,347	97.63	200,577,540	97.02
Special mention loan	2,515,230	1.03	3,043,568	1.47
Substandard loan	1,563,381	0.64	1,427,636	0.69
Doubtful loan	1,429,220	0.59	1,338,977	0.65
Loss loan	269,302	0.11	359,500	0.17
Total loans to customers	244,205,480	100.00	206,747,221	100.00
Total non-performing loans	3,261,903	1.34	3,126,113	1.51

Under the five-category classification system for loan supervision, the non-performing loans of the Company included the substandard, doubtful and loss loans. As at the end of the Reporting Period, the proportion of non-performing loans decreased by 0.17 percentage point as compared with that at the end of last year to 1.34%, where substandard loans fell by 0.05 percentage point to 0.64% from the end of the previous year, doubtful loans fell by 0.06 percentage point to 0.59% from the end of the previous year, and loss loans fell by 0.06 percentage point to 0.11% from the end of the previous year.

11.2 Distribution of Loans by Product Type

Unit: RMB' 000

Item	31 December 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Corporate loans	167,462,292	68.57	145,992,125	70.61
Working capital loans	90,853,050	37.20	83,070,680	40.18
Fixed asset loans	54,827,929	22.45	54,374,209	26.30
Import and export bills transactions	4,141,089	1.70	1,332,077	0.64
Discounted bills	17,640,224	7.22	7,215,159	3.49
Retail loans	76,743,188	31.43	60,755,096	29.39
Personal housing loans	45,937,206	18.81	40,588,284	19.63
Personal consumption loans	19,015,201	7.79	9,398,159	4.55
Personal business loans	11,790,781	4.83	10,768,653	5.21
Total loans to customers	<u>244,205,480</u>	<u>100.00</u>	<u>206,747,221</u>	<u>100.00</u>

11.3 Distribution of Loans by Industry

Unit: RMB' 000

Item	31 December 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Corporate loans	167,462,292	68.57	145,992,125	70.61
Manufacturing	33,331,662	13.65	27,657,606	13.37
Construction	28,960,161	11.86	24,704,927	11.95
Real estate	21,257,028	8.70	20,970,449	10.14
Water conservancy, environment and public utility management	20,997,541	8.60	19,600,238	9.48
Renting and business services	20,453,934	8.38	21,806,775	10.55
Wholesale and retail trade	20,430,787	8.37	15,003,646	7.26
Financial services	7,721,467	3.16	1,869,095	0.90
Transportation, storage and postal services	3,859,235	1.58	3,082,904	1.49
Production and supply of electric and heating power, gas and water	3,783,905	1.55	3,797,074	1.84
Scientific research and technical services	2,218,078	0.91	2,241,260	1.08
Others	4,448,494	1.81	5,258,151	2.55
Retail loans	76,743,188	31.43	60,755,096	29.39
Total loans to customers	244,205,480	100.00	206,747,221	100.00

11.4 Distribution of Loans by Region

Unit: RMB' 000

Region	31 December 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Shandong Province	244,205,480	100.00	206,747,221	100.00
Of which: Qingdao City	139,440,339	57.10	110,957,353	53.68

11.5 Distribution of Loans by Type of Collateral

Unit: RMB' 000

Item	31 December 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Unsecured loans	54,080,566	22.15	42,739,296	20.67
Guaranteed loans	49,142,728	20.12	50,477,538	24.41
Mortgage loans	94,014,190	38.50	84,180,163	40.72
Pledge loans	46,967,996	19.23	29,350,224	14.20
Total loans to customers	244,205,480	100.00	206,747,221	100.00

11.6 Loans to the Top Ten Single Borrowers

Unit: RMB' 000

Top Ten Borrowers	Industry	Amount of loans as at the end of the Reporting Period	Percentage in total loans %
A	Manufacturing	2,741,551	1.12
B	Renting and business services	2,570,000	1.06
C	Renting and business services	2,150,000	0.89
D	Renting and business services	1,730,000	0.71
E	Transportation, storage and postal services	1,526,000	0.62
F	Water conservancy, environment and public utility management	1,500,000	0.61
G	Water conservancy, environment and public utility management	1,413,410	0.58
H	Renting and business services	1,400,000	0.57
I	Manufacturing	1,278,740	0.52
J	Manufacturing	1,251,082	0.51
Total		17,560,783	7.19

11.7 Distribution of Loans by Overdue Period

Unit: RMB' 000

Overdue period	31 December 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Overdue for 3 months (inclusive) or less	990,946	0.41	586,640	0.30
Overdue for over 3 months to 1 year (inclusive)	557,398	0.23	996,473	0.48
Overdue for over 1 year to 3 years (inclusive)	907,074	0.37	754,257	0.36
Overdue for over 3 years	300,896	0.12	196,363	0.09
Total overdue loans	<u>2,756,314</u>	<u>1.13</u>	<u>2,533,733</u>	<u>1.23</u>
Total loans to customers	<u>244,205,480</u>	<u>100.00</u>	<u>206,747,221</u>	<u>100.00</u>

As at the end of the Reporting Period, the overdue loans of the Company amounted to RMB2.756 billion, the overdue loans accounted for 1.13% of the total loans of the Company, representing a decrease of 0.10 percentage point as compared with that at the beginning of the year. The Company had adopted a strict classification standard as to overdue loans, according to which loans overdue for more than 60 days were classified as non-performing loans.

11.8 Repossessed Assets and Provision for Impairment

As at the end of the Reporting Period, the Company registered RMB59.69 million total repossessed assets, including RMB30.25 million provision for impairment and RMB29.44 million net repossessed assets.

11.9 Changes in Provision for Impairment of Loans

The Company has performed impairment accounting and confirmed loss provision based on expected credit losses. If the credit risk of a financial instrument is low on the balance sheet date or has not increased significantly since initial recognition, the Company measures its loss provisions based on next-12-month expected credit losses; otherwise, the Company measures its loss provisions based on lifetime expected credit losses.

The Company re-measures expected credit losses on each balance sheet date. In addition, the Company regularly reviews a number of key parameters and assumptions involved in the process of determining impairment provision based on the expected credit loss model, including parameter estimation such as probability of default, loss given default, forwardlooking adjustment and other adjustment factors. The following table sets forth the changes in the Company’s provision for impairment of loans.

Unit: RMB’ 000

Item	2021	2020
Balance at the beginning of the year	5,302,582	4,422,549
Charge for the year	3,110,029	2,974,836
Write-offs for the year	(2,496,161)	(2,372,532)
Recovery of write-offs for the year	539,709	325,385
Other changes	(16,553)	(47,656)
Balance at the end of the year	<u>6,439,606</u>	<u>5,302,582</u>

The Company adhered to a stable and prudent policy in respect of making provisions. As at the end of 2021, the balance of provision for impairment of loans (including discounted bills) amounted to RMB6.440 billion, representing an increase of RMB1.137 billion or 21.44% as compared with that at the end of last year. The provision coverage ratio reached 197.42%, representing an increase of 27.80 percentage points as compared with that at the end of last year; the provision rate of loans reached 2.64%, representing an increase of 0.08 percentage point as compared with that at the end of last year. Both provision indicators satisfied regulatory requirements.

11.10 Countermeasures Taken against Non-performing Assets

In 2021, with the goal of “quality first and stable development”, the Company strengthened the fine management of quality indicators, strictly controlled new non-performing assets, and expedited the resolution of existing non-performing assets. First, it strengthened risk analysis and prediction, deepened the intensity of indicator management, detailed the process management procedures, and set the risk resolution progress target by developing the target annual risk asset management strategy, so as to guarantee the stable quality of existing credit services. Second, it strengthened the control of risks in key, large risky loans and potential risky customers, strengthen the prospective study of potential risks, improved the ability to pre-deal with risk signals, and took targeted pre-management measures in a timely manner to reduce new overdue loans and release pressure for new non-performing assets. Third, it continued to strengthen the disposal of non-performing loans, optimized the market-based recovery mechanism and assessment policy for asset preservation, and comprehensively took measures such as independent recovery, judicial disposal, asset write-off, and assignment of debts to improve the effectiveness of NPL recovery and disposal.

In accordance with Administrative Measures for the Write-off of Bad Debts of Financial Enterprises (《金融企業呆賬核銷管理辦法》) released by the Ministry of Finance, if it complies with the conditions of the recognition and approval of bad debts, the Bank shall perform relevant procedures to audit and write off the bad debts that are still not recoverable after taking the necessary measures. In accordance with the principle of “writing off in accounting, keeping the item, reserving the right and collecting with efforts”, we continue to increase our efforts in collecting debts.

11.11 Credit Extension to Group Customers and Risk Management

The Company adhered to the credit granting principles, i.e. unified credit granting, appropriate limits, classified management, real-time monitoring, and lead bank system, for group customers by continuously improving the system control program for credit granting to group customers, continuously strengthening the whole process control for credit granting to group customers and continuously improving the risk management level of credit granting to group customers. First, it continued to improve the credit granting management system for group customers by revising the unified credit granting management system for group customers, upgrading and reforming unified credit granting management system for group customers, building a complete group family tree structure under consolidated statements, and standardizing the implementation of unified credit granting to group customers; Second, it continued to improve the lead bank management model to define the responsibilities of the lead bank and the cooperative bank, better motivate all handling banks, and uniformly coordinate risk control; Third, it continued to improve the internal risk information sharing mechanism by integrating and analyzing the information on various credit risks of group customers which were mostly core enterprises dealing with major services, prudently determining overall credit limits to group customers and separate credit limits to member companies based on the size of credit risks and risk tolerance, and reasonably deciding on the credit granting program for group customers; Fourth, it continued to improve the concentration management of group customers by focusing on preventing large-amount credit risks, setting up a large-amount credit review committee at the senior management of the Head Office to be responsible for reviewing and approving bank-wide large-amount credit granting services, and continuously optimizing the machine control model for the concentration of credit granting to group customers to effectively manage the credit risks of group customers; Fifth, it continued to improve the risk warning mechanism for group customers by setting appropriate risk warning lines according to the industry of group customers and their operating capacities as one of the important post-loan inspection points, and proactively monitoring and preventing risks to ensure that the overall credit risks of group customers are controllable.

11.12 Rescheduled Loans

Unit: RMB' 000

Item	31 December 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Rescheduled loans	275,588	0.11	424,834	0.21
Total loans and advances to customers	244,205,480	100.00	206,747,221	100.00

The Company implemented strict management and control on rescheduled loans. As at the end of the Reporting Period, the proportion of rescheduled loans of the Company was 0.11%, which decreased by 0.10 percentage point as compared to the end of the previous year.

12. Analysis of Capital Adequacy Ratio and Leverage Ratio

The Company continuously optimized its business structure, strengthened capital management, continuously aimed to improve capital risk resistance and capital returns, and on this basis, reasonably determined the capital adequacy ratio target, and guided business development comprehensively with performance appraisal, capital allocation and other means, so as to achieve the coordinated development of the overall strategy, business development, and the capital management strategy.

In terms of internal capital management, the Company strengthened the economic capital allocation management function, overall planned for asset development and capital saving, and enhanced the awareness of operating institutions saving capital. Taking into account each institution's capital consumption and income in the performance assessment plan, the Company gradually optimized the risk adjustment performance assessment plan, and guided branches and management departments to carry out more capital-saving transactions and transactions with high returns on capital, so as to maximize the returns on risk-weighted assets. Meanwhile, the Company established and improved the balance control mechanism between capital occupation and risk assets, to ensure continuously conforming capital adequacy ratio.

12.1 Capital Adequacy Ratio

The Company calculates capital adequacy ratio in accordance with the “Regulation Governing Capital of Commercial Banks (Provisional)” 《(商業銀行資本管理辦法(試行))》 issued by the China Banking and Insurance Regulatory Commission (“CBIRC” and other relevant regulatory provisions. The on-balance sheet weighted risk credit assets are calculated with different risk weights determined in accordance with each asset, credit of the counterparty, market and other relevant risks and by considering the effects of qualified pledge and guarantee. The same method is also applied to the calculation of off-balance sheet exposure of weighted risk credit assets. Market risk-weighted assets are calculated with the standard approach, and the operational risk-weighted assets are calculated with the basic indicator approach. During the Reporting Period, the Company complied with the capital requirements prescribed by the regulators.

As of the end of the Reporting Period, the Company's capital adequacy ratio was 15.83%, up by 1.72 percentage points from the end of the previous year; the core tier-one capital adequacy ratio was 8.38%, up by 0.03 percentage point from the end of the previous year. During the Reporting Period, the Company increased its credit support for the real economy with increased risk-weighted assets; it enhanced its capital adequacy ratio level by issuing RMB6.0 billion supplementary capital in the form of tier-two capital debts and retained earnings, so as to further improve its risk resistance and support the development of the real economy.

Relevant information on the Company's capital adequacy ratio as at the dates indicated is listed in the following table.

Unit: RMB' 000

The Company	31 December 2021	31 December 2020
Total core tier-one capital	25,220,636	22,846,168
Of which: Share capital	4,509,690	4,509,690
Qualifying portion of capital reserve	8,337,869	8,337,869
Other comprehensive income	746,499	32,717
Surplus reserve	2,103,883	1,859,737
General reserve	5,576,461	5,072,217
Retained earnings	3,507,129	2,618,980
Qualifying portion of non-controlling interests	439,105	414,958
Core tier-one capital deductions	(309,651)	(461,170)
Net core tier-one capital	24,910,985	22,384,998
Other tier-one capital	7,912,511	7,909,292
Net tier-one capital	32,823,496	30,294,290
Tier-two capital	14,251,730	7,512,290
Net capital base	47,075,226	37,806,580
Total risk-weighted assets	297,412,693	267,941,143
Of which: Total credit risk-weighted assets	253,908,512	228,433,976
Total market risk-weighted assets	23,947,036	22,300,633
Total operational risk-weighted assets	19,557,145	17,206,534
Core tier-one capital adequacy ratio (%)	8.38	8.35
Tier-one capital adequacy ratio (%)	11.04	11.31
Capital adequacy ratio (%)	15.83	14.11

As at the end of the Reporting Period, the capital adequacy ratio at the parent company level of the Bank was 15.47%, up by 1.71 percentage points from the end of the previous year; the core tier-one capital adequacy ratio was 7.79%, representing a decrease of 0.10 percentage point as compared with that at the end of last year.

Relevant information on the Bank's capital adequacy ratio as at the dates indicated is listed in the following table.

Unit: RMB' 000

The Bank	31 December 2021	31 December 2020
Total core tier-one capital	24,160,420	22,291,306
Of which: Share capital	4,509,690	4,509,690
Qualifying portion of capital reserve	8,337,869	8,337,869
Other comprehensive income	746,499	32,717
Surplus reserve	2,103,883	1,859,737
General reserve	5,409,946	4,981,263
Retained earnings	3,052,533	2,570,030
Core tier-one capital deductions	(1,976,884)	(2,061,374)
Net core tier-one capital	22,183,536	20,229,932
Other tier-one capital	7,853,964	7,853,964
Net tier-one capital	30,037,500	28,083,896
Tier-two capital	13,989,996	7,176,469
Net capital base	44,027,496	35,260,365
Total risk-weighted assets	284,616,189	256,336,451
Of which: Total credit risk-weighted assets	242,192,736	217,428,234
Total market risk-weighted assets	23,947,036	22,300,633
Total operational risk-weighted assets	18,476,417	16,607,584
Core tier-one capital adequacy ratio (%)	7.79	7.89
Tier-one capital adequacy ratio (%)	10.55	10.96
Capital adequacy ratio (%)	15.47	13.76

12.2 Leverage Ratio

According to the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision) (《商業銀行槓桿率管理辦法(修訂)》) by the CBIRC, the leverage ratio of a commercial bank shall not be lower than 4%. As at the end of 2021, the Company's leverage ratio calculated according to the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision) was 5.87%, higher than required by the CBIRC, down by 0.27 percentage point from the end of the previous year, mainly due to increased consolidated total assets as of the end of the year from the expansion of the Bank's assets.

The following table sets out the Company's accounting items corresponding to the leverage ratio-related regulatory items and the differences between the regulatory items and the accounting items.

Unit: RMB' 000

No.	Item	31 December 2021	31 December 2020
1	Total consolidated assets	522,249,610	459,827,605
2	Consolidated adjustments	-	-
3	Customer assets adjustments	-	-
4	Derivative adjustments	2,371,999	2,667,000
5	Securities financing transactions adjustments	-	-
6	Off-balance sheet items adjustments	34,991,307	31,328,289
7	Other adjustments	(309,651)	(461,170)
8	Balance of assets on and off balance sheet after adjustments	559,303,265	493,361,724

The following table sets out information of the Company's leverage ratio level, net tier-one capital, assets on and off balance sheet after adjustments and relevant details.

Unit: RMB' 000

No.	Item	31 December 2021	31 December 2020
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	509,814,068	449,814,729
2	Less: Tier-one capital deductions	(309,651)	(461,170)
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	509,504,417	449,353,559
4	Replacement cost of various types of derivatives (net of qualified margins)	146,617	286,400
5	Potential risk exposure in various types of derivatives	2,371,999	2,667,000
6	The sum of collaterals deducted from the balance sheet	-	-
7	Less: Assets receivables formed due to qualified margins provided	-	-
8	Less: The balance of derivative assets formed due to transactions with central counterparties for providing clearing service for the customers	-	-
9	Notional principal for sold credit derivatives	-	-
10	Less: The balance of sold credit derivatives assets which can be deducted	-	-
11	The balance of derivatives assets	2,518,616	2,953,400
12	The balance of accounting assets for securities financing transactions	12,288,925	9,726,476
13	Less: The balance of securities financing transactions assets which can be deducted	-	-
14	Counterparty credit risk exposure to securities financing transactions	-	-
15	The balance of securities financing transactions assets formed due to securities financing transactions by proxy	-	-
16	The balance of securities financing transactions assets	12,288,925	9,726,476
17	The balance of items off balance sheet	34,991,307	31,328,289
18	Less: The balance of items off balance sheet reduced due to credit conversion	-	-
19	The balance of items off balance sheet after adjustments	34,991,307	31,328,289
20	Net tier-one capital	32,823,496	30,294,290
21	The balance of assets on and off balance sheet after adjustments	559,303,265	493,361,724
22	Leverage ratio (%)	5.87	6.14

Relevant information on the Company’s leverage ratio as at the dates indicated is listed in the following table.

Unit: RMB’ 000

Item	31 December 2021	30 September 2021	30 June 2021	31 March 2021
Leverage ratio (%)	5.87	5.96	5.89	6.17
Net tier-one capital	32,823,496	32,170,544	31,629,657	31,120,547
The balance of assets on and off balance sheet after adjustments	559,303,265	539,915,346	536,964,780	504,257,463

According to the “Regulatory Requirements on the Information Disclosure Regarding the Capital Composition of the Commercial Banks” 《(關於商業銀行資本構成信息披露的監管要求)》 issued by the CBIRC, the information concerning the capital composition, explanation on development of relevant items and the main characteristics of the capital instruments of the Company will be further disclosed in the “Investor Relations” on the website of the Bank (<http://www.qdccb.com/>).

13. Investment Analysis

13.1 General Situation

Unit: RMB' 000

Investee	31 December 2021	31 December 2020	Percentage of shareholding in investees (%)	Cash dividend for the current year
China Unionpay Co., Ltd.	13,000	13,000	0.34	2,600
Shandong City Commercial Banks Alliance Co., Ltd.	10,000	10,000	2.15	–
Clearing Center for City Commercial Banks	250	250	0.81	–
Total	23,250	23,250	N/A	2,600

Note: The said investments were included under financial investments measured at fair value through other comprehensive income in the balance sheet.

As at the end of the Reporting Period, for the Company's other investments, please refer to "7.1.2 Financial Investments" and "16. Analysis of Major Holding and Shareholding Companies", Section 3 Management Discussion and Analysis of this results announcement.

13.2 Significant Equity Investments Acquired during the Reporting Period

During the Reporting Period, the Company did not make any significant equity investment.

13.3 Significant Ongoing Non-equity Investments during the Reporting Period

During the Reporting Period, the Company did not have any significant non-equity investment in progress.

13.4 Financial Assets Measured at Fair Value

As at the end of the Reporting Period, the Company's financial assets measured at fair value are set out in "10.2 Assets and Liabilities Measured at Fair Value", Section 3 Management Discussion and Analysis of this results announcement.

13.5 Use of Proceeds Raised

All proceeds from the issuance of ordinary shares and preference shares by the Bank, less issuance expenses, had been fully used to increase the Bank's capital. During the Reporting Period, the Bank has no additional funds raised.

13.6 Investments in Securities

Set out below are the breakdown of the Company's investment in securities as at the end of the Reporting Period:

Unit: RMB' 000

Type of Security	Investment amount	% of total investment
Government bonds	59,626,416	50.77
Debt securities issued by policy banks	11,065,332	9.42
Debt securities issued by banks and other financial institutions	22,868,825	19.47
Debt securities issued by corporate entities	23,877,876	20.33
Total	117,438,448	100.00

Set out below are the top ten investments in securities held by the Company which are considered significant in terms of nominal value as at the end of the Reporting Period:

Unit: RMB' 000

Name of security	Nominal value	Annual interest rates (%)	Maturity date	Impairment provision
Bond 1	5,170,000	3.39	2050-03	152.77
Bond 2	4,270,000	3.80	2036-01	438.01
Bond 3	2,780,000	2.43	2022-01	85.32
Bond 4	2,740,000	3.18	2026-09	273.57
Bond 5	2,650,000	3.07	2030-03	272.38
Bond 6	2,250,000	3.55	2040-05	406.71
Bond 7	2,230,000	3.12	2026-12	68.95
Bond 8	2,180,000	2.68	2030-05	64.92
Bond 9	2,050,000	2.84	2024-04	62.99
Bond 10	2,000,000	3.23	2030-03	207.28

13.7 Derivative Financial Instruments

Unit: RMB' 000

Item	31 December 2021			31 December 2020		
	Nominal Amount	Fair Value of Assets	Fair Value of Liabilities	Nominal Amount	Fair Value of Assets	Fair Value of Liabilities
Interest rate swap contracts and others	<u>50,646,662</u>	<u>146,617</u>	<u>(144,689)</u>	<u>76,567,494</u>	<u>286,400</u>	<u>(288,347)</u>

Notes:

1. Within the risk appetite and its own derivatives market risk framework determined by the Board, the Company followed the requirements for limits and actively conducted various derivatives transactions. As at 31 December 2021, the derivative financial instruments held by the Company included interest rate swap contracts and others.
2. During the Reporting Period, the Company's accounting policies and accounting principles for derivatives had no significant changes compared with the previous reporting period.

14. Material Disposal of Assets and Equity Interest

During the Reporting Period, the Company had no sales of substantial assets and equity.

15. Other Financial Information

15.1 Analysis of Off-balance Sheet Items

The Company's off-balance sheet items include credit commitments and capital commitments. Credit commitments are the most important component. As at the end of the Reporting Period, the balance of credit commitments amounted to RMB46.411 billion. Please refer to Note 46 to the financial statement "Commitments and Contingency" of this results announcement.

15.2 Overdue and Outstanding Debts

During the Reporting Period, the Company had no overdue or outstanding debts.

15.3 Pledge of Assets

As at the end of the Reporting Period, the Company pledged part of its assets as collaterals under repurchase agreements and collaterals for borrowings from the central bank. For details, please refer to Note 46(6) to the financial statement "Pledged Assets" of this results announcement.

15.4 Major Statement Items and Financial Indicators with a Change Rate of over 30% and Its Main Reasons

Unit: RMB' 000

Item	2021	2020	Change (%)	Main Reason
Fee and commission expenses	(220,231)	(163,636)	34.59	Increased wealth management agency sales fee
Net trading losses	(171,489)	(567,428)	69.78	Increased exchange gains and losses from market exchange rate fluctuations
Net gains arising from investments	1,680,445	1,248,600	34.59	Increased fair value of financial investments measured at fair value through profit or loss
Impairment losses on other assets	(30,254)	–	N/A	Increased impairment losses on repossessed assets
Other comprehensive income, net of tax	713,782	(625,513)	214.11	Increased fair value of financial assets measured at fair value through other comprehensive income

Unit: RMB' 000

Item	31 December 2021	31 December 2020	Change (%)	Main Reason
Placements with banks and other financial institutions	5,108,646	–	N/A	Increased placements with banks and other financial institutions
Derivative financial assets	146,617	286,400	(48.81)	Decreased fair value revaluation of interest rate swaps and other derivative financial instruments
Financial investments measured at fair value through profit or loss	55,947,254	37,250,405	50.19	Increased less capital consumed, tax-free public fund investments
Borrowings from central bank	25,494,116	11,207,069	127.48	The Company implemented the central bank's policies by actively applying for funds with low costs through re-lending or rediscounting to small and micro enterprises, increasing the source of credit funds for small and micro enterprises, and actively participating in the operation of medium-term lending facilities
Deposits from banks and other financial institutions	6,341,814	17,024,732	(62.75)	The Company strengthened its inter-bank active liability management, moderately adjusted its inter-bank liability structure, and appropriately reduced the size of inter-bank deposits while issuing more negotiable certificates of deposit

Unit: RMB' 000

Item	31 December 2021	31 December 2020	Change (%)	Main Reason
Placements from banks and other financial institutions	16,904,500	12,947,575	30.56	Increased placements from banks and other financial institutions
Derivative financial liabilities	144,689	288,347	(49.82)	Decreased fair value revaluation of interest rate swaps and other derivative financial instruments
Income tax payable	124,032	431,921	(71.28)	The Bank's income tax payable was greater than the provision amount
Other comprehensive income	746,499	32,717	2,181.69	Increased fair value of financial investments measured at fair value through other comprehensive income
Retained earnings	3,507,129	2,618,980	33.91	Increased profit for the current period

15.5 Changes in Interest Receivables

Unit: RMB' 000

Item	31 December 2020	Increase during the period	Recovery during the period	31 December 2021
Loans and advances to customers	18,042	501,122	(490,410)	28,754
Long-term receivables	633	16,913	(17,546)	—
Total	18,675	518,035	(507,956)	28,754

Note: In accordance with the requirement of the Format of the Financial Statements of Financial Enterprises for 2018 released by the Ministry of Finance, the “interest receivables” item shall only reflect the interest that has been due and can be collected but has not been received on the balance sheet date. Since the amount is relatively small, it should be included in the item of “other assets”. The Company has made impairment provision for interest receivables, and implemented bad debt write-off procedures and policies.

15.6 Provision for Bad Debts

Unit: RMB' 000

Item	31 December 2021	31 December 2020	Change
Other receivables	138,315	389,641	(251,326)
Interest receivables	28,754	18,675	10,079
Less: Bad debt provision	(19,895)	(10,013)	(9,882)

16. Analysis of Main Shares Holding Companies and Joint Stock Companies

16.1 Major Subsidiaries and Investees Accounting for Over 10% of the Net Profit of the Company

Unit: RMB in 100 million

Name of Company	Type of Company	Main Business	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
BQD Wealth Management Company Limited	Wholly-owned subsidiary	Public offering of wealth management products to the general public, investment and management of properties entrusted by investors; private placement of wealth management products to qualified investors, investment and management of properties entrusted by investors; advisory service on asset and wealth management; and other business approved by CBIRC	10.00	16.09	14.10	6.16	5.44	4.08
BQD Financial Leasing Company Limited	Subsidiary	Finance leasing business; transferring in and out assets under a finance lease; fixed income securities investment business; accepting guaranteed deposit of the lessee; absorbing fixed deposits over 3 months (inclusive) from non-bank shareholders; interbank lending and borrowing; obtaining loans from financial institutions; lending loans to offshore borrowers; disposal of and dealing with leased articles; economic consulting, etc.	10.00	123.13	14.13	3.45	1.91	1.44

16.2 Acquisition and Disposal of Subsidiaries during the Reporting Period

During the Reporting Period, there was no acquisition and disposal of subsidiaries of the Bank.

16.3 Particulars of Major Companies Controlled or Invested in by the Company

BQD Wealth Management was established on 16 September 2020, with a registered capital of RMB1.00 billion. It was registered in Qingdao, and was wholly initiated and established by the Bank. BQD Wealth Management is the first wealth management subsidiary of a city commercial bank approved in the Northern China and the sixth within the whole country, and the business scope of which is public offering of wealth management products to the general public, private placement of wealth management products to eligible investors, investment and management of properties entrusted by investors, and provision of wealth management advisory and consulting services. Guided by new asset management regulations and supporting policies, BQD Wealth Management is committed to focusing on the essence of asset management business and serving the real economy, and builds a complete and innovative financial product system while adhering to the business philosophy of “establishment with compliance, governance with professionalism, emergence with innovation and enhancement with technology”. Targeting the needs of specific groups of people and relying on strong investment and research capabilities, it creates an innovative wealth management company brand which is “inclusive + distinctive”.

BQD Financial Leasing was established on 15 February 2017, with a registered capital of RMB1.0 billion. It was registered in Qingdao, and was initiated and established by the Bank. The Bank holds 51% of the share capital of BQD Financial Leasing. Under the guidance of the national industrial policy, BQD Financial Leasing was committed to realize the original intent of leasing and serve the real economy. It highlights the development direction of differentiation, specialization and professionalization, actively meets the new demand of the development pattern, and finds business starting points in strategic emerging industries such as advanced manufacturing, green and low carbon, and blue finance, so as to meet individual requirements of tenants in terms of purchasing equipment, promoting sales, revitalizing assets, balancing tax burdens, and improving financial structure and provide new financial leasing services such as financing, asset management, and economic consulting.

17. Overview of Business Development

17.1 Retail Banking

During the Reporting Period, the Bank increased efforts to optimally build smart outlets, smart marketing systems and mobile finance based on financial technology, continued to further identify customer requirements with the help of big data, AI and other technical means, and, through payroll credit, community finance, agriculture-benefiting finance and hall marketing, continued to expand offline and online market size, broaden the customer base, and greatly develop services. During the Reporting Period, the Company's retail banking achieved operating income of RMB2.236 billion, accounting for 20.07% of the Company's total operating income.

1. Retail customers and customer asset management

The Bank saw record new retail customers in a continuously optimized customer base structure. As at the end of the Reporting Period, the Bank held RMB253.908 billion assets of retail customers, representing an increase of 25.20% as compared with that at the end of the previous year, 8,219.2 thousand retail customers, representing an increase of 1,894.7 thousand or 29.96% as compared with that at the end of the previous year. 2021 witnessed a record large number of new retail customers compared with any previous year. With an optimized customer base structure, the Bank reported 299.7 thousand customers with financial assets above RMB200 thousand, representing an increase of 53.1 thousand or 21.53% as compared with that at the end of the previous year, for a total of RMB219.818 billion assets, accounting for 86.57% of all retail assets, representing an increase of 1 percentage point as compared with that at the end of the previous year.

Retail deposits grew rapidly. During the Reporting Period, the Bank actively improved its customer mix, broadened its customer sources, operated a comprehensive customer base, enhanced the image of our off-site brand and promoted steady growth in retail deposits. As at the end of the Reporting Period, the balance of the Bank's retail deposits was RMB110.431 billion, representing an increase of RMB22.091 billion or 25.01% as compared with that at the end of the previous year. The Bank's payroll credit grew rapidly. During the Reporting Period, the Bank gained over 4,000 new customer companies, double the growth over the last period, for about RMB2.0 billion new deposits. During the Reporting Period, the Bank registered about RMB5.0 billion new deposits from rural and community channels and about RMB8.0 billion new deposits with non-local branches.

The Smart Outlet Project optimized and upgraded user experience. During the Reporting Period, the Bank optimized the hall service process and gradually implemented the digital transformation of outlets. The Bank's smart outlets integrated banking handling, service marketing and customer maintenance with tablet computers as the core equipment for interacting with customers and with the help of self-developed APPs, to achieve the leap-forward development and upgrading of outlet services. The Bank's Smart Outlet Project won "the 2021 Award for Outstanding Achievement in Retail Finance under the Banking Digital Transformation Star Project" granted by the Finance Internet Branch (金融互聯網分會) of China Computer Users Association.

The Bank expanded retail fields and implemented financial services to rural areas. By strengthening technology, deepening product innovation, optimizing financial services and refining risk control, the Bank has deeply integrated into the rural revitalization strategy, and the Bank's inclusive financial strategy targeting Shandong Province began to take shape. As at the end of the Reporting Period, the Bank signed 2,705 integrated agriculture-aided financial service stations, an increase of 1,537 or 131.59% from the end of the previous year, of which 508 had opened for business; 157.9 thousand agriculture-benefit customers, representing an increase of 94.6 thousand or 149.72% as compared with that at the end of the previous year.

2. Retail loans

As at the end of the Reporting Period, the balance of the Bank's retail loans (including credit card) was RMB76.743 billion, representing an increase of RMB15.988 billion or 26.32% as compared with that at the end of the previous year, accounting for 31.43% of the total balance of various loans. During the Reporting Period, on the premise of meeting the regulatory requirements, the Bank steadily developed housing mortgage loans. The Bank developed inclusive finance, provided credit support for individual industrial commercial households and small and micro enterprises; developed online consumption loans through internet channels, and consumption loans grow rapidly.

The quality of assets remained stable. As at the end of the Reporting Period, the balance of the Bank's non-performing retail loans was RMB405 million (including credit card), and the non-performing loan ratio of retail customers was 0.53%, representing a decrease of 0.01 percentage point. Of the new non-performing retail loans, 85.77% of the balance was secured and to be repaid by partners, indicating sufficient collaterals and controllable final loss of loans.

Income derived from loans continued to increase. During the Reporting Period, the Bank realized interest income from retail loans of RMB3.630 billion, representing a year-on-year increase of RMB466 million or 14.74%, accounting for 31.43% of the Bank's total interest income from loans, up by 0.78 percentage point over last year.

Personal housing loans developed steadily. The Bank's personal housing loans adhered to the positioning of "houses are for living, not for speculation", and on the basis of meeting the concentration management requirements, supported residents' reasonable demand for homes. As at the end of the Reporting Period, the balance of the Bank's personal housing loans was RMB45.937 billion, representing an increase of RMB5.349 billion or 13.18% as compared with that at the end of the previous year; the number of customers was 78.3 thousand, an increase of 7.4 thousand compared with the end of the previous year. The Smart Mortgage Loan Project officially launched greatly increased the efficiency of services, implying the preliminary success of the digital transformation of traditional mortgage.

Consumption loans developed based on the Internet. As at the end of the Reporting Period, the balance of the on-line consumption loans was RMB10.048 billion, representing an increase of RMB6.154 billion or 158.04% as compared with that at the end of the previous year. During the Reporting Period, the Bank granted a total of 2.29 million loans with an amount of RMB19.488 billion. During the Reporting Period, the Bank launched a self-operated personal Internet credit loan product "Hairong Yidai". The core services of the product, such as service acceptance, risk assessment, and loan issuance, were independently designed and developed by the Bank.

3 Credit card business

As at the end of the Reporting Period, the cumulative number of credit cards issued by the Bank reached 3,001.6 thousand, with 964.5 thousand new cards issued during the Reporting Period and an accumulated transaction amount of RMB55.016 billion, representing a year-on-year increase of 54.02%. As at the end of the Reporting Period, the credit card overdraft balance was RMB8.881 billion, representing an increase of 64.80% over the end of the previous year. During the Reporting Period, the Bank's credit card business generated operating revenue of RMB627 million, representing a year-on-year increase of 46.73%.

The Bank gradually developed diversified customer acquisition channels, seeing growing active customers. During the Reporting Period, the Bank issued a total of 494.2 thousand credit cards by itself, accounting for 51.24% of all new cards issued in the year, developed diversified customer acquisition channels. A full-cycle activation operation system was formed, which focuses on effective customer acquisition, and the activation rate during the Reporting Period increased by 4.13 percentage points compared with that in the previous year. It actively optimized the customer group structure with a focus of the acquisition of effective customers. It adopted various measures to increase customer consumption. As at the end of the Reporting Period, the monthly active customers increased by 55.99% from the end of the previous year.

The quality of assets remained stable and controllable, with interest-earning assets growing steadily. With prudent pre-loan strategies and gradually formed post-loan operation system, the Bank improved the recovery of overdue assets, keeping the non-performing rate at a low level. With the goal of "minimalism", we continued to polish our products and realize functions such as "one-click installment", "one-click loan". It added increased installment channels such as Unionpay, improved the efficiency of installment conversion, and continued to iterate on the risk pricing strategy and improve the ability to accurately identify credit needs to enhance the competitiveness of the Bank's credit card products in the context of market-oriented interest rates.

4. Wealth management and private banking business

The Bank had established a multi-level product system, continued to optimize its product supply strategy, enhanced its long-distance online customer service capacity, and promoted a steady increase in the number of customers, the size of assets and service income, and achieved win-win results with customers.

As at the end of the Reporting Period, the Bank had 49.5 thousand retail customers with assets under management of over RMB1 million, an increase of 10.7 thousand or 27.58% from the end of the previous year, for a total of RMB113.96 billion assets managed by the Bank, an increase of RMB27.594 billion or 31.95% from the end of the previous year. During the Reporting Period, the Bank realized RMB303 million wealth management service fees, increasing by 46.38%. Among them, the income from agency for trust products was RMB167 million, the income from agency for insurance was RMB64 million, and the income from agency for funds was RMB72 million. Accumulated sales of trust products amounted to RMB5.859 billion, agency for insurance premiums of RMB769 million, and sales of RMB7.538 billion in agency for open-ended funds.

5. Customer service management

Taking the opportunity of intelligent and digital upgrading, the Bank created a product experience + service experience-driven service management model to conduct a range of service value enhancement. First, it operated around the retail customer base to practice service value-oriented customer acquisition construction and deepen integrated hall marketing; Second, it applied friendly, accessible and professional new standards, methods and models to implement service experience 3.0, transform from service quality management to service experience management, and strengthened the Bank's omni-channel customer experience; Third, it comprehensively promoted the enhancement of complaint traceability improvement management by taking targeted measures to strengthen source control, establishing a counseling-type problem solving mechanism, and effectively maintaining financial consumption; Fourth, in line with the digital transformation trend of the industry, it steadily promoted intelligent customer service robot service construction, to transform consulting customer service into expert customer service and upgrade online customer service experience. The Bank had its service brand well recognized by hitting the list of China's 500 Most Valuable Brands and the list of the Asia's Top 500 Brands for five consecutive years and winning the Five-Star Diamond Award, the highest award in global services, for six consecutive years.

17.2 Corporate Banking

During the Reporting Period, the Bank's corporate banking focused on customer base construction by comprehensively promoting the business model for strategic customers and cultivating the customer base around the basic management and grass-roots management strategy; continuously improved basic products and services, deepened comprehensive services, and further increased product application scenarios; expanded marketing channels by grabbing customers from the source and carrying out HQ-to-HQ marketing; seized the historical opportunity of digital transformation of corporate banking by starting constructing two platforms, i.e. online corporate banking hall and intelligent management platform for corporate banking, so as to continuously improve the management support capacity and promote the high-quality development of corporate banking. During the Reporting Period, the Bank's corporate banking achieved RMB5.995 billion operating income, accounting for 53.82% of its total operating income.

1 Corporate deposits

During the Reporting Period, the Bank achieved sustained, steady growth in corporate deposits by strengthening marketing coordination, focusing on promoting key projects, and strengthening product development. As at the end of the Reporting Period, the balance of corporate deposits (excluding accrued interest) was RMB202.890 billion, representing an increase of RMB19.442 billion or 10.60% as compared with that at the end of the previous year, accounting for 64.71% of the balance of all deposits (excluding accrued interest). This included RMB118.280 billion demand corporate deposits, representing an increase of RMB6.789 billion or 6.09% as compared with that at the end of the previous year, and RMB84.610 billion time corporate deposits, representing an increase of RMB12.654 billion or 17.59% as compared with that at the end of the previous year. The average cost rate of corporate deposits was 1.75%. During the Reporting Period, the Bank strengthened marketing coordination by establishing a normalized bank-government communication channel and mutual visit mechanism; strengthened the marketing of special bonds, won the bid for over 30 key projects including provincial and municipal-level treasury cash management projects, and directly boosted over RMB10.0 billion corporate deposits; strengthen product development and built a competitive product portfolio to help the Company's deposits in a long-term, stable and sustainable manner.

2 Corporate loans

As at the end of the Reporting Period, the balance of the Bank's corporate loans (including discounted bills and excluding accrued interest) was RMB167.462 billion, representing an increase of RMB21.470 billion or 14.71% as compared with that at the end of the previous year, accounting for 68.57% of the total loans (excluding accrued interest). In particular, the balance of the loans of private enterprises was RMB78.242 billion, representing an increase of RMB10.785 billion or 15.99% as compared with that at the beginning of the year, accounting for 46.72% of the total corporate loans. The balance of Green Credit was RMB19.078 billion, representing an increase of RMB3.845 billion or 25.24% as compared with that at the beginning of the year, accounting for 11.39% of the total corporate loans.

The Bank focused on national macro policies by further increasing credit investment in new infrastructure, strategic marine emerging industries, high-end manufacturing, people's livelihood support and inclusive finance, responding to the goals of carbon peaking and carbon neutrality, accelerating the cultivation and innovation of green, low-carbon financial products and services, actively participating in the development of strategic emerging industries such as new energy and new materials, and continuously enhancing the ability of financial services to support the real economy, private enterprises and inclusive customers. Meanwhile, the Bank also actively supported the construction of rural public infrastructure, met the requirements of the entire industrial chain of modern agriculture for financial services, so as to continuously improve the ability and level of financial services in rural revitalization.

3 Corporate customers

Revolving around customers, the Bank focused on building the customer base by continuing to promote "the basic management and grass-roots management strategy", increasing customers and improving quality, so as to achieve increased number and improved quality of customers. During the Reporting Period, the Bank paid close attention to the reserve of high-quality projects, determined the direction of key marketing industries combined with major national and regional strategic plans and provincial and municipal industrial development plans, strengthened accurate marketing to listed or to-be-listed, specialized, fine, characteristic and innovative companies specializing in new, green finance, blue finance and carbon finance, quickly issued PV power generation-represented green finance, urban renewal and redevelopment loans, state-owned enterprise or mixed-ownership enterprise, and people's livelihood services, specialized, fine, characteristic and innovative, advanced manufacturing, and supply chain, with full efforts to form scale advantages. As at the end of the Reporting Period, the Bank registered 179.7 thousand corporate customers, representing an increase of 29.9 thousand or 19.96% from the end of the previous year.

The Bank continued to promote the expansion of transaction banking customers. During the Reporting Period, the Bank registered 496 new international settlement customers, 934 new cash management contract customers, 52 new core supply chain finance enterprises and 61 approved core enterprises.

The Bank strengthened its financial support for inclusive small and micro enterprises by effectively providing inclusive financial services that feature inclusive benefits, greater discounts, and high quality and efficiency. As at the end of the Reporting Period, featured branches serving small and micro enterprises totaled 13, and the Bank registered 43.3 thousand small and micro enterprises of inclusive loans, an increase of 9.5 thousand or 28.22% from the end of the previous year; the balance of inclusive loans to small and micro enterprises^{Note 1} amounted to RMB22.006 billion, up by 21.14% from the end of the previous year, higher than the growth of the Bank's all other loans; the non-performing loan ratio of inclusive loans to small and micro enterprises was 1.43%, and the average interest rate was 4.97%. The Bank fully completed the assessment requirements of the regulatory authorities. As at the end of the Reporting Period, the balance of the Bank's agriculture-related loans amounted to RMB46.942 billion, an increase of RMB5.086 billion from the end of the previous year; the balance of inclusive agriculture-related loans amounted to RMB3.170 billion, an increase of RMB619 million from the end of the previous year, to the regulatory authorities' assessment requirements. During the Reporting Period, the Bank strictly implemented "two policy tools" by issuing 9,201 inclusive loans to small and micro enterprises for a total loan amount of RMB4.771 billion; and applied for 1,385 deferred loans for a total loan principal of RMB4.532 billion.

4. Corporate products

During the Reporting Period, the Bank's corporate product system was further optimized and improved. The Bank cooperated with the International Finance Corporation (IFC) to hold a blue finance ESG workshop and innovatively create a new model of blue finance that gained wide attention. It launched the first green supply chain financial product Carbon E Chain of all legal person banks in Shandong Province, issued the first carbon neutrality loan in Shandong Province, implemented the first supply chain notes financing loan in Shandong Province, and completed the first online forfaiting transaction of all legal person banks in Shandong Province. The Bank launched special products such as Bank-hospital Card, Medical Insurance Loan and National Financing Guarantee Fund Loan to help corporate services continue to grow.

Note 1: The inclusive loans to small and micro enterprises included loans to small and micro enterprises, loans to individual business owners and loans to owners of small and micro enterprises with an individual lending amount of below or equivalent to RMB10 million, excluding any discounted amount.

17.3 Financial Markets

During the Reporting Period, the Bank optimized the asset structure, improved investment quality and reduced management costs in terms of financial markets. It took advantage of its service qualifications as a legal person bank by expanding the coverage of bond underwriting and making underwriting bigger and stronger. While continuously strengthening the comprehensive strength of wealth management, the Bank explored the development of characteristic wealth management products and expanded customer coverage. During the Reporting Period, the Company's financial markets achieved RMB2.542 billion operating income, accounting for 22.82% of the Company's operating income.

1. Proprietary investment

As at the end of the Reporting Period, the Bank's proprietary investment (excluding accrued interest) amounted to RMB183.563 billion, representing a year-on-year increase of RMB15.760 billion or 9.39%. This included RMB111.909 billion bond investment (excluding accrued interest), representing a year-on-year decrease of RMB7.002 billion or 5.89%, mainly due to the reduced stock of debt securities issued by banks and other financial institutions and debt securities issued by policy banks; RMB39.973 billion investments in public fund products, representing a year-on-year increase of RMB15.609 billion or 64.07%, mainly due to increased bond-type public funds and monetary funds; RMB24.855 billion interbank asset management and trust products, a decrease of RMB1.850 billion or 6.93% from the end of the previous year, mainly due to an orderly reduction in the size of non-underlying investments through reduced existing non-standardized assets; RMB6.782 billion other debt financing products, a decrease of RMB72 million from the end of the previous year, representing a small change. The existing assets were mainly debt financing plans in local financial asset exchanges.

During the Reporting Period, the Bank responded to regulatory orientation, focused on market changes, continued to optimize the investment structure, actively participated in market transactions, adhered to the principle of light-capitalization development, increased total assets while controlling the capital consumption ratio, strengthened the swing trading of standardized assets, and improved comprehensive profitability. First, the Bank implemented regulatory policies, maintained a stable growth in total financial investments, and controlled incremental indirect investments and non-standard investments, where asset investment transitioned from entrusted management to independent management to improve risk management coverage and control; non-standard investments gradually transitioned to standardized asset investment. The Bank focused on providing regional financial services to improve asset liquidity. Second, the Bank

saw active market transactions and steadily growth in the underwriting of policy financial bonds and local bonds. With the volume of closed spot bond transactions ranking sixth among city commercial banks, the Bank won important awards such as Annual SHIBOR Award for Market Influence and one of Top 100 Self-operated Settlement Banks by China Central Depository & Clearing Co., Ltd. Third, it reduced capital occupation. While steadily raising the total investments, the Bank maintained the proportion of risk-weighted assets in financial investments at a low level, guaranteed sufficient capital indicators throughout the Bank, and showed its significant advantage in the efficiency of unit risk asset revenue. Fourth, the Bank strengthened government finance to improve asset liquidity. During the Reporting Period, the Bank's incremental services were dominated by pledged high-liquidity assets such as national debts and local government bonds, as well as open-end public funds, expanded the size of low-risk bonds, and strengthened the profitability of traded high-grade bonds while maintaining sufficient liquidity and the high ability to replace assets in the right time.

2. Interbank business

The Bank reported a stable, liquid inter-bank liability structure. As at the end of the Reporting Period, the balance of its issued negotiable certificates of deposit was RMB64.711 billion, an increase of 29.40% from the end of the previous year, accounting for 13.24% of the total liabilities. During the Reporting Period, the Bank issued the first foreign currency negotiable certificate of deposit in the inter-bank market in Shandong Province. The first issue of the foreign currency negotiable certificate of deposit was USD10 million for a term of 3 months at an interest rate of 0.30%. Such issuance helped the Bank achieve the diversified raising of market-oriented funds in addition to original financing channels, providing investors with a new foreign currency investment.

The Bank actively participated in trying principal trading and derivative trading, with continuously raising trading volume. During the Reporting Period, the Bank actively responded to the new market making rules, obtained the qualifications as a spot bond market maker in the bond market, became the first city commercial bank spot bond market maker in Shandong Province, and successfully implemented FDR benchmark interest rate swap options and interest rate cap/floor options to add to the tradable varieties of the Bank's local currency derivatives. The Bank won the 2021 SHIBOR Annual Market Influence Award, Core Dealer in the Local Currency Market, Excellent Dealer in the Money Market, Top 10 NCD Issuers, and X-Repo Market Innovation Award, was among the primary dealers in the open market of the People's Bank of China for four consecutive years, and was honored with the 2021 EIBC Award for Excellent Underwriter of Domestic RMB Financial Bonds.

3. Asset management

In 2021, after the transition period of the new asset management rules ended, the Bank steadily finished wealth management, and completed existing improvement tasks as scheduled, with a growing wealth management management size, gradually increasing fee income, and various forms of product innovation. The wealth management subsidiary gained well recognition from the market due to its rising brand influence.

As at the end of the Reporting Period, the Bank had 804 wealth management products with a balance of RMB167.804 billion, up by 35.19% from the end of the previous year. During the Reporting Period, the Company issued 1,594 wealth management products, all non-capital guaranteed wealth management products, for a total of RMB738.463 billion, up by 35.30% over the same period of the previous year. During the Reporting Period, the Company earned RMB1.265 billion fee and commission income from wealth management products, up by 25.39% over the same period of the previous year.

As at the end of the Reporting Period, the balance of the Company's investment assets from wealth management products was RMB181.745 billion. The assets were directly and indirectly invested in fixed income, non-standardized debt and capital market assets mainly. This included RMB163.430 billion fixed income assets, accounting for 89.92%, RMB9.913 billion non-standardized debt assets, accounting for 5.46%, RMB5.164 billion public funds, accounting for 2.84% and RMB3.238 billion, accounting for 1.78%.

The Bank continued to promote net worth transformation. During the Reporting Period, it completed product improvements, reducing the balance of expected income products to zero. The development of services entered a new stage. The Bank actively practiced the corporate social responsibility, created characteristic wealth management products, and built the Company's professional, characteristic wealth management brand image through a combination of independent development and multi-platform marketing. During the Reporting Period, BQD Wealth Management, the Bank's wholly-owned subsidiary won the Golden Bull Potential Award for Banking Wealth Management Companies at the 2nd China Banking Wealth Management Golden Bull Potential Award Presentation Ceremony together with the Winning Series RMB Personal Wealth Management Plan Monthly Open Net Worth product under its management awarded with the Golden Bull Award for Banking Wealth Management Products; the Golden Shell Award for 2021 Outstanding Growth Banking Wealth Management Subsidiaries at the 2021 China Asset Management Annual Conference and 14th 21st-Century Golden Honor Award for Outstanding Innovative Wealth Management Companies and Golden Honor Award for Outstanding ROI Wealth Management Companies the Annual Summit of China's Asset Management and Wealth Management Industry jointly held by PY Standard.

4 Investment banking

During the Reporting Period, the Bank's issued products covered two major product lines, i.e. debt financing instruments and non-standard products, involving a total issuance amount of RMB46.010 billion, up by 49.72% over the same period of the previous year, including RMB41.550 billion debt financing instruments, up by 78.86% over the same period of the previous year; the Bank's underwriting limits of debt financing instruments were RMB26.410 billion, up by 80.17% over the same period of the previous year.

The Bank, as the only legal person financial institution rated as Class B lead underwriter with independent lead underwriting qualifications in Shandong Province, adhered to following market dynamics, constantly innovated on market tools, continuously enhanced its competitive advantages in the financial market, and built the Bank's service brand in the debt capital market to provide comprehensive financing solutions for high-quality firms in Shandong Province. The Bank adhered to taking advantage of the characteristic service advantages of investment banking, and promoted the continuous growth of services, with innovative products as a focus. During the Reporting Period, the Bank reported underwritten offerings of the first carbon neutrality bond in Shandong Province, the first public offering project income note in Shandong Province, the first equity investment note in Qingdao City, in a move to meet the financing needs of different customers through diversified products offered.

17.4 Distribution Channels

1. Physical distribution channels

The Bank's business outlets are based in Qingdao, expanding throughout Shandong Province. As at the end of the Reporting Period, the Bank had 166 business outlets, including 16 branches, in 15 cities of Shandong Province, including Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Linyi, Jining, Tai'an, Heze, and Rizhao. In Qingdao, the Bank had 1 Head Office, 1 branch and 96 sub-branches. The Bank's controlling subsidiary BQD Financial Leasing and wholly-owned subsidiary BQD Wealth Management are headquartered in Qingdao.

2. Self-service banking channels

As at the end of the Reporting Period, the Bank had 103 in-bank self-service banks and 407 self-service machines, including 19 ATMs, 263 self-service Cash Deposit and Teller machines (CTM) and 125 self-service terminals providing services including withdrawal, deposit, transfer, account inquiry, and payment. During the Reporting Period, the Bank completed 5,840.8 thousand self-service banking transactions for a total amount of RMB19.334 billion.

3. Electronic banking channels

The Bank regarded E-Banking as an important breakthrough in innovation and development. Around “enhancing customer experience”, the Bank continued to optimize online service channels such as mobile banking and online banking, further applied Fintech, strengthened open cooperation, and promoted rapid product and service updates, so as to comprehensively enhance the channel service capacity.

(1) Mobile finance

During the Reporting Period, the number of mobile banking users and the trading volume continued to maintain steady growth. As at the end of the Reporting Period, the Bank had 3,867.4 thousand mobile banking users and 1,154.6 thousand monthly active customers. During the Reporting Period, the Bank traded for a total of RMB426.001 billion, up by 7.15% over the same period of the previous year.

The Bank continued to optimize the construction of mobile banking by adhering to the original design intention of safety, reliability, convenience and easy use and constantly reconstructing products and services. During the Reporting Period, it released Mobile Banking 6.0, with a simplified version for easier use by the elderly, to upgrade the basic high-frequency service experience in asset view, wealth management products, and income and expenditure details, and create smooth user trading operations. During the Reporting Period, the Bank actively built a 5G messaging platform, as the first bank in Shandong with 5G messaging, so as to comprehensively enhance its mobile finance service. The Bank strengthened online and offline collaboration services by supporting functions such as reservation and queuing at outlets, printing online transaction statements and printing loan settlement certificates, so as to comprehensively improve user experience.

The Bank cooperated with WeChat Pay to keep carrying out a series of WeChat payment promotions such as immediate random discounts on credit card repayments, immediate random discounts on mobile phone top-ups, and immediate random discount on payments to cooperative merchants. During the Reporting Period, the number of the Bank’s WeChat payment transactions exceeded 100 million for the first time, up by 42.57% over last year, and totaled RMB40.905 billion, up by 41.09% over last year.

(2) Internet banking

As at the end of the Reporting Period, the Bank had 740.300 thousand personal online banking customers, up by 0.39% over the same period of the previous year. During the Reporting Period, the Bank registered 32,399.7 thousand transactions, down by 19.68% over the same period of the previous year, for a total of RMB231.122 billion, down by 9.95% over the same period of the previous year. During the Reporting Period, mobile finance continued to develop steadily, customers relied more on mobile banking, and personal online banking, and personal online banking transactions continued to decrease.

As at the end of 2021, the number of online retail banking customers totaled 166.9 thousand, representing an increase of 23.72% as compared to the end of last year. During the Reporting Period, we accumulated a total of 19,601.2 thousand transactions, representing an a year-on-year increase of 14.63%. Total transaction amounted to RMB1,960.7 billion, representing a year-on-year increase of 13.09%. As the number of corporate Internet banking customers increased, the amount of transfers and the number of transactions also increased.

17.5 Information technology

During the Reporting Period, the Bank fully implemented the technical innovation strategy by continuing to increase investments in information system construction and technological talent training, actively exploring the practical application of new technologies such as big data, cloud computing, AI, blockchain and 5G, focusing on innovation empowering, technology services, data governance and digital operations, comprehensively deepening the integration of technology and services, and promoting the achievement of the Bank's strategic objectives. During the Reporting Period, the Bank technology investment for innovative research and application totals more than RMB40.47 million, registered 220 technical employees, representing 4.83% of the company's employees.

- 1 In-depth study on the application of cutting-edge technologies to fully empower the development of services

The Bank continued to promote the innovation and application of Fintech, expedite the process of digital transformation, build front-end, middle-end and back-end service architecture system and product system construction covering multiple service fields such as corporate and retail, improve the independent, controllable capabilities of key technologies, explore agile development models, increase independent development efforts in many fields, and empower the rapid development of services.

During the Reporting Period, the Bank further enhanced the strategic support of technologies for service development and risk prevention by successfully putting into operation 54 projects including Smart Outlet Phase III, smart retail marketing, unbounded credit card issuance, Nebula smart credit platform and smart office, and commencing 46 new IT projects.

On retail finance, the Bank continued to improve the construction of mobile finance channels by promoting the digital transformation of retail lines, successfully putting into operation the smart retail marketing system, smart housing loans, “5G + Ecology” Smart Outlet 3.0, unbounded credit card issuance, remote face-to-face signing of credit cards, innovatively building a full line of personal loans financial products such as Hairong Easy Loan, Meituan Business Loan, and Ping An Unsecured Large-sum Business Loan, fully upgrading to Mobile Banking 6.0, completing the deployment of AI customer service robots in all channels, and accelerating mobile, online and digital characteristic financial services.

On corporate finance, the Bank started the construction of a 3-in-1 digital corporate operation system integrating the intelligent corporate marketing management platform, the comprehensive corporate operation platform and the online business hall, and completed the launch of E-L/C Phase II and intelligent corporate CRM upgrading. The Bank successfully put into production the digital RMB business project. The Bank achieved the whole electronic process for domestic L/C and the onlineization of all eight upstream and downstream scenarios of supply chain finance, and comprehensively promoted the digital transformation of corporate banking.

On risk control, the Bank built an intelligent end-to-end integrated financial transaction risk control platform to achieve the intelligent control of financial transaction risks and effectively ensure the safety of customer information and funds. The asset and liability management system project enhanced the Bank’s quantitative control over liquidity risks and interest rate risks. The comprehensive tax management system achieved the integrated management of services, finance and taxation, and helped the intelligent transformation of risk control management.

On management improvement, starting from smart office and smart personnel, the Bank initially achieved a group-based, flat and mobile management model. The integration of business management and digital technology greatly improved the efficiency of process operation, effectively reduced communication costs, met the needs of efficient office, and facilitated management transformation.

- 2 Further information technology risk management with full efforts to ensure the security of information systems

During the Reporting Period, the Bank completed the construction of a remote cloud data center in Beijing on the basis of cloud computing, completed the relocation and expansion of network equipment in the disaster recovery computer room, the system upgrade of the mPaaS platform, and the power transformation of the computer room, achieved remote application level disaster recovery of key systems, and helped improve the basic support capacity of technologies.

The Bank continuously strengthened network security management based on the regulatory requirements and its own development needs, implemented the responsibility system for network security, improved the emergency response mechanism for computer room infrastructure, enhanced the level of risk compliance management and network security defense with the idea of deep, three-dimensional network security protection through a combination of management and technical means, gradually built a bank-wide digital security system, and facilitated digital transformation. The Bank strove to build a professional network security team and exercised the team with enhanced skills through regular monitoring and actual practicing. The Bank achieved excellent results in activities such as security drills in 2021, and won a number of team and individual honors in provincial and municipal network security competitions.

18. Structured Entities Controlled by the Company

The structured entities controlled by the Company are mainly asset-backed securities sponsored by the Company. Refer to 17.3 Financial Markets, Section 3 management Discussion and Analysis of this results announcement.

19. Risk Management

19.1 Credit Risk Management

Credit risk refers to the risk that a borrower or a related party fail to discharge its relevant obligations as agreed. The Company's credit risks mainly come from loan portfolios, investment portfolios, guarantees and commitments. The management of credit risks is under the unified leadership of the Risk Management Committee of the Head Office. Each unit implements credit policies and procedures, takes responsibility for the quality and performance of its credit asset portfolios, and monitors all credit risks in the credit asset portfolios (including asset portfolios approved by the Head Office).

The Company seeks to build a credit risk management system with complete functions, risk checks and balances, streamlined and efficient processes, and well-defined duties. During the Reporting Period, the Company further improved its asset quality and effectively controlled its credit risks by taking the following measures:

- (1) Taking the “unified credit granting” as an opportunity, comprehensive risk control to improve the quality and efficiency of the Group's management. The Bank steadily promoted consolidated financial statement management and comprehensive risk management by establishing a comprehensive risk management committee, setting up a risk management office, and successfully completing the launch of unified credit granting at the Group level and running the consolidated financial statement management system for credit risks. It also strengthened the Group's credit concentration risk control by developing the Measures of the Bank of Qingdao for Credit Concentration Management, and promoting the construction of a multi-level unified credit granting system and a large risk exposure system covering all customers, all assets, and all institutions, so as to ensure the coordinated development of the Group's overall service size and asset quality.
- (2) With the goal of stable development, strictly controlling the quality of assets and forging core competitiveness. The Bank continuously optimized the quality control of credit assets by implementing dynamic and refined management, strengthening the prediction and analysis of risk migration trends, and improving the ability to pre-dispose of risk signals. It also tightened the management of mature loans and overdue loans by enhancing the disposal of risky loans, increasing the cash recovery and write-off of non-performing loans, taking full efforts resolve existing non-performing assets, and continuing to include loans overdue for more than 60 days into the management of non-performing loans. The ratio of non-performing assets plus special mention assets continued to decline, to the extent of the control target.

- (3) Guided by serving entities, focusing on macro policies and optimizing the allocation of credit resources. The Bank promoted blue finance from a strategic height by increasing support for the marine economy and blue credit to contribute to regional economic development with full efforts. It actively responded to China's strategic deployment of carbon peaking and carbon neutrality by developing the Ten Measures of the Bank of Qingdao on Promoting Green Finance Construction to Support the Development of Carbon Emission Reduction and the Due Diligence and Exemption Management Measures of the Bank of Qingdao for Green Credit and connecting and serving green industry companies and projects. It focused on key livelihood industries by supporting the work of ensuring six priorities and stability in six areas, continuously strengthening the credit support for advanced manufacturing, private enterprises, technological innovation, inclusive finance and rural revitalization, guiding operating institutions to grant inclusive finance in counties, fostering local development, adapting measures to local conditions, and striving to build a financial service system feature optimized allocation of financial resources, improved quality of the supply system, and an improved management guarantee mechanism.
- (4) Following the main line of preventing and resolving risks, improving the whole process of loan management, and enhancing the ability to prevent risks. The Bank continued to improve the credit management system so as to be intensive and efficient; it optimized the credit operation process to increase the efficiency of credit management; it consolidated pre-loan investigation, loan review and post-loan inspection, implemented the post-credit granting inspection mechanism, and adopted differentiated post-loan management measures to improve the accuracy and effectiveness of post-loan management; it established a long-term mechanism for risk investigation to strengthen risk monitoring in key areas and key customers, track and correct any problems identified in time; it responded quickly and warned in time against major risk events such as certificate of deposit pledge, so as to fully grasp the risk bottom line and improve the ability to predict and prevent against risks.
- (5) Driven by technology empowering, optimizing the service process and enhancing the intelligent level of credit management. By actively exploring to establish a risk warning platform for credit management, promoting the online E-process for signing corporate credit service contracts, developing and launching the E-operation process for Internet + real estate registration, and maintaining the important parameters of expected credit loss models, the Bank continued to explore the use of advanced mobile Internet technology, imaging technology and risk measurement tools, constantly improved the intelligent risk control system, and optimized the service process to improve customer experience and enhance the digital technology level of credit management.

During the Reporting Period, by taking the said measures, the Company further improved the quality of its assets and effectively controlled credit risks.

19.2 Liquidity Risk Management

Liquidity risk is a risk that a commercial bank cannot obtain sufficient funds in time or at a reasonable cost in order to cope with asset growth or pay due debts despite its solvency.

The goal of the Company's liquidity risk management is to ensure that the Company has sufficient cash flow to meet its repayment obligation and working capital for supply in a timely manner. In line with the development strategy, the Company continuously improves the level of managing and measuring liquidity risks, strengthens the ability to identify, monitor, measure and finely control liquidity risks, and reasonably balances liquidity and profitability.

Based on the principle of separately developing, executing and supervising the liquidity risk management policy, the Company has established a liquidity risk management governance structure to define the role, responsibilities and reporting route of the Board, the board of supervisors, senior management, special committees and relevant departments of the Bank in liquidity risk management, so as to improve the effectiveness of liquidity risk management. The Company's liquidity risk appetite is prudent and well suited to the Company's current development stage. The current liquidity risk management policy and system basically meet the regulatory requirements and the Company's own management needs.

The Company measures, monitors and identifies liquidity risks from the perspectives of short-term provision of term and structure of assets and liabilities, closely monitors various limit indicators at a fixed frequency, and conducts regular stress tests to evaluate whether the Company can cope with liquidity needs under extreme circumstances. In addition, the Company has developed a liquidity contingency plan which is regularly tested and evaluated.

The Company holds an appropriate amount of liquid assets to ensure its liquidity needs, and the Company also has sufficient funds to meet the unpredictable payment needs that may occur in day-to-day operations. Besides, the Company has an improved, compliant internal control system for liquidity risk management, conducts special internal audits on liquidity risk on a yearly basis, and submits independent audit reports to the Board.

The Company pays close attention to changes in the form of liquidity and market expectations, and plans in advance and dynamically adjusts the liquidity management strategy based on changes in the company's assets and liabilities and liquidity gaps, so as to ensure that the Company's liquidity risks are within a reasonable and controllable extent. During the Reporting Period, the Company focused on strengthening liquidity risk management in the following aspects:

- (1) Consolidating and improving the customer base, taking multiple measures to promote the steady growth of deposits, appropriately increasing the allocation of time deposits, and further enhancing the stability of liabilities;
- (2) Carrying out active liability management through multiple channels, and strengthening cooperation with counterparties to expand diversified financing channels and improve the financing capacity;

- (3) Conducting forward-looking management of liquidity risk indicators, and dynamically adjusting the allocation of term and structure of various assets and liabilities, to ensure that all indicators continued to meet the regulatory requirements;
- (4) Strengthening the monitoring of eligible high-quality bonds to ensure sufficient liquidity reserves and continuously improved risk mitigation; meanwhile, according to its own liquidity conditions and market interest rate trends, flexibly carrying out short-term, medium- and long-term active debts and diversifying maturity periods;
- (5) Promoting the construction of a new-generation asset and liability management system, whereby to continuously improve the Bank's ability to identify, measure and monitor liquidity risks and strongly support the fine management of liquidity risks.

As at the end of the Reporting Period, the Company's liquidity coverage ratio and net stable funding ratio are presented below.

Unit: RMB'000

Item of liquidity coverage ratio	31 December 2021	31 December 2020
Qualified and high-quality current assets	99,172,073	84,342,175
Net cash outflows in next 30 days	55,237,499	55,334,625
Liquidity coverage ratio (%)	179.54	152.42

Note: Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, the liquidity coverage ratio of commercial banks shall reach 100%.

Unit: RMB'000

Item of net stable funding ratio	31 December 2021		30 September 2021	
	The Company	The Bank	The Company	The Bank
Available stable funding	287,134,612	284,470,723	277,319,330	274,669,627
Required stable funding	283,156,997	268,905,858	270,548,400	258,520,381
Net stable funding ratio (%)	101.40	105.79	102.50	106.25

Note: According to the "Measures for Liquidity Risk Management of Commercial Banks", the net stable funding ratio of commercial banks shall not be lower than 100%.

For more information on the Company's liquidity risk management, refer to 44(3) Liquidity Risk, Notes to the Financial Statements of this results announcement.

19.3 Market Risk Management

Market risk is a risk that any change in the value of financial instruments due to any change in interest rates, exchange rates and other market factors may result in potential losses to future earnings or future cash flows. Market risks affecting the Company's services are dominated by interest rate risks and exchange rate risks.

In accordance with the relevant requirements for market risk management placed by the regulators and with reference to the relevant provisions of Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework, during the Reporting Period, the Company continued to improve the market risk management system, better the market risk management policies and promote the construction of the market risk management information system. The Company's sound and compliant market risk management internal control system defines the responsibilities of, and reporting requirements on, the Board, senior management and various departments under the market risk governance structure, clarifies the market risk management policy and identification, measurement, monitoring and control procedures, and makes clear market risk reporting, information disclosure, emergency response and market risk capital measurement procedures and requirements. The Company conducts special internal market risk audits every year, regularly reports market risk management to senior management and the Board, and prepares independent reports.

19.3.1 Analysis of Interest rate risks

The Company distinguishes bank accounts and trading accounts according to the regulations of the regulators and traditional banking management practices and adopts market risk identification, measurement, monitoring and control measures based on the different nature and characteristics of bank accounts and trading accounts.

A trading account contains freely tradable financial instruments and commodity positions held by the bank for trading or for hedging the risks of other items. Positions recorded in trading accounts shall not be subject to any trading terms or may be fully hedged to avoid risks, accurately valued and actively managed. Interest rate risk facing the Company's trading accounts are mainly measured and monitored with methods such as sensitivity analysis and scenario simulation. During the Reporting Period, the Company continued to strengthen market risk monitoring and reporting, to effectively ensure a sound market risk support system with fair, complete data and accurate, effective valuation model, and ensure that interest rate risks in trading accounts were controllable.

Compared with trading accounts, the Bank's other services are recorded in bank accounts. The Company quantitatively evaluates the impact of interest rate changes on the Company's net interest income and economic value for different currencies and different sources of risks with methods such as repricing gap analysis, duration analysis, net interest income analysis, economic value analysis and stress testing, and prepares reports based on the analysis results to propose management suggestions and the service adjustment strategy. During the Reporting Period, the Company paid close attention to external policy trends and changes in the interest rate environment, continued to conduct pricing analysis and testing, profoundly analyze the causes of interest rate spread changes, and flexibly adjust the active interest rate risk management strategy, in a way to effectively control interest rate risks in banking books and achieve forward-looking management. As at the end of the Reporting Period, interest rate risks in the Company's bank accounts were generally controllable.

19.3.2 Analysis of Interest rate sensitivity

The Company uses sensitivity analysis to measure the potential impact of changes in interest rates on the Company's net interest income. The following table sets forth the results of interest rate sensitivity analysis by assets and liabilities on 31 December 2021 and 31 December 2020 respectively.

Unit: RMB' 000

Item	31 December 2021 (Decrease)/ Increase	31 December 2020 (Decrease) /Increase
Change in annualized net interest income		
Interest rate increase by 100 bps	(499,826)	(640,745)
Interest rate decrease by 100 bps	499,826	640,745

The above sensitivity analysis is based on the fact of assets and liabilities having a static interest rate risk structure. The analysis measures only changes in interest rates over a one-year period, reflecting the impact of repricing of the Company's assets and liabilities over a one-year period on the Company's annualized calculation of interest income, based on the following assumptions:

- (1) All assets and liabilities re-priced or mature within three months and after three months but within one year are assumed to be re-priced or mature at the beginning of their respective periods (i.e. all of those assets and liabilities re-priced or mature within three months are re-priced or mature in real time; all of those assets and liabilities re-priced or mature after three months but within one year are re-priced or mature immediately after three months);
- (2) There is a parallel shift in the yield curve and in interest rates;
- (3) There are no other changes in the portfolio of assets and liabilities, and all positions will be held for subsequent maturity.

The analysis does not take into account the effect of risk management measures taken by management. The actual changes in the Company's net interest income resulting from increases or decreases in interest rates may differ from the results of the sensitivity analysis based on the above assumptions.

19.3.3 Analysis of exchange rate risk

The Company's exchange rate risks mainly arise from mismatched currencies in non-RMB assets and liabilities held in the Company's bank accounts. The Company controls the exchange rate risks of bank accounts to be acceptable to the Company by strictly controlling risk exposures. The Company's exchange rate risk measurement and analysis methods mainly include foreign exchange exposure analysis, scenario simulation analysis and stress testing. During the Reporting Period, the Company paid close attention to exchange rate trends, proactively analyzed the impact of exchange rate changes based on the domestic and foreign macroeconomic situation, and proposed an asset-liability optimization plan. Given the prudent foreign exchange risk appetite, as at the end of the Reporting Period, the Company was looking at low foreign exchange exposures and generally stable exchange rate risks.

19.3.4 Analysis of exchange rate sensitivity

The following table sets forth the results of the analysis of exchange rate sensitivity based on the current assets and liabilities on 31 December 2021 and 31 December 2020.

Unit: RMB' 000

Item	31 December 2021 Increase/ (Decrease)	31 December 2020 Increase/ (Decrease)
Change in annualized net profit		
Foreign exchange rate increase by 100 bps	(9,313)	9,953
Foreign exchange rate decrease by 100 bps	9,313	(9,953)

The above sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions. The analysis is based on the following assumptions:

- (1) The foreign exchange sensitivity is the gain or loss recognized as a result of 100 basis points fluctuation in the foreign currency exchange rates against the average of the central parity rates of RMB on the reporting date;
- (2) The exchange rates against RMB for all foreign currencies change in the same direction simultaneously;
- (3) The foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by the management. The actual changes in the Company's net foreign exchange gain or loss resulting from change in foreign exchange rates may differ from the results of the sensitivity analysis based on the above assumptions.

19.4 Operational Risk Management

Operational risk refers to the risk of loss arising from inadequate or problematic internal procedures, employees, information technology systems, and external events. The Company's operational risk mainly arises from four types of risk factors, including personnel risk, process risk, information system risk and external event risk.

The Company focuses on preventing systematic operational risks and heavy losses from operational risks. The Board explicitly sets an acceptable operational risk level and supervises the senior management's monitoring of and evaluation on the adequacy and effectiveness of the internal control system; the senior management works out systematic systems, processes and methods and adopts corresponding risk control measures according to the acceptable risk level determined by the Board, so as to prevent and control operational risks in a comprehensive manner.

During the Reporting Period, the Company actively implemented the internal and external requirements for operational risk management by improving the operational risk management system, effectively identifying, assessing, monitoring and controlling, and mitigating operational risks, vigorously promoting the improvement of operational risk management, and controlling operational risks well. During the Reporting Period, the Company focused on strengthening operational risk management in the following aspects:

- (1) Assessment and monitoring of operational risks. The Bank upgraded operational risk management tools, monitored operational risks in an all-round way with the comprehensive use of system monitoring, risk investigation, internal inspection and line supervision, regularly conducted operational risk and control self-assessment for key processes, and collected, analyzed and warned against key indicators and loss of data, so as to comprehensively block all operational risks.
- (2) Prevention against external fraud risks. The Bank continued to optimize the anti-fraud system for services, and strengthened the control of counter and credit fraud risks, so as to continuously improve the accuracy and real-time performance of fraud risk control.
- (3) Further construction of the information system. The Bank increased the application of information innovation technology, improved the level of automatic operation and maintenance, and identified multiple automatic operation and maintenance scenarios by sorting out the daily operation and maintenance work tasks, so as to comprehensively reduce the labor and system operation risks of the data center.
- (4) Improved services continuity management. The Bank continued to promote service continuity management by enhancing the construction of the emergency response system, organizing service continuity drills, and improving the ability of relevant personnel to respond to emergencies and work collaboratively.
- (5) Further prevention against outsourcing risks. The Bank improved the outsourcing risk management system by strictly reviewing the access of outsourcing projects and service providers, increasing the control of outsourcing personnel, strictly controlling the daily operation of outsourcing services, and preventing the occurrence of outsourcing risks.

20. Prospects for the Future Development of the Company

20.1 Industry Landscape and Trend for the New Year

In 2022, China's economy will grow moderately with high-quality development. Innovation-driven, green development will become an important engine leading the high-quality development of China's economy. Shandong Province and Qingdao will coincide in economic development, replacing old growth drivers with new ones. In the coming year, the fiscal policy will stress both quality and efficiency, focusing on precision and sustainability; the macroeconomic policy will seek improvement in stability; the monetary policy will be prudent, emphasizing structural easing; supervision will remain tight, strengthening financial support in key areas; industry development will slow down, with a continuing trend of differentiation.

20.2 2022 Guide for Development

In 2022, the Bank will follow the basic operation guiding philosophy of deep cultivation and fine operation, intensified promotion, optimized structure, and sustained development by continuing to take root in Qingdao and Shandong and comprehensively promoting improvement in services and management, laying a solid foundation for new sustainable development for Bank of Qingdao.

Deep cultivation and fine operation: Deep cultivation means continuing to take root in Qingdao and expand throughout Shandong, improve the layout of institutional outlets, and promote more marketing to institutions and customers to increase customer penetration; fine operation means segmenting customers, classifying marketing, and providing layered services to improve customer product coverage and increase the share of customer wallet.

Intensified promotion: Continuing to promote improvement in services, consolidate the customer base, expand the size of assets and liabilities, improve the revenue capacity, and upgrade the quality of assets; continuing to deepen management improvement, enhance fine and professional management, and ensure that the management capacity can adapt to and promote long-term development.

Optimized structure: Continuing to adjust and optimize the structure of assets and liabilities. Optimizing the asset structure, reducing industry and customer concentration, and improving asset pricing; optimizing the liability structure, increasing the proportion of low-cost liabilities, and reducing liability costs.

Sustained development: Achieve group operation means a new journey and a new development stage; standing at a new starting point, continuing to focus on improvement in services and management, promote diversified customers and services, diversified income and profits, and ensure the Bank's long-term sustainable, steady development.

20.3 Main Measures to Be Adopted for the New Year

In 2022, the Bank will work on the following eight aspects:

- (1) Continuing to consolidate the customer base and cultivate diversified profit centers;
- (2) Seizing assets to promote revenue, building a solid foundation to ensure development;
- (3) Incrementally improving quality, expanding the customer base, optimizing the structure, and increasing benefits;
- (4) Improving comprehensive investment income and strengthening the underwriting of bonds;
- (5) Continuing to deepen management improvement and enhance the service support capacity;
- (6) Continuing to improve the layout of institutions and further increase the efficiency of outlets;
- (7) Accelerating transformation, creating characteristics, and strengthening investment, research and development channels;
- (8) Party building leading discipline inspection, and steadily enhancing comprehensive management.

21. Reception of Research, Communication, Interviews and Other Activities

Time of Reception	Place of Reception	Form of Reception	Type of Visitor	Visitor	Major Discussions and Documents Provided	Reference
9 April 2021	Head office	field research and online interaction	institution	<p>Field: Shen Juan from Huatai Securities, Yuan Zheqi from Ping An Securities, Dong Wenxin from Everbright Securities, Deng Meijun from Zhongtai Securities, Lei Xun from Great Wall Securities, Wu Jiahui from GF Securities, Jin Lanfeng from China Southern Asset Management, etc.</p> <p>Online: Dai Zhifeng from Zhongtai Securities, Ma Tingting from Guosheng Securities, Yuan Zifang from CICC, Liao Ziyuan from TF Securities, Li Lei from AMTD Group, Du Nanjiang from UBS Securities, Chen Yulu from Northeast Securities, Xie Weiwei from Haitong Securities, and various investors who participated in this performance conference via webcast.</p>	They communicated on the Bank's 2020 annual performance and operations. The Bank provided relevant presentations.	Refer to the Investor Relations Activity Record Form and its annexes published on 13 April 2021 by the Bank on cninfo (http://www.cninfo.com.cn/)
25 June 2021	Head office	field research	institution	<p>Zhang Yu and Jiang Zhongyu from Guotai Junan Securities, Liang Fengjie from Zheshang Securities, Lin Yingying from BOC International, Jia Jing from Zhongtai Securities, Dong Wenxin from Everbright Securities, Chen Shaoxing and Cao Xintong from Industrial Securities, Shao Chunyu from China Merchants Securities, Wan Sihua from GF Securities, Wang Yu from China Merchants Fund, Zhu Weihao from Southern Asset Management, Yang Xue from Zhonggeng Fund, Lu Xiaowei from Cathay Pacific Fund, Zhang Hui from Ping An Asset Management, Qiu Peiyu from Taiping Pension, Wu Yingying from Yinhua Fund, Gao Mao from CICC Fund, Zhang Yong from China Future Capital, Chen Jialin from Mega Trust.</p>	They communicated on the Bank's corporate banking, retail banking, wealth management and other services and asset quality control. The Bank did not provide any information.	Refer to the Investor Relations Activity Record Form published on 28 June 2021 by the Bank on cninfo (http://www.cninfo.com.cn/)

Time of Reception	Place of Reception	Form of Reception	Type of Visitor	Visitor	Major Discussions and Documents Provided	Reference
3 September 2021	Head office	telephone communication	institution	Qiu Guanhua from Zheshang Securities, Dai Zhifeng from Zhongtai Securities, Jin Lanfeng from China Southern Asset Management, Shen Juan and Anna from Huatai Securities, Wang Yifeng from Everbright Securities, Yuan Zheqi from Ping An Securities, Zou Hengchao from Great Wall Securities, Lin Yuanyuan from BOC Securities, Guo Qiwei from TF Securities, Sun Yi from HSBC Qianhai, Wu Jiahui from GF Securities, Chen Shaoxing from Industrial Securities, Jiang Zhongyu from Guotai Junan, etc.	They communicated on the Bank's corporate banking, retail banking, wealth management and other services and asset quality control. The Bank did not provide any information.	Refer to the Investor Relations Activity Record Form published on 7 September 2021 by the Bank on cninfo (http://www.cninfo.com.cn/)

SECTION 4 OTHER EVENTS

4.1 Use of Proceeds Raised

Please refer to “13. Investment Analysis” in Section 3 Management Discussion and Analysis of this results announcement.

4.2 Corporate Governance Code

During the Reporting Period, the Bank strictly complied with the code provisions set out in the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Listing Rules**”), and, where appropriate, adopted the recommended best practices therein.

4.3 Securities Transactions by Directors and Supervisors

The Bank has adopted the required standard in 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 the code of conduct regarding securities transactions by directors and supervisors of the Bank.

Having made enquiries to the directors and supervisors, the Bank has confirmed that they had complied with the above Model Code during the Reporting Period.

4.4 Changes in Directors, Supervisors and Senior Management

The directors of the Bank are nominated by the Board and elected in accordance with the qualifications of directors and the election procedures as specified in the Articles of Association. The shareholder supervisor and external supervisors are nominated by the board of supervisors, and the employee supervisors are nominated by the labor union's committee, and all of such supervisors are elected in accordance with the election procedures as specified in the Articles of Association.

During the Reporting Period, the seventh session of the Board and the seventh session off the Board of Supervisors of the Bank expired, and the Bank held the workers' congresses and shareholders' meetings to conduct general elections. LIU Peng was newly elected as executive director, XING Lecheng and ZHANG Xu were newly elected as independent directors, and CHEN Hua and DAI Shuping will serve for six years and will not be re-elected according to regulatory requirements; HAO Xianjing, JIANG Xinglu and LU Kun were newly elected as external supervisors. FU Changxiang and HU Yanjing will serve for six years and will not be re-elected according to regulatory requirements. Changes in directors, supervisors and senior management of the Bank are shown in the following table:

Name	Position held	Type of change	Date of change	Reason of change
HAO Xianjing	External supervisor	Newly elected	11 May 2021	–
JIANG Xinglu	External supervisor	Newly elected	11 May 2021	–
LU Kun	External supervisor	Newly elected	11 May 2021	–
FU Changxiang	Former external supervisor	Resigned	11 May 2021	The term of office will expire after six years and will not be renewed in accordance with regulatory requirements
HU Yanjing	Former external supervisor	Resigned	11 May 2021	The term of office will expire after six years and will not be renewed in accordance with regulatory requirements
LIU Peng	Executive director	Newly elected	2 July 2021	–
XING Lecheng	Independent director	Newly elected	2 July 2021	–
ZHANG Xu	Independent director	Newly elected	2 July 2021	–
CHEN Hua	Former independent director	Resigned	2 July 2021	The term of office will expire after six years and will not be renewed in accordance with regulatory requirements
DAI Shuping	Former independent director	Resigned	2 July 2021	The term of office will expire after six years and will not be renewed in accordance with regulatory requirements

Save for the above, there were no other changes in the directors, supervisors and senior management of the Bank. During the Reporting Period, there was no departure of directors and supervisors or dismissal of senior management of the Bank during their term of office.

4.5 Profits and Dividends

The Company's profit for the year ended 31 December 2021 and the Company's financial position as at the same date are set out in the section headed Financial Statements of this results announcement.

1. Pursuant to the relevant resolutions considered and passed at the 2020 annual general meeting of the Bank on 11 May 2021, the Bank distributed to holders of A shares and holders of H shares whose names appear on the register of members of the Bank at the close of business on their respective share registration date, dividends in cash for 2020 in an aggregate amount of RMB812 million (tax inclusive), according to the dividend distribution plan to distribute a cash dividend of RMB0.18 per share (tax inclusive) on 28 May 2021.
2. On 30 August 2021, the chairman, the president and the secretary to the Board of the Bank jointly signed the Decision on Full Distribution of Dividends on Offshore Preference Shares of Bank of Qingdao Co., Ltd. for the Fourth Dividend Accruing Year to agree the dividend distribution plan for offshore preference shares. The Bank distributed a dividend in the total amount of US\$73.5167 million for offshore preference shares at the initial dividend rate of 5.50%. Dividends shall be paid in cash, of which US\$66.1650 million was paid to offshore preference shareholders and US\$7.3517 million was withheld for income tax.
3. The Board has proposed to pay a final dividend in cash of RMB1.60 per 10 shares (tax inclusive) for the year ended 31 December 2021 to all ordinary shareholders of the Bank. The total cash dividends will be calculated based on the total number of the share capital as at the share registration date of the interest distribution. The dividend distribution plan will be submitted to the 2021 annual general meeting for consideration. In 2021, the Bank did not distribute bonus shares or increase share capital with provident fund.

If the proposal is approved by the 2021 annual general meeting, the dividend will be distributed to holders of A shares and holders of H shares whose names appear on the register of members of the Bank at the close of business on their respective share registration date. The proposed dividends mentioned above will be denominated in RMB. Dividends to holders of A shares shall be paid in RMB, and dividends to holders of H shares shall be paid in Hong Kong dollars. The applicable exchange rate for dividends payable in Hong Kong dollars shall be the average of the central parity rates of RMB to Hong Kong dollars in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends at the 2021 annual general meeting (including the day the annual general meeting to be held) as announced by the People's Bank of China. The register of members of the Bank will be closed from 14 May 2022 to 18 May 2022 (both days inclusive), during such period no transfer of H shares will be registered. In order to be entitled to the 2021 final dividend distribution, holders of H shares of the Bank who have not registered the related transfer documents are required to lodge the transfer documents together with the relevant share certificates with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 13 May 2022.

The Board proposes to distribute the final dividends for 2021 on or before 7 July 2022. If there are any changes to the expected dividend payment date, an announcement will be published regarding such changes.

4.6 2021 Annual General Meeting and Closure of Register of Members

The Bank's 2021 annual general meeting is proposed to be held on Tuesday, 10 May 2022. In order to determine the list of holders of H shares who are entitled to attend and vote at the 2021 annual general meeting, the H share register of members of the Bank will be closed from Wednesday, 4 May 2022 to Tuesday, 10 May 2022 (both days inclusive), during such period no share transfer will be registered. Holders of H shares of the Bank who intend to attend and vote at the annual general meeting must lodge all the transfer documents accompanied by the relevant share certificates with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 3 May 2022.

4.7 Purchase, Sale or Redemption of Listed Securities

During the Reporting Period, the Company had not purchased, sold or redeemed any listed securities of the Company.

4.8 Changes in Accounting Policies and Accounting Estimates or Correction of Significant Accounting Errors

During the Reporting Period, there was no change in accounting policies, accounting estimates or correction of significant accounting errors that had significant impact on the Company's financial statements.

4.9 Review of Annual Results

KPMG Huazhen LLP and KPMG audited the 2021 annual financial statements prepared by the Company in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards respectively, and issued unqualified auditor's reports. The audit committee of the Board has reviewed the annual results and the financial statements of the Company for the year ended 31 December 2021.

KPMG is Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance.

4.10 Subsequent events

In January 2022, the Bank placed 782 million A ordinary shares with a nominal value of RMB1 at RMB3.20 per share and placed 529 million H ordinary shares with a nominal value of RMB1 at HK\$3.92 per share in February 2022. After the above rights issue of A+H shares, the total number of our shares was 5,820 million shares.

INDEPENDENT AUDITOR’S REPORT

Independent auditor’s report to the shareholders of Bank of Qingdao Co., Ltd.

(A joint-stock company incorporated in the People’s Republic of China (the “PRC”) with limited liability)

Opinion

We have audited the consolidated financial statements of Bank of Qingdao Co., Ltd. (the “**Bank**”) and its subsidiaries (the “**Group**”) set out on pages 98 to 204, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (“**ISAs**”). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants issued by International Ethics Standards Board for Accountants (“**the Code**”) together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People’s Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

1. Loss allowances of loans and financial investments measured at amortised cost	
<i>Refer to the accounting policies in note 2(4), and note 19 and note 22 to the financial statements.</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>The Group uses the expected credit loss model to determinate loss allowances of financial assets in accordance with the International Financial Reporting Standards 9, <i>Financial Instruments</i>.</p> <p>The determination of loss allowances of loans and financial investments using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information, the impact of COVID-19 pandemic on related parameters as at 31 December 2021 and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.</p>	<p>Our audit procedures to assess loss allowances of loans and financial investments measured at amortised cost included the following:</p> <ul style="list-style-type: none"> • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and financial investments measured at amortised cost, the credit grading process and the measurement of provisions for impairment. • with the assistance of our internal specialists in financial risk management, assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments, including management judgment on the impact of COVID-19 pandemic on related parameters as at 31 December 2021.

1. Loss allowances of loans and financial investments measured at amortised cost

Refer to the accounting policies in note 2(4), and note 19 and note 22 to the financial statements.

The Key Audit Matter

How the matter was addressed in our audit

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

Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. Management refers to valuation reports issued by qualified third party valuers and considers the influence of various factors including the market price, location and use when assessing the value of property held a collateral. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of loss allowances as at the end of the reporting period.

- assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of the loan and financial investment list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan and investment information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and investment list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources.
- for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development.

1. Loss allowances of loans and financial investments measured at amortised cost

Refer to the accounting policies in note 2(4), and note 19 and note 22 to the financial statements.

The Key Audit Matter

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

How the matter was addressed in our audit

- for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the logics and compilation of the overdue information and the operational process of the credit grading of corporate customers for selected samples.
- evaluating the validity of management's assessment on whether the credit risk of the loan has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting risk-based samples. We analysed the portfolio by industry sector to select samples in industries more vulnerable to the current economic situation or COVID-19 pandemic with reference to other borrowers with potential credit risk. We checked loan overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses, with respect to the impact of COVID-19 pandemic on borrowers' credit risk as at 31 December 2021.

1. Loss allowances of loans and financial investments measured at amortised cost

Refer to the accounting policies in note 2(4), and note 19 and note 22 to the financial statements.

The Key Audit Matter

How the matter was addressed in our audit

- for selected samples of loans and advances to customers that are credit-impaired, evaluating management's assessment of the value of any property collateral held by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, challenged the viability of the Group's recovery plans and evaluated other credit enhancements that are integral to the contract terms.
- recalculating the amount of credit loss allowance for 12 month and life time credit losses using the expected credit loss model based on the above parameters and assumptions for a sample of loans and investments where the credit risk of the loan has not, or has, increased significantly since initial recognition, respectively.
- assessing whether the disclosures in the consolidated financial statements in relation to loss allowances of loans and financial investments measured at amortised cost meet the requirements in the prevailing accounting standards.

2. Assessment of fair value of financial instruments

Refer to the accounting policies in note 2(4), and note 45 to the financial statements.

The Key Audit Matter

Financial instruments carried at fair value account for a significant part of the Group's assets and liabilities. The changes in fair value may affect profit or loss or other comprehensive income. The Group mainly holds level 2 and level 3 financial instruments measured at fair value.

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

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

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

How the matter was addressed in our audit

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

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

3. Consolidation of structured entities

Refer to the accounting policies in note 2(26), and note 47 to the financial statements.

The Key Audit Matter

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

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

How the matter was addressed in our audit

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

- understanding and assessing the design and implementation of key internal controls of financial reporting over consolidation of structured entities.
- selecting significant structured entities of each key product type and performing the following procedures for each entity selected:
 - inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity.

3. Consolidation of structured entities

Refer to the accounting policies in note 2(26), and note 47 to the financial statements.

The Key Audit Matter

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

How the matter was addressed in our audit

- reviewing the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management’s judgement as to exposure, or rights, to variable returns from the Group’s involvement in such an entity.
- reviewing management’s analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group’s economic interests in the structured entity to assess management’s judgement over the Group’s ability to influence its own returns from the structured entity.
- assessing management’s judgement over whether the structured entity should be consolidated or not.
- assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

Information other than the consolidated financial statements and auditor’s report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor’s report thereon.

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, including the disclosures, structure and content of the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Lok Man.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2021	2020
Interest income		18,208,935	17,168,922
Interest expense		<u>(10,563,310)</u>	<u>(9,022,391)</u>
Net interest income	3	<u>7,645,625</u>	<u>8,146,531</u>
Fee and commission income		2,175,357	1,855,260
Fee and commission expense		<u>(220,231)</u>	<u>(163,636)</u>
Net fee and commission income	4	<u>1,955,126</u>	<u>1,691,624</u>
Net trading losses	5	(171,489)	(567,428)
Net gains arising from investments	6	1,680,445	1,248,600
Other operating income	7	28,666	28,747
Operating income		<u>11,138,373</u>	<u>10,548,074</u>
Operating expenses	8	(3,915,738)	(3,676,022)
Credit losses	11	(3,966,971)	(4,143,756)
Impairment losses on other assets		<u>(30,254)</u>	<u>—</u>
Profit before taxation		<u>3,225,410</u>	<u>2,728,296</u>
Income tax expense	12	<u>(232,197)</u>	<u>(274,998)</u>
Net profit for the year		<u>2,993,213</u>	<u>2,453,298</u>
Profit attributable to:			
Equity shareholders of the Bank		2,922,664	2,394,072
Non-controlling interests		<u>70,549</u>	<u>59,226</u>
Basic and diluted earnings per share (after adjustment) (in RMB)	13	<u>0.51</u>	<u>0.40</u>

The notes on pages 106 to 204 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	2021	2020
Net profit for the year		2,993,213	2,453,298
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Remeasurement of defined benefit liability		(3,382)	(600)
Items that may be reclassified subsequently to profit or loss			
– Changes in fair value of financial assets measured at fair value through other comprehensive income	<i>39(4)</i>	457,690	(642,643)
– Credit losses of financial assets measured at fair value through other comprehensive income	<i>39(4)</i>	259,474	17,730
Other comprehensive income, net of tax		713,782	(625,513)
Total comprehensive income		3,706,995	1,827,785
Total comprehensive income attributable to:			
Equity shareholders of the Bank		3,636,446	1,768,559
Non-controlling interests		70,549	59,226

The notes on pages 106 to 204 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2021	31 December 2020
Assets			
Cash and deposits with central bank	14	53,241,394	47,219,397
Deposits with banks and other financial institutions	15	2,126,922	2,568,919
Placements with banks and other financial institutions	16	5,108,646	–
Derivative financial assets	17	146,617	286,400
Financial assets held under resale agreements	18	12,288,925	9,726,476
Loans and advances to customers	19	238,608,698	202,358,484
Financial investments:			
– Financial investments measured at fair value through profit or loss	20	55,947,254	37,250,405
– Financial investments measured at fair value through other comprehensive income	21	72,613,395	66,828,002
– Financial investments measured at amortised cost	22	61,422,152	74,157,602
Long-term receivables	24	11,688,253	11,001,178
Property and equipment	25	3,390,193	3,247,768
Right-of-use assets	26	845,889	826,821
Deferred tax assets	27	2,505,442	2,468,017
Other assets	28	2,315,830	1,888,136
Total assets		522,249,610	459,827,605
Liabilities			
Borrowings from central bank	29	25,494,116	11,207,069
Deposits from banks and other financial institutions	30	6,341,814	17,024,732
Placements from banks and other financial institutions	31	16,904,500	12,947,575
Derivative financial liabilities	17	144,689	288,347
Financial assets sold under repurchase agreements	32	25,305,596	33,099,349
Deposits from customers	33	317,965,807	275,750,710
Income tax payable		124,032	431,921
Debt securities issued	34	92,218,300	72,834,508
Lease liabilities	35	505,895	453,671
Other liabilities	36	3,917,133	4,882,865
Total liabilities		488,921,882	428,920,747

The notes on pages 106 to 204 form part of these financial statements.

	<i>Note</i>	31 December 2021	31 December 2020
Equity			
Share capital	37	4,509,690	4,509,690
Other equity instrument			
Including: preference shares	38	7,853,964	7,853,964
Capital reserve	39(1)	8,337,869	8,337,869
Surplus reserve	39(2)	2,103,883	1,859,737
General reserve	39(3)	5,576,461	5,072,217
Other comprehensive income	39(4)	746,499	32,717
Retained earnings	40	3,507,129	2,618,980
		<hr/>	<hr/>
Total equity attributable to equity shareholders of the Bank		32,635,495	30,285,174
Non-controlling interests		692,233	621,684
		<hr/>	<hr/>
Total equity		33,327,728	30,906,858
		<hr/>	<hr/>
Total liabilities and equity		522,249,610	459,827,605
		<hr/>	<hr/>

Approved and authorised for issue by the board of directors on 25 March 2022.

<hr/> Guo Shaoquan <i>Legal Representative</i> <i>(Chairman)</i>	<hr/> Wang Lin <i>President</i>	<hr/> Meng Dageng <i>Chief Financial Officer</i>	(Company Stamp)
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The notes on pages 106 to 204 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

For the year ended 31 December 2021

Note	Attributable to equity shareholders of the Bank							Total	Non-controlling interests	Total equity
	Share capital	Other equity instrument	Capital reserve Note 39(1)	Surplus reserve Note 39(2)	General reserve Note 39(3)	Other comprehensive income Note 39(4)	Retained earnings			
Balance at 1 January 2021	4,509,690	7,853,964	8,337,869	1,859,737	5,072,217	32,717	2,618,980	30,285,174	621,684	30,906,858
Total comprehensive income	-	-	-	-	-	713,782	2,922,664	3,636,446	70,549	3,706,995
Appropriation of profit:										
- Appropriation to surplus reserve	40	-	-	244,146	-	-	(244,146)	-	-	-
- Appropriation to general reserve	40	-	-	-	504,244	-	(504,244)	-	-	-
- Dividends	40	-	-	-	-	-	(1,286,125)	(1,286,125)	-	(1,286,125)
Balance at 31 December 2021	<u>4,509,690</u>	<u>7,853,964</u>	<u>8,337,869</u>	<u>2,103,883</u>	<u>5,576,461</u>	<u>746,499</u>	<u>3,507,129</u>	<u>32,635,495</u>	<u>692,233</u>	<u>33,327,728</u>

For the year ended 31 December 2020

Note	Attributable to equity shareholders of the Bank							Total	Non-controlling interests	Total equity
	Share capital	Other equity instrument	Capital reserve Note 39(1)	Surplus reserve Note 39(2)	General reserve Note 39(3)	Other comprehensive income Note 39(4)	Retained earnings			
Balance at 1 January 2020	4,509,690	7,853,964	8,337,869	1,626,662	4,400,258	658,230	2,528,787	29,915,460	562,458	30,477,918
Total comprehensive income	-	-	-	-	-	(625,513)	2,394,072	1,768,559	59,226	1,827,785
Appropriation of profit:										
- Appropriation to surplus reserve	40	-	-	233,075	-	-	(233,075)	-	-	-
- Appropriation to general reserve	40	-	-	-	671,959	-	(671,959)	-	-	-
- Dividends	40	-	-	-	-	-	(1,398,845)	(1,398,845)	-	(1,398,845)
Balance at 31 December 2020	<u>4,509,690</u>	<u>7,853,964</u>	<u>8,337,869</u>	<u>1,859,737</u>	<u>5,072,217</u>	<u>32,717</u>	<u>2,618,980</u>	<u>30,285,174</u>	<u>621,684</u>	<u>30,906,858</u>

The notes on pages 106 to 204 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	2021	2020
Cash flows from operating activities		
Profit before taxation	3,225,410	2,728,296
<i>Adjustments for:</i>		
Credit losses	3,966,971	4,143,756
Impairment losses on other assets	30,254	–
Depreciation and amortisation	493,063	428,870
Unrealised foreign exchange losses	187,667	564,713
Net losses on disposal of property and equipment, intangible assets and other assets	1,426	3,650
(Gains)/Losses from changes in fair value	(473,453)	237,080
Dividend income	(2,600)	(1,800)
Net gains arising from investment	(1,206,092)	(1,483,879)
Interest expense on debt securities issued	2,927,687	2,539,802
Interest income from financial investment	(5,264,161)	(5,517,641)
Others	(17,073)	(47,656)
	3,869,099	3,595,191
<i>Changes in operating assets</i>		
Net decrease/(increase) in deposits with central bank	3,502,520	(2,625,978)
Net increase in deposits with banks and other financial institutions	(820,000)	–
Net (increase)/decrease in placements with banks and other financial institutions	(400,000)	2,801,364
Net increase in loans and advances to customers	(39,517,125)	(36,018,021)
Net increase in financial assets held under resale agreements	(2,568,775)	(7,407,980)
Net increase in long-term receivables	(741,348)	(2,160,869)
Net increase in other operating assets	(68,847)	(792,055)
	(40,613,575)	(46,203,539)

The notes on pages 106 to 204 form part of these financial statements.

	2021	2020
<i>Changes in operating liabilities</i>		
Net increase in borrowings from central bank	14,173,786	5,694,999
Net (decrease)/increase in deposits from banks and other financial institutions	(10,605,073)	600,021
Net increase in placements from banks and other financial institutions	3,949,611	3,018,767
Net (decrease)/increase in financial assets sold under repurchase agreements	(7,789,208)	17,067,937
Net increase in deposits from customers	41,293,439	59,440,575
Net (decrease)/increase in other operating liabilities	(457,640)	2,787,219
	40,564,915	88,609,518
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Income tax paid	(815,438)	(707,711)
Net cash flows generated from operating activities	3,005,001	45,293,459
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	53,247,732	57,207,409
Net cash received from investment gains and interest	6,889,307	6,864,343
Proceeds from disposal of property and equipment, intangible assets and other assets	6,165	12,136
Payments on acquisition of investments	(63,965,654)	(93,725,231)
Payments on acquisition of property and equipment, intangible assets and other assets	(627,428)	(729,936)
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Net cash flows used in investing activities	(4,449,878)	(30,371,279)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>

The notes on pages 106 to 204 form part of these financial statements.

	<i>Note</i>	2021	2020
Cash flows from financing activities			
Net proceeds from debt securities issued	<i>41(2)</i>	82,957,923	60,472,387
Repayment of debt securities issued	<i>41(2)</i>	(64,109,270)	(64,300,618)
Interest paid on debt securities issued	<i>41(2)</i>	(2,392,548)	(2,735,962)
Dividends paid		(1,285,422)	(1,397,628)
Payment of lease liabilities		(138,280)	(150,363)
		<u>15,032,403</u>	<u>(8,112,184)</u>
Net cash flows generated from/(used in) financing activities		15,032,403	(8,112,184)
Effect of foreign exchange rate changes on cash and cash equivalents		(13,639)	(31,264)
Net increase in cash and cash equivalents		13,573,887	6,778,732
Cash and cash equivalents as at 1 January		29,279,481	22,500,749
Cash and cash equivalents as at 31 December	<i>41(1)</i>	42,853,368	29,279,481
Net cash flows generated from operating activities include:			
Interest received		13,707,841	12,166,238
Interest paid		(6,693,120)	(5,643,370)

The notes on pages 106 to 204 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

Bank of Qingdao Co., Ltd. (the “**Bank**”), formerly known as Qingdao City Cooperative Bank Co., Ltd., is a joint-stock commercial bank established on 15 November 1996 with the approval of the People’s Bank of China (the “**PBOC**”) according to the notices YinFu [1996] No. 220 “Approval upon the Preparing of Qingdao City Cooperative Bank” and YinFu [1996] No.353 “Approval upon the Opening of Qingdao City Cooperative Bank”.

The Bank changed its name from Qingdao City Cooperative Bank Co., Ltd. to Qingdao City Commercial Bank Co., Ltd. in 1998 according to LuyinFu [1998] No. 76 issued by Shandong Branch of the PBOC. The Bank changed its name from Qingdao City Commercial Bank Co., Ltd. to Bank of Qingdao Co., Ltd. in 2008 according to YinJianFu [2007] No.485 issued by the former China Banking Regulatory Commission (the “**CBRC**”).

The Bank obtained its financial institution licence No. B0170H237020001 from the Qingdao branch of the former CBRC. The Bank obtained its business license with a unified social credit code 91370200264609602K from the Administration for Industry and Commerce of Qingdao City, and the registered office is located at Building No. 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the People’s Republic of China (the “**PRC**”). In December 2015, the Bank’s H-shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 3866). In January 2019, the Bank’s A-shares were listed on Shenzhen Stock Exchange (Stock code: 002948). The share capital of the Bank is RMB4.510 billion as at 31 December 2021.

In January and February 2022, the Bank completed the A Share Rights Issue and H Share Rights Issue respectively. The share capital of the Bank increased to RMB5.820 billion after the completion of the above rights issue,.

The Bank has 16 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Qingdao Westcoast, Laiwu, Linyi, Jining, Taian, Heze and Rizhao as at 31 December 2021. The principal activities of the Bank and its subsidiaries (collectively the “**Group**”) are the provision of corporate and personal deposits, loans and advances, settlement, financial market business, financial leasing, wealth management and other services as approved by the regulatory authority. The background information of subsidiary refers to Note 23. The Bank mainly operates in Shandong Province.

For the purpose of this report, Mainland China excludes the Hong Kong Special Administrative Region of the PRC (“**Hong Kong**”), the Macau Special Administrative Region of the PRC (“**Macau**”) and Taiwan.

2 SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) and related interpretations, issued by the International Accounting Standards Board (the “**IASB**”), as well as with the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The financial statements are presented in Renminbi (“**RMB**”), rounded to the nearest thousands, which is the functional currency of the Group.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(26).

The measurement basis used in the preparation of financial statements is historical cost, with the exception of certain financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(4).

(2) Translation of foreign currencies

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

A spot exchange rate is quoted by the PBOC, the State Administration of Foreign Exchange (the “SAFE”), or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method, such as the average exchange rate of the current period.

Monetary assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to RMB using the exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated using the exchange rates ruling at the dates the fair value is determined. The resulting exchange differences are recognised in profit or loss, except for the differences arising from the re-translation of equity instrument at fair value through other comprehensive income, which are recognised in other comprehensive income.

(3) Cash and cash equivalents

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

(4) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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

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

A financial assets or financial liability is measured initially at fair value. For financial assets and financial liabilities measured at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs. A trade receivable, without significant financing component or practical expedient applied for one year or less contracts, is initially measured at the transaction price.

Measurement of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value, the Group shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date (including the condition and location of the asset; and restrictions, if any, on the sale or use of the asset, etc.), and use valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. The adopted valuation techniques mainly include market approach, income approach and cost approach.

(ii) Classification and subsequent measurement of financial assets

(a) Classification of financial assets

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

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

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. This election is made on an investment-by-investment basis. The instrument meets the definition of equity from the perspective of the issuer.

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

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

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

(b) Subsequent measurement of financial assets

– Financial assets measured at FVTPL

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

– Financial assets measured at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, reclassified, through the amortisation process or in order to recognise impairment gains or losses.

– Debt investments measured at FVOCI

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

– Equity investments measured at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

(iii) Classification and subsequent measurement of financial liabilities

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

– Financial liabilities measured at FVTPL

A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability, separately stated in the statement of financial position) or it is designated as such on initial recognition.

Financial liabilities measured at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

– Financial guarantee liabilities

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

Subsequent to initial recognition, deferred income related to financial guarantee is recognised on average in profit or loss during the term of the contract. A financial guarantee liability is measured at the higher of the amount of the loss allowance determined in accordance with impairment policies of financial instruments (see Note 2(4)(iv)) and the amount initially recognised less the cumulative amount of income.

- Financial liabilities measured at amortised cost

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

(iv) Impairment

The Group recognises loss allowances for expected credit loss (ECL) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI;
- lease receivables; and
- financial guarantee contracts issued and loan commitments, which are not measured at FVTPL.

Financial assets measured at fair value, including debt investments or equity securities at FVTPL, equity securities designated at FVOCI and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value, discounted at effective interest rate or the credit-adjusted effective interest rate on purchased or originated credit-impaired financial assets, of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The Group's method of measuring ECLs of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

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

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

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

The Group applies a 'three-stage model' for measuring ECL. For the measurement and segmentation of ECL of financial instruments of the Group, see Note 44(1) Credit risk.

Presentation of allowance for ECL

ECLs are remeasured at the end of each reporting period to reflect changes in the financial instruments' credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income. The Group recognises loss allowances for loan commitments and financial guarantee contracts that are not measured at FVTPL in contingent liabilities. (See Note 36(3)).

Write-off

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

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

(v) Offsetting

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

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

(vi) Derecognition of financial assets and financial liabilities

Financial asset is derecognised when one of the following conditions is met:

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

When the financial asset has been transferred, if the Group neither transfers nor retains substantially all of the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

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

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

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

Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When a securitisation of financial assets does not qualify for derecognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability; when the securitisation of financial assets partially qualifies for derecognition, the Group continue to recognise the transferred assets to the extent of its continuing involvement, derecognise the remaining. The carrying amount of the transferred assets is apportioned between the derecognised portion and the retained portion based on their respective relative fair values, and the difference between the carrying amount of the derecognised portion and the total consideration paid for the derecognised portion is recorded in profit or loss.

Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

(vii) Derivative financial instruments

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

An embedded derivative and the host contract together form the hybrid contract. If the host contract included in the hybrid contract is financial asset, the hybrid financial instrument as a whole is related to the classification of the financial asset provision. If the host contract included in the hybrid contract is not an asset within the scope of International Financial Reporting Standards 9, *Financial Instruments*, when their economic characteristics and risks are not closely related to those of the hybrid contract, those separate instruments with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid instrument is not carried at FVTPL, certain derivatives embedded in other financial instruments should be split from the hybrid contract and treated as separate derivatives. These embedded derivatives are measured at fair value with the changes in fair value recognised in profit or loss.

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

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

(viii) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognized in shareholders' equity. Consideration and transaction costs paid by the Bank for repurchasing self-issued equity instruments are deducted from shareholders' equity.

When the Bank repurchases its own shares, those shares are treated as treasury shares. All expenditure relating to the repurchase is recorded in the cost of the treasury shares, with the transaction recording in the share register. Treasury shares are excluded from profit distributions and are presented as a deduction under shareholders' equity in the statement of financial position.

When treasury shares are cancelled, the share capital should be reduced to the extent of the total par value of the treasury shares cancelled. Where the cost of the treasury shares cancelled exceeds the total par value, the excess is deducted from capital reserve (share premium), surplus reserve and retained earnings sequentially. If the cost of treasury shares cancelled is less than the total par value, the difference is credited to the capital reserve (share premium).

When treasury shares are disposed of, any excess of proceeds above cost is recognized in capital reserve (share premium); otherwise, the shortfall is deducted against capital reserve (share premium), surplus reserve and retained earnings sequentially.

(ix) Preference share

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

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

(5) Resale and repurchase agreements transactions (including securities borrowing and lending)

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are recognised and measured in the statements of financial position in accordance with the accounting policy set out in Note 2(4).

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are recognised and measured in accordance with the accounting policy set out in Note 2(4).

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

Securities borrowing and lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

(6) Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value and subsequent changes in fair value are recorded in the statement of profit or loss.

(7) Property and equipment

Property and equipment are tangible assets held by the Group for operation and administration purposes with useful lives over one year.

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

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

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Group in different patterns, each part is depreciated separately.

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

Property and equipment assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see Note 2(12)).

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

	Estimated useful lives	Estimated net residual value	Annual depreciation rate
Premises	20 – 50 years	3% – 5%	1.90% – 4.85%
Machinery equipment and others	5 – 10 years	3% – 5%	9.50% – 19.40%
Vehicles	5 years	3% – 5%	19.00% – 19.40%
Electronic equipment	3 – 7 years	3% – 5%	13.57% – 32.33%
Premises leased out under operating leases	20 – 50 years	3% – 5%	1.90% – 4.85%

Useful lives, residual values and depreciation methods of property and equipment are reviewed, and adjusted if appropriate, at least at each financial year end.

The carrying amount of a property and equipment is derecognised:

- When the property and equipment is holding for disposal; or
- When no future economic benefit is expected to be generated from its use or disposal.

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

(8) Assets held for sale

The Group classified a non-current asset or disposal group as held for sale when the carrying amount of a non-current asset or disposal group will be recovered through a sale transaction rather than through continuing use.

A disposal group refers to a group of assets to be disposed of, by sale or otherwise, together as a whole in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction.

A non-current asset or disposal group is classified as held for sale when all the following criteria are met:

- According to the customary practices of selling such asset or disposal group in similar transactions, the non-current asset or disposal group must be available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets or disposal groups; and
- Its sale is highly probable, that is, the Group has made a resolution on a sale plan and has obtained a firm purchase commitment. The sale is to be completed within one year.

Non-current assets or disposal groups held for sale are stated at the lower of carrying amount and fair value (see Note 2(26)(ii)) less costs to sell (except financial assets (see note 2(4)), deferred tax assets (see note 2(14)) initially and subsequently. Any excess of the carrying amount over the fair value (see Note 2(26)(ii)) less costs to sell is recognised as an impairment loss in profit or loss.

(9) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated in the statements of financial position at cost less accumulated amortisation and impairment losses (see Note 2(12)). The cost of intangible assets less residual value and impairment losses is amortised on a straight-line basis over the estimated useful lives, unless the intangible asset is classified as held for sale

The amortisation period for intangible assets is as follows:

Software	3 – 10 years
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Useful lives and amortisation methods of intangible asset with finite useful life are reviewed at least at each year-end.

(10) Long-term deferred expenses

Long-term deferred expenses are amortised using a straight-line method within the expected benefit period and stated in “other assets” at actual cost less accumulated amortisation and impairment losses (see Note 2(12)).

(11) Repossessed assets

Repossessed assets refer to the physical assets or property rights of the debtor, guarantor or a third party that the Group exercises its creditor’s rights or security rights in accordance with the law.

Transferred financial repossessed assets are initially measured at their fair value, and classified and subsequently measured by the Group according to the accounting policies in Note 2(4)(ii).

Transferred non-financial repossessed assets are initially measured at the fair value of the relinquished creditor’s rights and other costs such as taxes directly attributable to the asset, and subsequently measured at the lower of the book value of the repossessed assets and the recoverable amount by the Group. Please refer to Note 2(12) for the method of impairment test and provision for impairment.

(12) Provision for impairment losses on non-financial assets

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

- property and equipment
- right-of-use assets
- intangible assets
- investments in subsidiaries, associates and joint ventures
- non-financial repossessed assets
- long-term deferred expenses, etc.

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

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

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called “asset”) is the greater of its fair value less costs of disposal and value in use.

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

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups and then, to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs of disposal (if measurable), value in use (if measurable) and zero.

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment is recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

(13) Employee benefits

(i) Short-term employee benefits

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

(ii) Post-employment benefits – defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participated in a defined contribution basic pension insurance and unemployment insurance in the social insurance system established and managed by government organizations, and annuity plan. The Group makes contributions to basic pension insurance plans and unemployment insurance based on the applicable benchmarks and rates stipulated by the government. The Group established supplementary defined contribution – annuity plan in accordance with the national enterprise annuity policies. The contributions are recognised as liability, charged to profit or loss or recognised as part of the cost of related assets during the accounting period in which employees provide services.

(iii) Post-employment benefits – defined benefit plans

In accordance with the projected unit credit method, the Group measures the obligations under defined benefit plans using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, and discount obligations under the defined benefit plans to determine the present value of the defined benefit liability.

The Group attributes benefit obligations under a defined benefit plan to periods of service provided by respective employees. Service cost and interest expense on the defined benefit liability are charged to profit or loss or recognised as part of the cost of assets, and remeasurements of defined benefit liability are recognised in other comprehensive income.

(iv) Termination benefits

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognise termination benefits in profit or loss at the earlier of:

- When the Group can no longer withdraw an offer of those benefits;

- When the Group has a specific, formal restructure plan involving payment of termination benefits, and the plan has started or been informed each affected party about the influence of the plan, therefore each party formed reasonable expectations.

(14) Income tax

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

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

At the end of the reporting period, current tax assets and liabilities are offset if the Group has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

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

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

The carrying amount of a deferred tax asset is reviewed at the end of the reporting period. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the end of the reporting period, deferred tax assets and liabilities are offset if all the following conditions are met:

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

(15) Provisions and contingency

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid-point of that range. In other cases, the best estimate is determined according to the following circumstances:

- Where the contingency involves a single item, the best estimate is the most likely outcome; and
- Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

The Group reviews the carrying amount of a provision at the end of the reporting period and adjusts the carrying amount to the current best estimate.

(16) Fiduciary activities

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

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

(17) Income recognition

Revenue is the gross inflow of economic benefits arising in the course of the Group’s ordinary activities when the inflows result in increase in shareholders’ equity, other than increase relating to contributions from shareholders.

Revenue is recognised when the Group satisfies the performance obligation in the contract by transferring the control over relevant goods or services to the customers.

Where a contract has two or more performance obligations, the Group determines the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocates the transaction price in proportion to those stand-alone selling prices. The Group recognises as revenue the amount of the transaction price that is allocated to each performance obligation. The stand-alone selling price is the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group considers all information that is reasonably available to the entity, maximises the use of observable inputs to estimate the stand-alone selling price.

(i) Interest income

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

The Group recognises interest income based on the effective interest method. Interest income is calculated by applying the effective interest rate to the book value of financial assets, except for:

- For purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortised cost; and
- Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated, in the subsequent period, by applying the effective interest rate to their amortised cost.

(ii) Fee and commission income

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

(a) The Group recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The customer controls the service provided by the Group in the course of performance; or
- The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

(b) In other cases, the Group recognises revenue at a point in time at which a customer obtains control of the promised services.

(iii) Dividend income

Dividend income from equity instrument is recognised in profit or loss when the Group's right to receive payment is established.

(18) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for any capital contribution from the government as an investor in the Group.

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

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

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Grants related to income are government grants other than those related to assets. A government grant related to an asset is offset against the carrying amount of the related asset or recognised as deferred income and amortised to profit or loss over the useful life of the related asset on a reasonable and systematic manner. A grant that compensates the Group for cost, expenses or loss to be incurred in the future is recognised as deferred income and offset against the related expenses or recognised in profit or loss in the same periods in which the expenses are recognised. Or recognised in profit or loss or offset against the related expenses directly.

(19) Expenses recognition

(i) Interest expenses

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

(ii) Other expenses

Other expenses are recognised on an accrual basis.

(20) Leases

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

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

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

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

For a contract that contains more separate lease components, the lessee and the lessor separate lease components and account for each lease component as a lease separately. For a contract that contains lease and non-lease components, the lessee and the lessor separate lease components from non-lease components. For a contract that contains lease and non-lease components, the lessee allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The lessor allocates the consideration in the contract in accordance with the accounting policy in Note 2(17).

(i) As a lessee

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

The right-of-use asset is depreciated using the straight-line method. If the lessee is reasonably certain to exercise a purchase option by the end of the lease term, the right-of-use asset is depreciated over the remaining useful lives of the underlying asset. Otherwise, the right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Impairment losses of right-of-use assets are accounted for in accordance with the accounting policy described in Note 2(12).

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

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

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

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

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

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases in profit or loss or as the cost of the assets where appropriate using the straight-line method over the lease term.

(ii) As a lessor

The Group determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset irrespective of whether the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

When the Group is a sub-lessor, it assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies practical expedient described above, then it classifies the sub-lease as an operating lease.

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

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return. The derecognition and impairment of the finance lease receivable are recognised in accordance with the accounting policy in Note 2(4). Variable lease payments not included in the measurement of net investment in the lease are recognised as income as they are earned.

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

(21) Dividends

Dividends proposed in the profit appropriation plan which are authorised and declared after the end of the reporting period are not recognised as a liability at the end of the reporting period but disclosed separately in the notes.

(22) Related parties

The related parties of the Group include but are not limited to:

- (i) A person, or a close member of that person's family, if that person:
 - (a) has significant influence over the Group; or
 - (b) is a member of the key management personnel of the Group.
- (ii) An entity, if that entity:
 - (a) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (b) has significant influence over the Group;
 - (c) controls an entity identified in (ii)(b);
 - (d) is controlled or jointly controlled by an entity identified in (ii)(b) and (ii)(c);
 - (e) is controlled or jointly controlled by a person identified in (i).

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

(23) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system after taking the materiality principle into account. Two or more operating segments may be aggregated into a single operating segment if the segments have the similar economic characteristics and are same or similar in respect of the nature of each segment's products and services, the nature of production processes, the types or classes of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Transactions between segments mainly represent the provision of funding to and from individual segments. These transactions are conducted on terms determined with reference to the average cost of funding. Segment accounting policies are consistent with those for the consolidated financial statements.

(24) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity if it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an entity.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and any unrealised profits or loss arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

An investment in a subsidiary is stated at cost less impairment losses in the Bank's statements of financial position.

For the method of impairment test and provision for impairment of an investment in a subsidiary, see Note 2(12).

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank.

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

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

(25) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements of the Group under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 2(12)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the period are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income of the Group. The Group's interest in associate or joint venture is included in the consolidated financial statements from the date that significant influence or joint control commences until the date that significant influence or joint control ends.

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

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(4)).

(26) Significant accounting estimates and judgements

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

(i) Measurement of ECLs

The measurement of the ECLs for debt investments measured at amortised cost and measured at FVOCI, and loan commitments and financial guarantee contracts not measured at FVTPL, is subject to complex models and a number of assumptions about future economic conditions and credit conditions (for example, the possibility of customers defaulting and the resulting losses). For the descriptions of the inputs, assumptions and estimation techniques used in measuring ECLs, please refer to Note 44(1).

(ii) Fair value of financial instruments

If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

(iii) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reviewed periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will be available against which deductible temporary differences can be utilized.

(iv) Impairment of non-financial assets

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

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

(v) Depreciation and amortisation

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

(vi) Determination of control over structured entities

The Group acts as manager to a number of investment funds, wealth management products, asset management plans, trust plans and assets-backed securities. When assessing whether controls such a structured entity, the Group would determine whether it exercises the decision-making rights as a principal or an agent and usually focuses on the assessment of the aggregate economic interests of the Group in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. The Group would also determine whether another entity with decision-making rights is acting as an agent for it.

For further disclosure in respect of unconsolidated investment funds, wealth management products, asset management plans, trust plans and assets-backed securities in which the Group has an interest or for which it is a sponsor, see Note 47.

3 NET INTEREST INCOME

	2021	2020
Interest income arising from		
Deposits with central bank	385,253	360,330
Deposits with banks and other financial institutions	25,529	7,146
Placements with banks and other financial institutions	8,194	82,898
Loans and advances to customers		
– Corporate loans and advances	7,489,738	6,880,335
– Personal loans and advances	3,630,074	3,163,664
– Discounted bills	437,022	284,703
Financial assets held under resale agreements	347,966	246,435
Financial investments	5,264,161	5,517,641
Long-term receivables	620,998	625,770
	<u>18,208,935</u>	<u>17,168,922</u>
Sub-total	----- 18,208,935	----- 17,168,922
Interest expense arising from		
Borrowings from central bank	(399,507)	(204,932)
Deposits from banks and other financial institutions	(225,054)	(324,254)
Placements from banks and other financial institutions	(462,311)	(427,454)
Deposits from customers	(5,986,659)	(5,058,536)
Financial assets sold under repurchase agreements	(562,092)	(467,413)
Debt securities issued	(2,927,687)	(2,539,802)
	<u>(10,563,310)</u>	<u>(9,022,391)</u>
Sub-total	----- (10,563,310)	----- (9,022,391)
Net interest income	<u>7,645,625</u>	<u>8,146,531</u>

Note:

- (i) The above interest income and expense are related to financial instruments which are not measured at FVTPL.

4 NET FEE AND COMMISSION INCOME

	<i>Note</i>	2021	2020
Fee and commission income			
Wealth management service fees		1,264,544	1,008,499
Agency service fees		506,887	454,522
Custody and bank card service fees		228,180	170,260
Financial leasing service fees		86,800	158,463
Settlement fees		65,142	35,635
Others		23,804	27,881
		<u>2,175,357</u>	<u>1,855,260</u>
Sub-total		2,175,357	1,855,260
Fee and commission expense		(220,231)	(163,636)
		<u>(220,231)</u>	<u>(163,636)</u>
Net fee and commission income		<u>1,955,126</u>	<u>1,691,624</u>

5 NET TRADING LOSSES

	<i>Note</i>	2021	2020
Net losses of foreign exchange and foreign exchange derivative financial instruments	<i>(i)</i>	(147,908)	(547,799)
Net losses from debt securities	<i>(ii)</i>	(12,108)	(4,759)
Net losses of non-foreign exchange derivative financial instruments		<u>(11,473)</u>	<u>(14,870)</u>
Total		<u>(171,489)</u>	<u>(567,428)</u>

Notes:

- (i) Net losses of foreign exchange and foreign exchange derivative financial instruments include gains or losses from the purchase and sale of foreign currency spot, foreign exchange derivative financial instruments, and translation of foreign currency monetary assets and liabilities into RMB, etc.
- (ii) Net losses from debt securities mainly include gains or losses arising from the buying and selling of, and changes in the fair value of debt securities held for trading.

6 NET GAINS ARISING FROM INVESTMENTS

	2021	2020
Net gains on financial investments measured at FVTPL	1,377,578	675,478
Net gains on disposal of financial assets measured at FVOCI	300,257	571,206
Dividend income	2,600	1,800
Others	<u>10</u>	<u>116</u>
Total	<u>1,680,445</u>	<u>1,248,600</u>

7 OTHER OPERATING INCOME

	2021	2020
Government grants	23,737	23,030
Rental income	967	1,065
Net losses on disposal of property and equipment, intangible assets and other assets	(1,426)	(3,650)
Others	<u>5,388</u>	<u>8,302</u>
Total	<u>28,666</u>	<u>28,747</u>

8 OPERATING EXPENSES

	2021	2020
Staff costs		
– Salaries, bonuses and allowances	1,213,680	1,181,142
– Social insurance and housing allowances	153,942	118,809
– Staff welfare expenses	231,745	236,736
– Staff education expenses	32,115	31,729
– Labor union expenses	24,428	23,829
– Post-employment benefits		
– defined contribution plans	218,457	110,468
– Supplementary retirement benefits	17,270	10,970
	<u>1,891,637</u>	<u>1,713,683</u>
Sub-total	----- 1,891,637	----- 1,713,683
Property and equipment expenses		
– Depreciation and amortization	493,063	428,870
– Electronic equipment operating expenses	137,455	117,863
– Maintenance	111,095	96,987
	<u>741,613</u>	<u>643,720</u>
Sub-total	----- 741,613	----- 643,720
Tax and surcharges	139,602	133,315
Other general and administrative expenses	1,142,886	1,185,304
	<u>1,142,886</u>	<u>1,185,304</u>
Total	<u><u>3,915,738</u></u>	<u><u>3,676,022</u></u>

Note:

- (i) Other general and administrative expenses include audit remunerations for auditors which amounted to RMB6.52 million for the year ended 31 December 2021 (2020: RMB5.20 million).

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments before individual income tax in respect of the directors and supervisors of the Bank during the reporting period are as follows:

Name	Year ended 31 December 2021					Total emoluments before tax
	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	
Executive directors						
GUO Shaoquan	-	1,380	545	145	304	2,374
WANG Lin	-	1,255	490	145	300	2,190
LU Lan	-	883	461	-	182	1,526
LIU Peng	-	908	438	145	243	1,734
Non-executive directors						
ZHOU Yunjie	124	-	-	-	-	124
Rosario STRANO	-	-	-	-	-	-
TAN Lixia	130	-	-	-	-	130
Marco MUSSITA	-	-	-	-	-	-
DENG Youcheng	130	-	-	-	-	130
CHOI Chi Kin, Calvin	130	-	-	-	-	130
Independent non-executive directors						
CHEN Hua	90	-	-	-	-	90
DAI Shuping	90	-	-	-	-	90
Simon CHEUNG	180	-	-	-	-	180
FANG Qiaoling	186	-	-	-	-	186
Tingjie ZHANG	186	-	-	-	-	186
XING Lecheng	102	-	-	-	-	102
ZHANG Xu	102	-	-	-	-	102
Supervisors						
YANG Fengjiang	-	908	433	145	300	1,786
WANG Dawei	-	593	1,082	145	155	1,975
MENG Xianzheng	-	579	850	145	151	1,725
FU Changxiang	48	-	-	-	-	48
HU Yanjing	48	-	-	-	-	48
HE Liangjun	81	-	-	-	-	81
HAO Xianjing	65	-	-	-	-	65
JIANG Xinglu	65	-	-	-	-	65
LU Kun	65	-	-	-	-	65
Total	<u>1,822</u>	<u>6,506</u>	<u>4,299</u>	<u>870</u>	<u>1,635</u>	<u>15,132</u>

Year ended 31 December 2020

Name	Year ended 31 December 2020					Total emoluments before tax
	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	
Executive directors						
GUO Shaoquan	–	1,253	1,206	107	277	2,843
WANG Lin	–	1,128	1,084	107	293	2,612
LU Lan	–	785	909	–	181	1,875
Non-executive directors						
ZHOU Yunjie	112	–	–	–	–	112
Rosario STRANO	–	–	–	–	–	–
TAN Lixia	112	–	–	–	–	112
Marco MUSSITA	–	–	–	–	–	–
DENG Youcheng	112	–	–	–	–	112
CHOI Chi Kin, Calvin	106	–	–	–	–	106
Independent non-executive directors						
CHEN Hua	168	–	–	–	–	168
DAI Shuping	168	–	–	–	–	168
Simon CHEUNG	168	–	–	–	–	168
FANG Qiaoling	168	–	–	–	–	168
Tingjie ZHANG	140	–	–	–	–	140
Supervisors						
YANG Fengjiang	–	806	963	107	292	2,168
WANG Dawei	–	569	1,056	107	144	1,876
MENG Xianzheng	–	542	850	107	162	1,661
FU Changxiang	118	–	–	–	–	118
HU Yanjing	118	–	–	–	–	118
HE Liangjun	81	–	–	–	–	81
Total	<u>1,571</u>	<u>5,083</u>	<u>6,068</u>	<u>535</u>	<u>1,349</u>	<u>14,606</u>

Notes:

- (1) The emoluments of non-executive directors (“NED”), independent non-executive directors (“INED”), shareholder supervisors and external supervisors were affected by the time of service during the reporting period. Directors and supervisors received emoluments since their assumption of duty until their departure. The changes in directors and supervisors in the year of 2021 and 2020 are as follows:
- (i) In February 2020, Mr. Tingjie ZHANG, INED of the Bank, began to assume his duty. Mr. WONG Tin Yau, Kelvin no longer served as INED of the Bank.
 - (ii) In March 2020, Mr. YANG Fengjiang no longer served as executive director of the Bank and began to assume his duty as employee supervisor and chairman of the Board of Supervisors. Ms. CHEN Qing no longer served as employee supervisor and chairlady of the Board of Supervisors of the Bank.
 - (iii) In May 2021, Mr. FU Changxiang and Mr. HU Yanjing no longer served as external supervisor of the Bank. Mr. HAO Xianjing, Mr. JIANG Xinglu and Mr. LU Kun began to assume their duties as external supervisor.
 - (iv) In July 2021, Mr. CHEN Hua and Ms. DAI Shuping no longer served as independent non-executive directors of the Bank. Mr. LIU Peng, executive director of the Bank, Mr. XING Lecheng and Mr. ZHANG Xu, INED of the Bank, began to assume their duties.

- (2) The emoluments of Mr. Rosario STRANO and Mr. Marco MUSSITA were waived with their authorization. There was no other arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the reporting period.
- (3) There were no amounts paid during the reporting period to the directors and supervisors in connection with their retirement from employment or as compensation for loss of office with the Bank or as inducement to join.
- (4) The total compensation package for certain directors and supervisors for the year ended 31 December 2021 have not yet been finalized. The difference in emoluments is not expected to have any significant impact on the Group's financial statements for the year ended 31 December 2021.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2021, the five individuals with the highest emoluments included three directors and two supervisors of the Bank (2020: two directors and two supervisors), whose emoluments are disclosed in Note 9. The emoluments before individual income tax for the rest of the five highest paid individuals for the reporting period are as follows:

	2021	2020
Salaries and other emoluments	–	1,042
Discretionary bonuses	–	922
Contributions to pension schemes	–	107
	<hr/>	<hr/>
Total	<u>–</u>	<u>2,071</u>

The individual whose emoluments before individual income tax are within the following bands is set out below:

	2021	2020
HKD nil-1,000,000	–	–
HKD 1,000,001-1,500,000	–	–
HKD 1,500,001-2,000,000	–	–
HKD 2,000,001-2,500,000	–	1

There were no amounts paid during the reporting period to any of these individuals in connection with their retirement from employment or as compensation for loss of office with the Group or as inducement to join.

11 CREDIT LOSSES

	2021	2020
Deposits with banks and other financial institutions	565	334
Placements with banks and other financial institutions	4,910	(16,568)
Financial assets held under resale agreements	12,470	7,698
Loans and advances to customers	3,110,029	2,974,836
Financial investments measured at amortised cost	351,302	927,234
Financial investments measured at FVOCI		
– debt instruments	347,477	21,776
Long-term receivables	86,472	206,123
Credit commitments	35,178	2,548
Others	18,568	19,775
	<hr/>	<hr/>
Total	<u>3,966,971</u>	<u>4,143,756</u>

12 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

	<i>Note</i>	2021	2020
Current tax		507,549	952,605
Deferred tax	27(2)	<u>(275,352)</u>	<u>(677,607)</u>
Total		<u><u>232,197</u></u>	<u><u>274,998</u></u>

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

	2021	2020
Profit before taxation	<u><u>3,225,410</u></u>	<u><u>2,728,296</u></u>
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	<u>806,353</u>	<u>682,074</u>
Tax effect of non-deductible expenses for tax purpose		
– Entertainment expenses	3,750	3,566
– Annuity	7,452	–
– Others	<u>13,884</u>	<u>6,617</u>
Sub-total	<u>25,086</u>	<u>10,183</u>
Tax effect of non-taxable income for tax purpose (<i>Note (i)</i>)	<u>(599,242)</u>	<u>(417,259)</u>
Income tax	<u><u>232,197</u></u>	<u><u>274,998</u></u>

Note:

- (i) Non-taxable income consists of interest income from the PRC government bonds and local government bonds, and fund dividend income, which are exempt from income tax under the PRC tax regulations.

13 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share was computed by dividing the profit for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue. Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the reporting period.

	<i>Note</i>	2021 (after adjustment)	2021 (before adjustment)	2020 (after adjustment)	2020 (before adjustment)
Weighted average number of ordinary shares (in thousands)	13(1)	4,764,216	4,509,690	4,764,216	4,509,690
Net profit attributable to equity shareholders of the Bank		2,922,664	2,922,664	2,394,072	2,394,072
Less: dividends on preference shares declared		474,381	474,381	496,907	496,907
Net profit attributable to ordinary shareholders of the Bank		2,448,283	2,448,283	1,897,165	1,897,165
Basic and diluted earnings per share (in RMB)		0.51	0.54	0.40	0.42

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

	2021 (after adjustment)	2021 (before adjustment)	2020 (after adjustment)	2020 (before adjustment)
Number of ordinary shares as at 1 January	4,509,690	4,509,690	4,509,690	4,509,690
Effect of the rights issues	254,526	–	254,526	–
Weighted average number of ordinary shares	4,764,216	4,509,690	4,764,216	4,509,690

In January and February 2022, the Bank offered rights issues to its existing A share and H share shareholders, respectively, at prices less than their fair values. Therefore, there were bonus elements for these rights issues and the weighted average number of ordinary shares were adjusted accordingly for both years.

14 CASH AND DEPOSITS WITH CENTRAL BANK

	<i>Note</i>	31 December 2021	31 December 2020
Cash on hand		<u>369,326</u>	<u>565,606</u>
Deposits with central bank			
– Statutory deposit reserves	<i>14(1)</i>	18,294,944	21,879,514
– Surplus deposit reserves	<i>14(2)</i>	34,288,149	24,566,884
– Fiscal deposits		<u>278,973</u>	<u>196,923</u>
Sub-total		<u>52,862,066</u>	<u>46,643,321</u>
Accrued interest		<u>10,002</u>	<u>10,470</u>
Total		<u>53,241,394</u>	<u>47,219,397</u>

- (1) The Bank places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at 31 December 2021, the statutory deposit reserve ratios for RMB deposits applicable to the Bank were 6.0% (31 December 2020: 8.0%). As at 31 December 2021, the statutory deposit reserve ratios for foreign currency deposits applicable to the Bank were 9.0% (31 December 2020: 5.0%). The Bank's subsidiary places statutory deposit reserves with the PBOC in accordance with relevant regulations.

The statutory deposit reserves are not available for the Group's daily business.

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

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2021	31 December 2020
In Mainland China		
– Banks	1,409,836	2,111,834
– Other financial institutions	120,697	74,540
Outside Mainland China		
– Banks	584,236	382,509
Accrued interest	<u>13,627</u>	<u>945</u>
Sub-total	2,128,396	2,569,828
Less: Provision for impairment losses	<u>(1,474)</u>	<u>(909)</u>
Total	<u>2,126,922</u>	<u>2,568,919</u>

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2021	31 December 2020
In Mainland China		
– Banks	4,112,327	–
– Other financial institutions	1,000,000	–
Accrued interest	1,229	–
Sub-total	5,113,556	–
Less: Provision for impairment losses	(4,910)	–
Total	<u>5,108,646</u>	<u>–</u>

17 DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2021			31 December 2020		
	Nominal amount	Fair value of assets	Fair value of liabilities	Nominal amount	Fair value of assets	Fair value of liabilities
Interest rate swap contracts and others	50,646,662	146,617	(144,689)	76,567,494	286,400	(288,347)
Total	<u>50,646,662</u>	<u>146,617</u>	<u>(144,689)</u>	<u>76,567,494</u>	<u>286,400</u>	<u>(288,347)</u>

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2021	31 December 2020
In Mainland China		
– Banks	10,004,500	8,934,700
– Other financial institutions	2,298,855	799,880
Accrued interest	6,680	536
Sub-total	12,310,035	9,735,116
Less: Provision for impairment losses	(21,110)	(8,640)
Total	<u>12,288,925</u>	<u>9,726,476</u>

(2) Analysed by type of security held

	31 December 2021	31 December 2020
Debt securities	12,303,355	9,734,580
Accrued interest	6,680	536
Sub-total	12,310,035	9,735,116
Less: Provision for impairment losses	(21,110)	(8,640)
Total	12,288,925	9,726,476

19 LOANS AND ADVANCES TO CUSTOMERS**(1) Analysed by nature**

	31 December 2021	31 December 2020
Measured at amortised cost:		
Corporate loans and advances		
– Corporate loans	149,822,068	138,776,966
Sub-total	149,822,068	138,776,966
Personal loans and advances		
– Residential mortgage	45,937,206	40,588,284
– Personal consumption loans	19,015,201	9,398,159
– Personal business loans	11,790,781	10,768,653
Sub-total	76,743,188	60,755,096
Accrued interest	829,555	899,064
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost		
– 12-month ECL	(3,159,298)	(2,113,757)
– lifetime ECL		
– not credit-impaired loans	(603,867)	(923,214)
– credit-impaired loans	(2,663,172)	(2,250,830)
Sub-total	(6,426,337)	(5,287,801)
Measured at FVOCI:		
Corporate loans and advances		
– Discounted bills	17,640,224	7,215,159
Net loans and advances to customers	238,608,698	202,358,484

(2) **Analysed by type of collateral (excluding accrued interest)**

	31 December 2021	31 December 2020
Unsecured loans	54,080,566	42,739,296
Guaranteed loans	49,142,728	50,477,538
Loans secured by mortgages	94,014,190	84,180,163
Pledged loans	46,967,996	29,350,224
	<hr/>	<hr/>
Gross loans and advances to customers	<u>244,205,480</u>	<u>206,747,221</u>

(3) **Overdue loans analysed by overdue period (excluding accrued interest)**

	31 December 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	400,126	86,043	10,969	1,477	498,615
Guaranteed loans	398,106	360,450	798,749	160,503	1,717,808
Loans secured by mortgages	192,714	110,905	97,356	138,916	539,891
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>990,946</u>	<u>557,398</u>	<u>907,074</u>	<u>300,896</u>	<u>2,756,314</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As a percentage of gross loans and advances to customers	<u>0.41%</u>	<u>0.23%</u>	<u>0.37%</u>	<u>0.12%</u>	<u>1.13%</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	31 December 2020				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	138,236	72,263	6,458	416	217,373
Guaranteed loans	254,508	801,149	615,140	54,041	1,724,838
Loans secured by mortgages	193,896	123,061	132,659	141,906	591,522
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>586,640</u>	<u>996,473</u>	<u>754,257</u>	<u>196,363</u>	<u>2,533,733</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As a percentage of gross loans and advances to customers	<u>0.30%</u>	<u>0.48%</u>	<u>0.36%</u>	<u>0.09%</u>	<u>1.23%</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Overdue loans represent loans of which the whole or part of the principal or interest has been overdue for one day or more.

(4) Loans and advances and provision for impairment losses analysis

The provision for impairment losses of loans and advances to customers are as follows:

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

	31 December 2021			Total
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired (Note (i))	
Gross loans and advances to customers measured at amortised cost (including accrued interest)	221,484,002	2,544,940	3,365,869	227,394,811
Less: Provision for impairment losses	(3,159,298)	(603,867)	(2,663,172)	(6,426,337)
Net loans and advances to customers measured at amortised cost	<u>218,324,704</u>	<u>1,941,073</u>	<u>702,697</u>	<u>220,968,474</u>
	31 December 2020			
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired (Note (i))	Total
Gross loans and advances to customers measured at amortised cost (including accrued interest)	194,027,629	3,210,345	3,193,152	200,431,126
Less: Provision for impairment losses	(2,113,757)	(923,214)	(2,250,830)	(5,287,801)
Net loans and advances to customers measured at amortised cost	<u>191,913,872</u>	<u>2,287,131</u>	<u>942,322</u>	<u>195,143,325</u>

(ii) Provision for impairment losses on loans and advances to customers at FVOCI:

	31 December 2021			Total
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired (Note (i))	
Gross/net loans and advances to customers at FVOCI	17,640,224	–	–	17,640,224
Provision for impairment losses through other comprehensive income	<u>(13,269)</u>	<u>–</u>	<u>–</u>	<u>(13,269)</u>
	31 December 2020			
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired (Note (i))	Total
Gross/net loans and advances to customers at FVOCI	7,215,159	–	–	7,215,159
Provision for impairment losses through other comprehensive income	<u>(14,781)</u>	<u>–</u>	<u>–</u>	<u>(14,781)</u>

Note:

- (i) The definitions of the credit-impaired financial assets are set out in Note 44(1) Credit risk.

(5) Movements of provision for impairment losses

Movements of the provision for impairment losses on loans and advances to customers are as follows:

- (i) *Movements of provision for impairment losses of loans and advances to customers measured at amortised cost are as follows:*

	2021			Total
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	
As at 1 January 2021	2,113,757	923,214	2,250,830	5,287,801
Transfer to				
– 12-month ECL	4,447	(4,435)	(12)	–
– Lifetime ECL				
– not credit-impaired loans	(53,236)	60,019	(6,783)	–
– credit-impaired loans	(27,721)	(1,077,196)	1,104,917	–
Charge for the year	1,122,051	702,265	1,287,225	3,111,541
Write-offs and transfer out	–	–	(2,496,161)	(2,496,161)
Recoveries of loans and advances written off	–	–	539,709	539,709
Other changes	–	–	(16,553)	(16,553)
As at 31 December 2021	3,159,298	603,867	2,663,172	6,426,337
	2020			
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	Total
As at 1 January 2020	1,523,023	1,177,375	1,709,234	4,409,632
Transfer to				
– 12-month ECL	51,560	(43,574)	(7,986)	–
– Lifetime ECL				
– not credit-impaired loans	(19,830)	22,120	(2,290)	–
– credit-impaired loans	(21,223)	(1,294,564)	1,315,787	–
Charge for the year	580,227	1,061,857	1,330,888	2,972,972
Write-offs and transfer out	–	–	(2,372,532)	(2,372,532)
Recoveries of loans and advances written off	–	–	325,385	325,385
Other changes	–	–	(47,656)	(47,656)
As at 31 December 2020	2,113,757	923,214	2,250,830	5,287,801

(ii) *Movements of the provision for impairment losses on loans and advances to customers measured at FVOCI are as follows:*

	2021			Total
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	
As at 1 January 2021	14,781	–	–	14,781
Release for the year	(1,512)	–	–	(1,512)
As at 31 December 2021	<u>13,269</u>	<u>–</u>	<u>–</u>	<u>13,269</u>
	2020			Total
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	
As at 1 January 2020	12,917	–	–	12,917
Charge for the year	1,864	–	–	1,864
As at 31 December 2020	<u>14,781</u>	<u>–</u>	<u>–</u>	<u>14,781</u>

The Group enters into securitisation transactions in the normal course of business. See note 48(2) for details.

In addition, in 2021 and 2020, the Group and the Bank transferred loans and advances to customers to independent third parties with principal amount of RMB1,068 million and RMB134 million respectively, and with the transfer price (including overdue interest, penalty interest, etc.) of RMB280 million and RMB73 million respectively.

20 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2021	31 December 2020
Financial investments held for trading	–	–
Financial investments designated as at FVTPL	–	–
Other debt investments measured at FVTPL		
Debt investments issued by the following institutions in Mainland China		
– Banks and other financial institutions	877,656	704,792
– Corporate entities	106,924	178,160
Sub-total	984,580	882,952
Investment funds	39,973,092	24,363,870
Asset management plans	13,488,145	9,998,794
Trust fund plans	1,501,437	2,004,789
Total	55,947,254	37,250,405
Listed	106,924	260,796
Of which: listed outside Hong Kong	106,924	260,796
Unlisted	55,840,330	36,989,609
Total	55,947,254	37,250,405

21 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>Note</i>	31 December 2021	31 December 2020
Debt securities issued by the following institutions in Mainland China			
– Government		31,766,923	15,330,316
– Policy banks		1,075,384	6,437,969
– Banks and other financial institutions		11,447,917	11,039,796
– Corporate entities		22,697,107	26,338,440
Sub-total		66,987,331	59,146,521
Asset management plans		3,755,953	5,680,647
Other investments		701,504	703,121
Equity investments	<i>21(1)</i>	23,250	23,250
Accrued interest		1,145,357	1,274,463
Total		72,613,395	66,828,002
Listed	<i>21(2)</i>	24,445,268	26,027,905
Of which: listed outside Hong Kong		24,445,268	26,027,905
Unlisted		48,168,127	40,800,097
Total		72,613,395	66,828,002

(1) The Group holds a number of unlisted equity investments. The Group designates them as financial investments measured at FVOCI, and the details are as follows:

	2021					
	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Percentage of shareholding in investees (%)	Cash dividend for the year
Investees						
China UnionPay Co., Ltd.	13,000	–	–	13,000	0.34	2,600
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	10,000	–	–	10,000	2.15	–
Clearing Center for City Commercial Banks	250	–	–	250	0.81	–
Total	23,250	–	–	23,250		2,600

2020

	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Percentage of shareholding in investees (%)	Cash dividend for the year
Investees						
China UnionPay Co., Ltd.	13,000	–	–	13,000	0.34	1,800
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	10,000	–	–	10,000	2.15	–
Clearing Center for City Commercial Banks	250	–	–	250	0.81	–
Total	23,250	–	–	23,250		1,800

For the year ended 31 December 2021 and 31 December 2020, the Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earnings.

- (2) Only includes bonds traded on stock exchanges.
- (3) Movements of the provision for impairment losses on debt instruments of financial investments at FVOCI are as follows:

	2021			Total
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	
As at 1 January 2021	51,291	20,935	62,521	134,747
Transfer to				
– 12-month ECL	3,321	(3,321)	–	–
– Lifetime ECL				
– not credit-impaired	(3,411)	3,411	–	–
– credit-impaired	(209)	(6,033)	6,242	–
Charge for the year	9,412	106,273	231,792	347,477
As at 31 December 2021	60,404	121,265	300,555	482,224

	2020			Total
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	
As at 1 January 2020	34,869	56,072	22,030	112,971
Transfer to				
– 12-month ECL	16,615	(16,615)	–	–
– Lifetime ECL				
– credit-impaired	(41)	(4,984)	5,025	–
(Release)/Charge for the year	(152)	(13,538)	35,466	21,776
As at 31 December 2020	51,291	20,935	62,521	134,747

Provision for impairment losses on debt instruments of financial investments measured at FVOCI is recognised in other comprehensive income, and any impairment loss or gain is recognised in the profit or loss without decreasing the carrying amount of financial investments presented in the statement of financial position.

22 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

	<i>Note</i>	31 December 2021	31 December 2020
Debt securities issued by the following institutions in Mainland China			
– Government		27,859,492	26,717,042
– Policy banks		9,989,948	11,799,924
– Banks and other financial institutions		10,543,252	18,552,129
– Corporate entities		1,073,845	1,823,781
Sub-total		49,466,537	58,892,876
Asset management plans		4,340,630	7,585,510
Trust fund plans		1,768,700	1,434,700
Other investments		6,080,000	6,150,000
Accrued interest		1,014,107	1,191,036
Less: Provision for impairment losses	22(1)	(1,247,822)	(1,096,520)
Total		61,422,152	74,157,602
Listed	22(2)	18,853,576	20,497,542
Of which: listed outside Hong Kong		18,853,576	20,497,542
Unlisted		42,568,576	53,660,060
Total		61,422,152	74,157,602

(1) Movements of provision for impairment losses on financial investments measured at amortised cost are as follows:

	2021			Total
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	
As at 1 January 2021	282,041	541,384	273,095	1,096,520
Transfer to				
– Lifetime ECL				
– not credit-impaired	(653)	653	–	–
– credit-impaired	–	(184,891)	184,891	–
Charge for the year	17,602	158,886	174,814	351,302
Others	–	–	(200,000)	(200,000)
As at 31 December 2021	298,990	516,032	432,800	1,247,822

	2020			
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	Total
As at 1 January 2020	481,299	387,987	–	869,286
Transfer to				
– Lifetime ECL				
– not credit-impaired	(76,585)	76,585	–	–
– credit-impaired	(113,339)	(59,300)	172,639	–
(Release)/Charge for the year	(9,334)	136,112	800,456	927,234
Others	–	–	(700,000)	(700,000)
	<u>282,041</u>	<u>541,384</u>	<u>273,095</u>	<u>1,096,520</u>
As at 31 December 2020	<u>282,041</u>	<u>541,384</u>	<u>273,095</u>	<u>1,096,520</u>

(2) Only bonds traded on stock exchanges are included in listed bonds.

23 INVESTMENT IN SUBSIDIARY

	31 December 2021	31 December 2020
BQD Financial Leasing Company Limited	510,000	510,000
BQD Wealth Management Company Limited	<u>1,000,000</u>	<u>1,000,000</u>
Total	<u>1,510,000</u>	<u>1,510,000</u>

The subsidiaries are as follows:

Name	Percentage of equity interest	Voting rights	Paid-in Capital <i>(in thousands)</i>	Amount invested by the Bank <i>(in thousands)</i>	Place of incorporation registration	Principal activities
BQD Financial Leasing Company Limited <i>(Note (i))</i>	51.00%	51.00%	1,000,000	510,000	Qingdao, China	Financial leasing
BQD Wealth Management Company Limited <i>(Note (ii))</i>	<u>100.00%</u>	<u>100.00%</u>	<u>1,000,000</u>	<u>1,000,000</u>	Qingdao, China	Wealth Management

Note:

- (i) BQD Financial Leasing Company Limited was co-established by the Bank, Qingdao Hanhe Cable Co., Ltd., Qingdao Port International Co., Ltd. and Qingdao Qianwan Container Terminal Co., Ltd. on 15 February 2017, with a registered capital of RMB1.00 billion.
- (ii) BQD Wealth Management Company Limited, a limited liability company wholly owned by the Bank, was established on 16 September 2020, with a registered capital of RMB1.00 billion.

24 LONG-TERM RECEIVABLES

	31 December 2021	31 December 2020
Minimum finance lease receivables	13,034,350	12,125,172
Less: Unearned finance lease income	(1,163,127)	(930,753)
	<hr/>	<hr/>
Present value of finance lease receivables	11,871,223	11,194,419
Accrued interest	126,022	94,343
	<hr/>	<hr/>
Sub-total	11,997,245	11,288,762
Less: Provision for impairment losses		
– 12-month ECL	(227,836)	(192,063)
– Lifetime ECL		
– not credit-impaired	(36,120)	(59,446)
– credit-impaired	(45,036)	(36,075)
	<hr/>	<hr/>
Net balance	11,688,253	11,001,178
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Movements of the provision for impairment losses on long-term receivable are as follows:

	2021			Total
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	
As at 1 January 2021	192,063	59,446	36,075	287,584
Transfer to				
– Lifetime ECL				
– not credit-impaired	(3,659)	3,659	–	–
– credit-impaired	–	(9,330)	9,330	–
Charge/(Release) for the year	39,432	(17,655)	64,695	86,472
Others	–	–	(65,064)	(65,064)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2021	227,836	36,120	45,036	308,992
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	2020			
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	Total
As at 1 January 2020	175,027	90,217	2,422	267,666
Transfer to				
– Lifetime ECL				
– not credit-impaired	(5,313)	5,313	–	–
– credit-impaired	(2,180)	(57,931)	60,111	–
Charge for the year	24,529	21,847	159,747	206,123
Others	–	–	(186,205)	(186,205)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2020	192,063	59,446	36,075	287,584
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Minimum finance lease receivables, unearned finance lease income and present value of finance lease receivables analysed by remaining period are listed as follows:

	31 December 2021			31 December 2020		
	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Repayable on demand	-	-	-	29,679	(4,092)	25,587
Less than 1 year (inclusive)	6,356,792	(624,763)	5,732,029	5,842,581	(562,697)	5,279,884
1 year to 2 years (inclusive)	3,944,051	(325,873)	3,618,178	4,024,894	(265,342)	3,759,552
2 years to 3 years (inclusive)	1,904,459	(134,456)	1,770,003	1,842,646	(79,363)	1,763,283
3 years to 5 years (inclusive)	704,616	(56,171)	648,445	316,025	(12,653)	303,372
More than 5 years	50,534	(6,035)	44,499	-	-	-
Indefinite	73,898	(15,829)	58,069	69,347	(6,606)	62,741
Total	13,034,350	(1,163,127)	11,871,223	12,125,172	(930,753)	11,194,419

25 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	Construction in progress ("CIP")	Total
Cost						
As at 1 January 2020	2,917,848	617,176	64,548	87,136	210,203	3,896,911
Increase	285,368	77,621	5,123	14,728	16,605	399,445
Decrease	(52,419)	(18,747)	(2,532)	(4,610)	-	(78,308)
As at 31 December 2020	3,150,797	676,050	67,139	97,254	226,808	4,218,048
Increase	8,399	96,625	12,300	24,540	165,225	307,089
CIP transfer in/(out)	318,125	-	-	-	(318,125)	-
Decrease	(263)	(39,674)	(6,775)	(2,418)	-	(49,130)
As at 31 December 2021	3,477,058	733,001	72,664	119,376	73,908	4,476,007
Accumulated depreciation						
As at 1 January 2020	(357,707)	(382,324)	(47,795)	(60,272)	-	(848,098)
Increase	(60,601)	(72,715)	(4,904)	(8,227)	-	(146,447)
Decrease	-	17,528	2,405	4,332	-	24,265
As at 31 December 2020	(418,308)	(437,511)	(50,294)	(64,167)	-	(970,280)
Increase	(72,530)	(71,309)	(6,842)	(10,738)	-	(161,419)
Decrease	-	37,483	6,436	1,966	-	45,885
As at 31 December 2021	(490,838)	(471,337)	(50,700)	(72,939)	-	(1,085,814)
Net book value						
As at 31 December 2021	2,986,220	261,664	21,964	46,437	73,908	3,390,193
As at 31 December 2020	2,732,489	238,539	16,845	33,087	226,808	3,247,768

As at 31 December 2021 and 31 December 2020, the Group did not have significant property and equipment which were temporarily idle.

As at 31 December 2021, the carrying amount of premises with incomplete title deeds of the Group was RMB11 million (31 December 2020: RMB12 million). Management is in the opinion that the incomplete title deeds would not affect the rights to these assets of the Group.

The net book values of premises at the end of the reporting period are analysed by the remaining terms of the land leases as follows:

	31 December 2021	31 December 2020
Held in Mainland China		
– Long-term leases (over 50 years)	16,304	16,695
– Medium-term leases (10 – 50 years)	2,967,813	2,713,504
– Short-term leases (less than 10 years)	2,103	2,290
	<hr/>	<hr/>
Total	2,986,220	2,732,489
	<hr/> <hr/>	<hr/> <hr/>

26 RIGHT-OF-USE ASSETS

	Premises	Others	Total
Cost			
As at 1 January 2020	939,004	4,114	943,118
Additions	162,455	–	162,455
Decrease	(19,803)	–	(19,803)
	<hr/>	<hr/>	<hr/>
As at 31 December 2020	1,081,656	4,114	1,085,770
	<hr/>	<hr/>	<hr/>
Additions	178,065	–	178,065
Decrease	(20,057)	–	(20,057)
	<hr/>	<hr/>	<hr/>
As at 31 December 2021	1,239,664	4,114	1,243,778
	<hr/>	<hr/>	<hr/>
Accumulated amortisation			
As at 1 January 2020	(123,539)	(651)	(124,190)
Additions	(140,550)	(651)	(141,201)
Decrease	6,442	–	6,442
	<hr/>	<hr/>	<hr/>
As at 31 December 2020	(257,647)	(1,302)	(258,949)
Additions	(155,359)	(651)	(156,010)
Decrease	17,070	–	17,070
	<hr/>	<hr/>	<hr/>
As at 31 December 2021	(395,936)	(1,953)	(397,889)
	<hr/>	<hr/>	<hr/>
Net value			
As at 31 December 2021	843,728	2,161	845,889
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As at 31 December 2020	824,009	2,812	826,821
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

27 DEFERRED INCOME TAX ASSETS

(1) Analysed by nature

	31 December 2021		31 December 2020	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible temporary differences	Deferred income tax assets
Provision for impairment losses	9,958,224	2,489,556	8,866,008	2,216,502
Deferred interest income from discounted bills	182,845	45,711	100,848	25,212
Change in fair value	(538,790)	(134,697)	544,920	136,230
Others	419,487	104,872	360,292	90,073
Total	<u>10,021,766</u>	<u>2,505,442</u>	<u>9,872,068</u>	<u>2,468,017</u>

(2) Analysed by movement

	Provision for impairment losses	Deferred interest income from discounted bills <i>Note (i)</i>	Change in fair value	Others <i>Note (ii)</i>	Total
As at 1 January 2020	1,608,814	21,425	(137,255)	88,921	1,581,905
Recognised in profit or loss	613,598	3,787	59,270	952	677,607
Recognised in other comprehensive income	(5,910)	–	214,215	200	208,505
As at 31 December 2020	2,216,502	25,212	136,230	90,073	2,468,017
Recognised in profit or loss	359,545	20,499	(118,363)	13,671	275,352
Recognised in other comprehensive income	(86,491)	–	(152,564)	1,128	(237,927)
As at 31 December 2021	<u>2,489,556</u>	<u>45,711</u>	<u>(134,697)</u>	<u>104,872</u>	<u>2,505,442</u>

Notes:

- (i) Pursuant to the requirement issued by the local tax authority, tax obligations arise when the Group receives discounted bills. The deductible temporary difference, which arises from the interest income recognised in profit or loss using the effective interest method, forms deferred tax assets.
- (ii) Others mainly include supplementary retirement benefits accrued, contingent liabilities, and other accrued expenses, which are deductible against taxable income when actual payment occurs.

28 OTHER ASSETS

	<i>Note</i>	31 December 2021	31 December 2020
Continuously involved assets		922,695	583,720
Long-term deferred expense		347,664	256,939
Intangible assets	<i>28(1)</i>	296,612	252,518
Prepayments		254,624	221,964
Precious metals		112,651	112,656
Repossessed assets (<i>Note (i)</i>)		59,692	50,090
Interest receivable (<i>Note (ii)</i>)	<i>28(2)</i>	28,754	18,675
Deferred expense		4,556	2,355
Others		338,730	399,232
		<hr/>	<hr/>
Sub-total		2,365,978	1,898,149
Less: Provision for impairment losses		(50,148)	(10,013)
		<hr/>	<hr/>
Total		2,315,830	1,888,136
		<hr/> <hr/>	<hr/> <hr/>

Note:

- (i) As at 31 December 2021, repossessed assets of the Group mainly included premises, etc. and the carrying value of the Group's repossessed assets is RMB29.44 million. The impairment provision for repossessed assets of the Group is RMB30.25 million.
- (ii) As at 31 December 2021, the book value of the Group's interest receivable after deducting the provision for impairment is RMB12.78 million.

(1) Intangible assets

	2021	2020
Cost		
As at 1 January	659,876	518,914
Additions	139,990	152,982
Decrease	–	(12,020)
	<hr/>	<hr/>
As at 31 December	799,866	659,876
	<hr/>	<hr/>
Accumulated amortisation		
As at 1 January	(407,358)	(324,671)
Additions	(95,896)	(82,999)
Decrease	–	312
	<hr/>	<hr/>
As at 31 December	(503,254)	(407,358)
	<hr/>	<hr/>
Net value		
As at 31 December	296,612	252,518
	<hr/> <hr/>	<hr/> <hr/>
As at 1 January	252,518	194,243
	<hr/> <hr/>	<hr/> <hr/>

Intangible assets of the Group mainly include software.

(2) Interests receivable

	31 December 2021	31 December 2020
Interest receivable arising from:		
– Loans and advances to customers	28,754	18,042
– Long-term receivables	–	633
	<hr/>	<hr/>
Total	28,754	18,675

29 BORROWINGS FROM CENTRAL BANK

	31 December 2021	31 December 2020
Borrowings	22,668,325	7,337,774
Re-discounted bills	2,707,914	3,864,679
Accrued interest	117,877	4,616
	<hr/>	<hr/>
Total	25,494,116	11,207,069

30 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2021	31 December 2020
In Mainland China		
– Banks	65,652	313,382
– Other financial institutions	6,266,088	16,623,431
	<hr/>	<hr/>
Accrued interest	10,074	87,919
	<hr/>	<hr/>
Total	6,341,814	17,024,732

31 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2021	31 December 2020
In Mainland China		
– Banks	15,792,856	12,850,606
Outside Mainland China		
– Banks	1,007,361	–
	<hr/>	<hr/>
Accrued interest	104,283	96,969
	<hr/>	<hr/>
Total	16,904,500	12,947,575

32 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2021	31 December 2020
In Mainland China		
– Central Bank	2,320,000	17,810,000
– Banks	22,984,231	14,783,748
Outside Mainland China		
– Banks	–	499,691
Accrued interest	1,365	5,910
Total	<u>25,305,596</u>	<u>33,099,349</u>

(2) Analysed by types of collaterals

	31 December 2021	31 December 2020
Debt securities	15,002,300	31,618,091
Discounted bills	10,301,931	1,475,348
Accrued interest	1,365	5,910
Total	<u>25,305,596</u>	<u>33,099,349</u>

33 DEPOSITS FROM CUSTOMERS

	31 December 2021	31 December 2020
Demand deposits		
– Corporate deposits	118,280,119	111,491,369
– Personal deposits	29,923,260	22,899,499
Sub-total	<u>148,203,379</u>	<u>134,390,868</u>
Time deposits		
– Corporate deposits	84,609,604	71,955,873
– Personal deposits	80,507,262	65,439,816
Sub-total	<u>165,116,866</u>	<u>137,395,689</u>
Outward remittance and remittance payables	80,246	428,585
Fiscal deposits to be transferred	124,432	16,342
Accrued interest	4,440,884	3,519,226
Total	<u>317,965,807</u>	<u>275,750,710</u>
Including:		
Pledged deposits	<u>17,375,572</u>	<u>11,767,939</u>

34 DEBT SECURITIES ISSUED

	31 December 2021	31 December 2020
Debt securities issued (<i>Note (i)</i>)	26,985,704	22,487,484
Certificates of interbank deposit issued (<i>Note (ii)</i>)	64,711,488	50,009,437
Accrued interest	521,108	337,587
Total	92,218,300	72,834,508

Notes:

- (i) Financial debts with fixed interest rates were issued by the Group. The details are as follows:
- (a) Five-year Green Bonds were issued with a fixed interest rate of 3.40% per annum and with a nominal amount of RMB0.5 billion in March 2016. The debts has matured on 14 March 2021 with annual interest payments. As at 31 December 2020, the fair value of the debts was RMB0.501 billion.
 - (b) Five-year Green Bonds were issued with a fixed interest rate of 3.40% per annum and with a nominal amount of RMB1.0 billion in November 2016. The debts has matured on 24 November 2021 with annual interest payments. As at 31 December 2020, the fair value of the debts was RMB1.002 billion.
 - (c) Ten-year Tier-two Capital Bonds were issued with a fixed interest rate of 5.00% per annum and with a nominal amount of RMB3.0 billion in June 2017. The debts will mature on 29 June 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2021, the fair value of the debts was RMB3.030 billion (31 December 2020: RMB2.964 billion).
 - (d) Ten-year Tier-two Capital Bonds were issued with a fixed interest rate of 5.00% per annum and with a nominal amount of RMB2.0 billion in July 2017. The debts will mature on 14 July 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2021, the fair value of the debts was RMB2.022 billion (31 December 2020: RMB1.976 billion).
 - (e) Three-year Financial Bonds were issued with a fixed interest rate of 3.65% per annum and with a nominal amount of RMB3.0 billion in May 2019. The debts will mature on 22 May 2022 with annual interest payments. As at 31 December 2021, the fair value of the debts was RMB3.013 billion (31 December 2020: RMB3.009 billion).
 - (f) Five-year Financial Bonds were issued with a fixed interest rate of 3.98% per annum and with a nominal amount of RMB1.0 billion in May 2019. The debts will mature on 22 May 2024 with annual interest payments. As at 31 December 2021, the fair value of the debts was RMB1.025 billion (31 December 2020: RMB1.010 billion).
 - (g) Three-year Financial Bonds were issued with a fixed interest rate of 3.70% per annum and with a nominal amount of RMB3.0 billion in May 2019. The debts will mature on 31 May 2022 with annual interest payments. As at 31 December 2021, the fair value of the debts was RMB3.014 billion (31 December 2020: RMB3.011 billion).
 - (h) Five-year Financial Bonds were issued with a fixed interest rate of 3.98% per annum and with a nominal amount of RMB1.0 billion in May 2019. The debts will mature on 31 May 2024 with annual interest payments. As at 31 December 2021, the fair value of the debts was RMB1.025 billion (31 December 2020: RMB1.010 billion).

- (i) Three-year Small and Micro Enterprises Financial Bonds were issued with a fixed interest rate of 3.45% per annum and with a nominal amount of RMB3.0 billion in December 2019. The debts will mature on 5 December 2022 with annual interest payments. As at 31 December 2021, the fair value of the debts was RMB3.020 billion (31 December 2020: RMB2.997 billion).
- (j) Five-year Small and Micro Enterprises Financial Bonds were issued with a fixed interest rate of 3.84% per annum and with a nominal amount of RMB1.0 billion in December 2019. The debts will mature on 5 December 2024 with annual interest payments. As at 31 December 2021, the fair value of the debts was RMB1.026 billion (31 December 2020: RMB1.004 billion).
- (k) Three-year Small and Micro Enterprises Financial Bonds were issued with a fixed interest rate of 3.42% per annum and with a nominal amount of RMB3.0 billion in December 2019. The debts will mature on 16 December 2022 with annual interest payments. As at 31 December 2021, the fair value of the debts was RMB3.019 billion (31 December 2020: RMB2.995 billion).
- (l) Five-year Small and Micro Enterprises Financial Bonds were issued with a fixed interest rate of 3.80% per annum and with a nominal amount of RMB1.0 billion in December 2019. The debts will mature on 16 December 2024 with annual interest payments. As at 31 December 2021, the fair value of the debts was RMB1.025 billion (31 December 2020: RMB1.002 billion).
- (m) Ten-year Tier-two Capital Bonds were issued with a fixed interest rate of 4.80% per annum and with a nominal amount of RMB4.0 billion in March 2021. The debts will mature on 24 March 2031 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2021, the fair value of the debts was RMB4.185 billion.
- (n) Ten-year Tier-two Capital Bonds were issued with a fixed interest rate of 4.34% per annum and with a nominal amount of RMB2.0 billion in May 2021. The debts will mature on 28 May 2031 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2021, the fair value of the debts was RMB2.057 billion.
- (ii) The Group issued a number of certificates of interbank deposit with duration between 1 month and 1 year. As at 31 December 2021 and 2020, the outstanding fair value of certificates of interbank deposit was RMB64.778 billion and RMB50.023 billion respectively.

35 LEASE LIABILITIES

Maturity analysis on lease liabilities of the Group – analysis on undiscounted cash flows:

	31 December 2021	31 December 2020
Less than 1 year (inclusive)	139,576	123,746
1 year to 2 years (inclusive)	105,419	102,486
2 years to 3 years (inclusive)	93,499	80,705
3 years to 5 years (inclusive)	123,285	121,661
More than 5 years	104,222	73,593
	566,001	502,191
Total undiscounted cash flows of lease liabilities	566,001	502,191
Lease liabilities on statement of financial position	505,895	453,671

36 OTHER LIABILITIES

	<i>Note</i>	31 December 2021	31 December 2020
Continuously involved liabilities		922,695	583,720
Employee benefits payable	<i>36(1)</i>	825,417	864,886
Risk guarantee deposits for leasing business		762,878	728,835
Settlement payable		494,993	266,424
Taxes payable	<i>36(2)</i>	260,249	166,877
Payable raising from fiduciary activities		175,672	1,608,948
ECL on credit commitments	<i>36(3)</i>	137,441	102,263
Dividend payable		18,469	17,765
Others		319,319	543,147
Total		<u>3,917,133</u>	<u>4,882,865</u>

(1) Employee benefits payable

	31 December 2021	31 December 2020
Salaries, bonuses and allowances payable	625,787	675,187
Social insurance and housing allowances payable	–	103
Staff welfare expenses	57,320	58,920
Staff education expenses	22,236	20,709
Labor union expenses	16,934	17,179
Post-employment benefits-defined contribution plans	10,000	10,678
Supplementary retirement benefits (<i>note (i)</i>)	93,140	82,110
Total	<u>825,417</u>	<u>864,886</u>

Note:

- (i) Supplementary retirement benefits include early retirement plan and supplementary retirement plan.

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date.

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees.

(2) Taxes payable

	31 December 2021	31 December 2020
Value added tax payable	210,186	140,169
Urban construction tax and surcharges payable	28,860	25,205
Others	21,203	1,503
Total	<u>260,249</u>	<u>166,877</u>

(3) Expected credit loss on credit commitments

Movements of expected credit loss on credit commitments are as follows:

	2021			Total
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	
As at 1 January 2021	102,164	99	–	102,263
Transfer to				
– 12-month ECL	5	(5)	–	–
– Lifetime ECL				
– not credit-impaired loans	(1,078)	1,078	–	–
Charge for the year	28,698	6,480	–	35,178
As at 31 December 2021	<u>129,789</u>	<u>7,652</u>	<u>–</u>	<u>137,441</u>
	2020			
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	Total
As at 1 January 2020	94,738	4,922	55	99,715
Transfer to				
– 12-month ECL	2,574	(2,574)	–	–
Charge/(Release) for the year	4,852	(2,249)	(55)	2,548
As at 31 December 2020	<u>102,164</u>	<u>99</u>	<u>–</u>	<u>102,263</u>

37 SHARE CAPITAL

Authorised and issued share capital

	31 December 2021	31 December 2020
Number of shares authorised, issued and fully paid at nominal value (in thousands)	<u>4,509,690</u>	<u>4,509,690</u>

In January 2022, the Bank issued 782 million ordinary A shares with a nominal value of RMB1 at RMB3.20 per share. In February 2022, the Bank issued 529 million ordinary H shares with a nominal value of RMB1 at HKD3.92 per share. After deducting the above issuance costs, the premium arising from the A Share and H Share Rights Issue amounting to RMB2.844 billion was recorded in capital reserve. After the completion of the above rights issues, the balance of the share capital was RMB5.820 billion, and the balance of the capital reserve was RMB11.182 billion.

38 PREFERENCE SHARES

(1) Preference shares outstanding at the end of the year

Financial instrument outstanding	Issue date	Accounting classification	Dividend rate	Issue price	Amount <i>(in thousands of shares)</i>	In original currency <i>(in thousands)</i>	In RMB <i>(in thousands)</i>	Maturity	Conversion
Overseas Preference Shares	19 Sep 2017	Equity	5.5%	20USD/Share	60,150	1,203,000	7,883,259	None	None
Total							7,883,259		
Less: Issue fees							(29,295)		
Book value							<u>7,853,964</u>		

(2) Main Clauses

(a) Dividend

There is a fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. Dividends will be paid annually.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends. The Bank may elect to cancel any dividend, but such cancellation will require a shareholder's resolution to be passed.

(c) Dividend stopper

If the Bank cancels all or part of the dividends to the preference shareholders, the Bank shall not make any dividend distribution to ordinary shareholders before the Bank pays the dividends for the current dividend period to the preference shareholders in full.

(d) Order of distribution and liquidation method

The USD preference shareholders will rank equally for payment. The preference shareholders will be subordinated to the depositors, ordinary creditors and holders of tier-two capital bonds, but will be senior to the ordinary shareholders.

(e) Mandatory conversion trigger events

Upon the occurrence of an Additional tier-one Capital Trigger Event (Core tier-one Capital Adequacy Ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert all or part of the preference shares into H shares, having notified and obtained the consent of regulatory authority but without the need for the consent of preference shareholders or ordinary shareholders, in order to restore the Core tier-one Capital Adequacy Ratio of the Bank to above 5.125%; If preference shares were converted to H shares, it could not be converted to preference shares again.

Upon the occurrence of a tier-two Capital Trigger Event (Earlier of the two situations: (1) regulatory authority has determined that the Bank would become non-viable if there is no conversion or write-down of capital; (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable), the Bank shall have the right to convert all preference shares into H shares, having notified and obtained the consent of regulatory authority but without the need for the consent of preference shareholders or ordinary shareholders. If preference shares were converted to H shares, it could not be converted to preference shares again.

(f) Redemption

Under the premise of obtaining the approval of the regulatory authority and condition of redemption, the Bank has right to redeem all or some of overseas preference stocks in first call date and subsequent any dividend payment date. The first call date after issuance and subsequent any dividend payment date (redemption price is equal to issue price plus accrued dividend in current period).

The first redemption date of USD preference shares is five years after issuance.

(g) Dividend setting mechanism

Non-cumulative dividend is a dividend on preference shares which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, preference shareholders of the Bank will not participate the distribution of residual profits with ordinary shareholders.

(3) Changes in preference shares outstanding

1 January 2021		Increase during the year		31 December 2021	
Amount <i>(in thousands of shares)</i>	Book value <i>(in thousands of RMB)</i>	Amount <i>(in thousands of shares)</i>	Book value <i>(in thousands of RMB)</i>	Amount <i>(in thousands of shares)</i>	Book value <i>(in thousands of RMB)</i>
60,150	7,853,964	–	–	60,150	7,853,964

1 January 2020		Increase during the year		31 December 2020	
Amount <i>(in thousands of shares)</i>	Book value <i>(in thousands of RMB)</i>	Amount <i>(in thousands of shares)</i>	Book value <i>(in thousands of RMB)</i>	Amount <i>(in thousands of shares)</i>	Book value <i>(in thousands of RMB)</i>
60,150	7,853,964	–	–	60,150	7,853,964

(4) Interests attribute to equity instruments' holders

Item	31 December 2021	31 December 2020
Total equity attribute to equity holders of the Bank	32,635,495	30,285,174
– Equity attribute to ordinary shareholders of the Bank	24,781,531	22,431,210
– Equity attribute to preference shareholders of the Bank	7,853,964	7,853,964
Total equity attribute to non-controlling interests	692,233	621,684
– Equity attribute to non-controlling interests of ordinary shares	692,233	621,684

39 RESERVES

(1) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of nominal value.

(2) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund.

Pursuant to the Company Law of the PRC and the Article of Association, the Bank is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises issued by the MOF after offsetting prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(3) General reserve

From 1 July 2012, pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)” issued by the MOF in March 2012, 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 within five years.

The Bank’s subsidiaries appropriate their profits to the general reserve according to the applicable industry regulations.

The Bank set aside a general reserve upon approval by the board of directors. The general reserve balance of the Bank as at 31 December 2021 amounted to RMB5.410 billion, which has reached 1.5% of the year ending balance of the Bank’s gross risk-bearing assets.

(4) Other comprehensive income

Item	2021					
	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Balance at the end of the year
Items that will not be reclassified to profit or loss						
Including: Remeasurements of defined benefit plan	(8,191)	(4,510)	–	1,128	(3,382)	(11,573)
Items that may be reclassified to profit or loss						
Including: Changes in fair value from financial assets measured at FVOCI	(71,238)	603,419	6,835	(152,564)	457,690	386,452
Credit losses of financial assets measured at FVOCI	112,146	390,042	(44,077)	(86,491)	259,474	371,620
Total	32,717	988,951	(37,242)	(237,927)	713,782	746,499
Item	2020					
	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Balance at the end of the year
Items that will not be reclassified to profit or loss						
Including: Remeasurements of defined benefit plan	(7,591)	(800)	–	200	(600)	(8,191)
Items that may be reclassified to profit or loss						
Including: Changes in fair value from financial assets measured at FVOCI	571,405	(285,652)	(571,206)	214,215	(642,643)	(71,238)
Credit losses of financial assets measured at FVOCI	94,416	72,189	(48,549)	(5,910)	17,730	112,146
Total	658,230	(214,263)	(619,755)	208,505	(625,513)	32,717

(5) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in *the consolidated statement of changes in equity*. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
Balance at 1 January 2021		4,509,690	7,853,964	8,337,869	1,859,737	4,981,263	32,717	2,570,030	30,145,270
Total comprehensive income		-	-	-	-	-	713,782	2,441,457	3,155,239
Appropriation of profit:									
- Appropriation to surplus reserve	40	-	-	-	244,146	-	-	(244,146)	-
- Appropriation to general reserve	40	-	-	-	-	428,683	-	(428,683)	-
- Dividends	40	-	-	-	-	-	-	(1,286,125)	(1,286,125)
Balance at 31 December 2021		<u>4,509,690</u>	<u>7,853,964</u>	<u>8,337,869</u>	<u>2,103,883</u>	<u>5,409,946</u>	<u>746,499</u>	<u>3,052,533</u>	<u>32,014,384</u>
	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
Balance at 1 January 2020		4,509,690	7,853,964	8,337,869	1,626,662	4,400,258	658,230	2,452,203	29,838,876
Total comprehensive income		-	-	-	-	-	(625,513)	2,330,752	1,705,239
Appropriation of profit:									
- Appropriation to surplus reserve	40	-	-	-	233,075	-	-	(233,075)	-
- Appropriation to general reserve	40	-	-	-	-	581,005	-	(581,005)	-
- Dividends	40	-	-	-	-	-	-	(1,398,845)	(1,398,845)
Balance at 31 December 2020		<u>4,509,690</u>	<u>7,853,964</u>	<u>8,337,869</u>	<u>1,859,737</u>	<u>4,981,263</u>	<u>32,717</u>	<u>2,570,030</u>	<u>30,145,270</u>

40 PROFIT APPROPRIATION

(1) At the Bank's board of directors meeting held on 25 March 2022, the directors approved the following profit appropriation for the year ended 31 December 2021:

- Appropriated RMB244 million to surplus reserve;
- Appropriated RMB429 million to general reserve;
- Declared cash dividends to all ordinary shareholders of approximately RMB931 million representing RMB1.60 per 10 shares (before tax).

The profit appropriation resolution mentioned above has yet to be approved by the annual general meeting.

- (2) According to the terms of issuance of the offshore preference shares and related authorization, the chairman, the president and the secretary to the board of directors of the Bank jointly signed the Decision on Full Distribution of Dividends on Offshore Preference Shares of Bank of Qingdao Co., Ltd. for the Fourth Dividend Accruing Year at the Bank's board of directors meeting held on 30 August 2021 and agreed the dividend distribution plan for offshore preference shares to be distributed amounts to USD73.5167 million (before tax), calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date is 23 September 2021, and the amount of dividend is equivalent to approximately RMB474 million (before tax).
- (3) At the Bank's 2020 annual general meeting held on 11 May 2021, the directors approved the following profit appropriation for the year ended 31 December 2020:
- Appropriated RMB233 million to surplus reserve;
 - Appropriated RMB581 million to general reserve;
 - Declared cash dividends to all ordinary shareholders of approximately RMB812 million representing RMB1.80 per 10 shares (before tax).
- (4) According to the terms of issuance of the offshore preference shares and related authorization, the chairman, the president and the secretary to the board of directors of the Bank jointly signed the Decision on Full Distribution of Dividends on Offshore Preference Shares of Bank of Qingdao Co., Ltd. for the Third Dividend Accruing Year at the Bank's board of directors meeting held on 28 August 2020 and agreed the dividend distribution plan for offshore preference to be distributed amounts to USD73.5167 million (before tax), calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date is 19 September 2020, and the amount of dividend is equivalent to approximately RMB497 million (before tax).
- (5) At the Bank's 2019 annual general meeting held on 7 May 2020, the shareholders approved the following profit appropriation for the year ended 31 December 2019:
- Appropriated RMB223 million to surplus reserve;
 - Appropriated RMB431 million to general reserve;
 - Declared cash dividends to all ordinary shareholders of approximately RMB902 million representing RMB2.00 per 10 shares (before tax).

41 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents:

	31 December 2021	31 December 2020
Cash	369,326	565,606
Surplus deposit reserves with central bank	34,288,149	24,566,884
Original maturity within three months:		
– Deposits with banks and other financial institutions	1,294,769	2,568,883
– Placements with banks and other financial institutions	4,712,327	–
– Debt securities investments	2,188,797	1,578,108
	<hr/> 42,853,368 <hr/>	<hr/> 29,279,481 <hr/>
Total	42,853,368	29,279,481

(2) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Debt securities issued	Interest payable arising from debt securities issued	Lease liabilities	Total
Balance at 1 January 2021	72,496,921	337,587	453,671	73,288,179
Changes from financing cash flows:				
– Net proceeds from debt securities issued	82,957,923	–	–	82,957,923
– Interest paid on debt securities issued	(1,508,948)	(883,600)	–	(2,392,548)
– Repayment of debt securities issued	(64,109,270)	–	–	(64,109,270)
– Repayment of lease liabilities	–	–	(138,280)	(138,280)
Total changes from financing cash flows	17,339,705	(883,600)	(138,280)	16,317,825
Other changes:				
– Increase in lease liabilities	–	–	171,403	171,403
– Interest expense	1,860,566	1,067,121	19,101	2,946,788
Balance at 31 December 2021	91,697,192	521,108	505,895	92,724,195
	Debt securities issued	Interest payable arising from debt securities issued	Lease liabilities	Total
Balance at 1 January 2020	76,420,759	438,140	427,429	77,286,328
Changes from financing cash flows:				
– Net proceeds from debt securities issued	60,472,387	–	–	60,472,387
– Interest paid on debt securities issued	(1,729,382)	(1,006,580)	–	(2,735,962)
– Repayment of debt securities issued	(64,300,618)	–	–	(64,300,618)
– Repayment of lease liabilities	–	–	(150,363)	(150,363)
Total changes from financing cash flows	(5,557,613)	(1,006,580)	(150,363)	(6,714,556)
Other changes:				
– Increase in lease liabilities	–	–	158,970	158,970
– Interest expense	1,633,775	906,027	17,635	2,557,437
Balance at 31 December 2020	72,496,921	337,587	453,671	73,288,179

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

Major shareholders include shareholders of the Bank with direct ownership of 5% or above.

Major shareholders' information

Company name	Number of ordinary shares of the Bank held by the Company (in thousands)	Proportion of ordinary shares of the Bank held by the Company		Registered location	Business	Legal form	Legal representative
		31 December 2021	31 December 2020				
Intesa Sanpaolo S.p.A. ("ISP")	624,754	13.85%	13.85%	Italy	Commercial banking	Joint-stock limited company	Gian Maria GROS-PIETRO
Qingdao Conson Industrial Co., Ltd. ("Qingdao Conson")	503,556	11.17%	11.17%	Qingdao	State-owned assets operation and investment, import and export of goods and technology	Limited liability company	WANG Jianhui
Qingdao Haier Investment and Development Co., Ltd. ("Haier Investment")	-	-	9.08%	Qingdao	Outbound investment	Limited liability company	ZHANG Ruimin
Qingdao Haier Industrial Development Co., Ltd. ("Haier Industrial Development")	409,693	9.08%	-	Qingdao	Business activities	Limited liability company	XIE Juzhi

Note:

- (i) In June 2021, Haier Investment transferred all its shares of the Bank to Haier Industrial Development.

Changes in ordinary shares of the Bank held by major shareholders

	ISP		Qingdao Conson		Haier Investment		Haier Industrial Development	
	Number (in thousands of shares)	Percentage	Number (in thousands of shares)	Percentage	Number (in thousands of shares)	Percentage	Number (in thousands of shares)	Percentage
As at 1 January 2020	624,754	13.85%	503,556	11.17%	409,693	9.08%	-	-
Increase	-	-	-	-	-	-	-	-
As at 31 December 2020	624,754	13.85%	503,556	11.17%	409,693	9.08%	-	-
(Decrease)/Increase	-	-	-	-	(409,693)	(9.08%)	409,693	9.08%
As at 31 December 2021	<u>624,754</u>	<u>13.85%</u>	<u>503,556</u>	<u>11.17%</u>	<u>-</u>	<u>-</u>	<u>409,693</u>	<u>9.08%</u>

Changes in registered capital of major shareholders

	Currency	31 December 2021	31 December 2020
ISP	EUR	10,084 Million	10,084 Million
Qingdao Conson	RMB	2,000 Million	2,000 Million
Haier Industrial Development	RMB	4,500 Million	4,500 Million

(b) Subsidiary of the Bank

The detailed information of the Bank's subsidiary is set out in Note 23.

(c) Other related parties

Other related parties 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) which members of the board of directors, the board of supervisors and senior management, and close family members of such individuals can control, jointly control or act as directors or senior managers in, etc.

(2) Related party transactions and balances

Related party transactions of the Group mainly refer to loans, deposits and financial investments, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

(a) Transactions with the related parties except subsidiary (excluding remuneration of key management personnel)

	ISP and its group	Qingdao Conson and its group	Haier Industrial Development and its group	Other corporate related parties	Other individual related parties	Total	Proportion to gross amount/ balance of similar transactions
As at 31 December 2021							
On-balance sheet items:							
Loans and advances to customers <i>(Note(i))</i>	-	-	1,102,328	-	21,278	1,123,606	0.46%
Financial investments measured at FVTPL	-	-	-	2,228,791	-	2,228,791	3.98%
Long-term receivables <i>(Note(ii))</i>	-	-	150,170	-	-	150,170	1.25%
Deposits with banks and other financial institutions	2,043	-	-	-	-	2,043	0.10%
Deposits from customers	158,224	164,535	475,306	4,144,425	96,741	5,039,231	1.58%
Deposits from banks and other financial institutions	-	189	513	-	-	702	0.01%
Off-balance sheet items:							
Bank acceptances <i>(Note(iii))</i>	-	-	9	-	-	9	0.00%
2021							
Interest income	-	-	46,357	57	777	47,191	0.26%
Interest expense	2,464	1,712	8,411	55,235	3,553	71,375	0.68%
Fee and commission income	-	-	-	44,176	-	44,176	2.03%
Operating expenses	-	566	-	-	-	566	0.01%
Other operating losses	-	-	-	15,160	-	15,160	52.88%

	ISP and its group	Qingdao Conson and its group	Haier Investment and its group	Other corporate related parties	Other individual related parties	Total	Proportion to gross amount/ balance of similar transactions
As at 31 December 2020							
On-balance sheet items:							
Loans and advances to customers <i>(Note(i))</i>	-	-	372,511	-	11,886	384,397	0.19%
Financial investments measured at FVTPL	-	-	-	2,457,303	-	2,457,303	6.60%
Long-term receivables <i>(Note(ii))</i>	-	-	300,340	-	-	300,340	2.66%
Deposits with banks and other financial institutions	299	-	-	-	-	299	0.01%
Deposits from customers	160,743	291,355	559,099	1,612,746	87,888	2,711,831	0.98%
Deposits from banks and other financial institutions	-	-	508	28,813	-	29,321	0.17%
2020							
Interest income	-	8,881	62,718	-	556	72,155	0.42%
Interest expense	2,430	2,434	4,126	20,355	1,824	31,169	0.35%
Fee and commission income	-	-	3,467	50,663	-	54,130	2.92%
Operating expenses	-	566	-	-	-	566	0.02%
Other operating losses	-	-	-	10,449	-	10,449	36.35%

Notes:

(i) Loans with related parties (excluding accrued interest)

	31 December 2021	31 December 2020
Qingdao Haiyun Chuangzhi Business Development Co., Ltd.	800,000	-
Qingdao Haichen real estate development Co., Ltd.	299,950	371,600
Individuals	21,235	11,866
Total	<u>1,121,185</u>	<u>383,466</u>

(ii) Long-term receivables with related parties (excluding accrued interest)

	31 December 2021	31 December 2020
Qingdao Haier Global Innovation Model Research Co., Ltd.	150,000	300,000
Total	<u>150,000</u>	<u>300,000</u>

(iii) **Bank acceptances with related parties**

	31 December 2021	31 December 2020
Qingdao Hainayun Intelligent System Co., Ltd.	<u>9</u>	<u>–</u>
Total	<u>9</u>	<u>–</u>

(b) **Transactions with subsidiary**

	31 December 2021	31 December 2020
Balances at the end of the year:		
On-balance sheet items:		
Deposits from banks and other financial institutions	974,828	280,450
	2021	2020
Transactions during the year:		
Interest income	–	3,712
Interest expense	4,213	4,330
Fee and commission income	58,020	21
Fee and commission expense	134,385	19,691
Other operating income	2,035	2,416

(3) **Key management personnel**

The Bank's key management personnel includes people having authority and responsibility, directly or indirectly, to plan, command and control the activities of the Bank, including directors, supervisors and senior management at bank level.

	2021	2020
Remuneration of key management personnel	<u>18,592</u>	<u>20,771</u>

The total compensation package for certain key management personnel for the year ended 31 December 2021 have not yet been finalized. The difference in emoluments is not expected to have significant impact on the Group's financial statements for the year ended 31 December 2021.

As at 31 December 2021, the credit card overdraft balance of the Bank to the key management personnel amounted to RMB58.4 thousand (31 December 2020: RMB37.6 thousand), which have been included in loans and advances to related parties stated in Note 42(2).

(4) **Plan and transaction of annuity**

Except for normal contributions, there were no other related party transactions in the enterprise annuity funds established by the Group and the Bank during the reporting period.

43 SEGMENT REPORTING

Segment reporting is disclosed in accordance with the accounting policy set out in Note 2(23).

The Group manages its business by business lines. Segment assets and liabilities, and segment income, expense and operating results are measured in accordance with the Group's accounting policies. Internal charges and transfer pricing of transactions between segments are determined for management purpose and have been reflected in the performance of each segment. Interest income and expenses earned from third parties are referred to as "External net interest income/expense". Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "Internal net interest income/expense".

Segment income, expense, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets, and liabilities are determined before intra-group balances, and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total payment during the period to acquire property and equipment, intangible assets and other long-term assets.

The Group defines its reporting segments based on the following for management purpose:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, deposit taking activities, agency services, remittance and settlement services.

Retail banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans and deposit services.

Financial market business

This segment covers financial market operations. The financial market business enters into inter-bank money market transactions, repurchases transactions, investments in debt securities, and non-standardized debt investments, etc.

Un-allocated items and others

This segment contains related business of the subsidiaries except BQD Wealth Management Company Limited., head office assets, liabilities, income and expenses that are not directly attributable to a segment.

	2020				Total
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	
External net interest income	4,835,303	1,227,472	1,805,044	278,712	8,146,531
Internal net interest income/(expense)	968,532	482,628	(1,451,160)	–	–
Net interest income	5,803,835	1,710,100	353,884	278,712	8,146,531
Net fee and commission income	152,075	373,392	993,360	172,797	1,691,624
Net trading losses	(179,736)	(133,621)	(254,071)	–	(567,428)
Net gains arising from investments	19,717	–	1,228,883	–	1,248,600
Other operating income	507	769	32	27,439	28,747
Operating income	5,796,398	1,950,640	2,322,088	478,948	10,548,074
Operating expenses	(1,946,391)	(1,157,615)	(468,405)	(103,611)	(3,676,022)
Credit losses	(2,958,130)	(188,100)	(791,081)	(206,445)	(4,143,756)
Profit before taxation	<u>891,877</u>	<u>604,925</u>	<u>1,062,602</u>	<u>168,892</u>	<u>2,728,296</u>
Other segment information					
– Depreciation and amortisation	<u>(162,566)</u>	<u>(246,086)</u>	<u>(10,213)</u>	<u>(10,005)</u>	<u>(428,870)</u>
– Capital expenditure	<u>179,821</u>	<u>272,209</u>	<u>11,297</u>	<u>266,609</u>	<u>729,936</u>
	31 December 2020				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	176,838,852	76,223,628	192,141,453	12,155,655	457,359,588
Deferred tax assets					<u>2,468,017</u>
Total assets					<u><u>459,827,605</u></u>
Segment liabilities/Total liabilities	<u>199,348,948</u>	<u>92,056,367</u>	<u>127,234,526</u>	<u>10,280,906</u>	<u>428,920,747</u>
Credit commitments	<u>30,230,165</u>	<u>6,292,802</u>	<u>–</u>	<u>–</u>	<u>36,522,967</u>

44 RISK MANAGEMENT

The main risks of the Group are described and analyzed as follows:

The board of directors has the ultimate responsibility for risk management and oversees the Group's risk management functions through the Risk Management and Consumer Right Protection Committee, the Audit Committee and the Related Party Transaction Control Committee, etc.

The President is responsible for overall risk management at the senior management level with the assistance of other key management personnel. In accordance with the risk management strategy determined by the board of directors, the senior management keeps abreast of the level of risk and the management status, enabling the Group to have sufficient resources to develop and implement risk management policies and systems, and to monitor, identify and control risks in various businesses.

The Group establishes a comprehensive enterprise risk management committee, which is mainly in charge of the enterprise overall risk management. Each department within the Group implements risk management policies and procedures in accordance with their respective management functions and is responsible for their own risk management in their respective business areas.

Each branch establishes a branch risk management committee, which is mainly in charge of evaluating the risk status of the branch regularly, determining and improving the risk management and internal control measures and methods, etc., under the guidance from relevant risk management departments of the head office. Each branch should report major risk events to the relevant risk management department of the head office, and carry out risk treatments according to the plans or improvements proposed by the head office department.

The Group has exposure to the following risks from its use of financial instruments in the normal course of the Group's operations, which mainly include: credit risk, interest rate risk, foreign currency risk, liquidity risk and operational risk. This note presents information about the Group's exposure to each of the above risks and their sources, as well as the Group's risk management objectives, policies and processes for measuring and managing risks.

The Group aims to seek an appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Group's financial performance. Based on such objectives, the Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of reliable and up-to-date management information systems.

(1) Credit risk

(a) *Definition and scope*

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group. Credit risk mainly arises from loan portfolio, investment portfolio, guarantees and various other on – and off-balance sheet credit risk exposures.

The Risk Management and Consumer Right Protection Committee of the Board of Directors monitors the control of credit risk, and regularly reviews related reports on risk profile. Credit risk management is under the unified leadership of the Risk Management Committee of the head office. Each business unit is required to implement credit policies and procedures, and is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Without taking account of any collateral and other credit enhancements, the maximum exposure to credit risk is represented by the carrying amount of each type of financial assets and the contract amount of credit commitments. In addition to the Group's credit commitments disclosed in Note 44(1), the Group did not provide any other guarantee that might expose the Group to credit risk. The maximum exposure to credit risk in respect of above credit commitments as at the end of the reporting period is disclosed in Note 44(1).

(b) Credit risk assessment method

Stage of financial instruments

The Group classifies financial instruments into three stages and makes provisions for ECL accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

The three risk stages are defined as follows:

Stage 1: A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month ECL is recognised as loss allowance.

Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime ECL is recognised as loss allowance.

Stage 3: A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime ECL is recognised as loss allowance.

Financial instruments that have low credit risk

The credit risk on a financial instrument is considered low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed as at the end of the reporting period with that assessed at the date of initial recognition.

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

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

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

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

Definition of default

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

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

Credit impairment assessment

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

- significant financial difficulty of the borrower or issuer;
- A breach of contract, such as a default or delinquency in interest or principal payments for over 90 days;
- For economic or contractual reasons relating to the borrower's financial difficulty, the Group having granted to the borrower a concession that would not otherwise consider;
- It is probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

Measuring ECL – the parameters, assumptions and valuation techniques

Based on whether there is significant increase in credit risk and whether the asset has suffered credit impairment, the Group measures provision for loss of different assets with 12-month ECL or lifetime ECL respectively. The expected credit loss is the result of the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account the time value of the currency. 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 due to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

During the reporting period, there has been no significant changes in the estimate techniques and key assumptions of the Group.

The impairment loss on credit-impaired corporate loans and advance to customers applied cash flow discount method, if there is objective evidence that an impairment loss on a loan or advance has incurred, the amount of the loss is measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in the statement of profit or loss. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the borrower's business plan;
- The borrower's ability to improve performance once a financial difficulty has arisen;
- The estimated recoverable cash flows from projects and liquidation;
- The availability of other financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

It may not be possible to identify a single, or discrete events that result in the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each reporting period, unless unforeseen circumstances require more careful attention.

Forward-looking information included in the ECL measurement model

Both the assessment of significant increase in credit risk since initial recognition and the measurement of ECL of financial instruments involve forward-looking information.

Based on the analysis on historical data, the Group periodically assessed alternative macroeconomic indicators and identified key economic indicators that affect the credit risk and ECL of asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and monetary aggregates (M2) etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting future economic indicators.

In 2021, the Group has taken into account different macroeconomic scenarios, combined with the impact of other factors such as COVID-19 pandemic on economic development trends, and made forward-looking forecasts of key economic indicators, including the average forecasted cumulative growth rate of GDP, used to estimate ECL, which is about 5.91% in the neutral scenario for the next year.

The Group has carried out sensitivity analysis of key economic variables, used in forward-looking measurement. As at 31 December 2021 and 31 December 2020, when the key economic indicators in the neutral scenario move up or down by 5%, the ECL will not change by more than 1.50%.

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 scenarios, and considers the qualitative and maximum indicators.

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 ECL were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

Write-off policy

The Group writes off financial assets when it has exhausted practical recovery efforts and has concluded there is no reasonable expectation of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(c) *Assessing credit risk of financial assets after the amendment of contractual cash flows*

In order to achieve maximum collection, the Group may modify the contractual terms of loans due to business negotiations or financial difficulties of the borrowers at times.

Such rescheduling activities include extended payment term arrangements, payment holidays and payment forgiveness. Rescheduling policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. The restructuring of loans is most common in the management of medium and long-term loans. The risk stage can only be adjusted lower if the rescheduled loans are reviewed for at least 6 consecutive months and the corresponding stage classification criteria is reached.

(d) *Collaterals and other credit enhancements*

The Group and its subsidiaries have individually established a range of risk management policies and adopted different methods to mitigate credit risk. A critical method for the Group's control of its credit risks is to acquire collateral, security deposits and guarantees from enterprises or individuals. The Group has specified acceptable types of collaterals, mainly including the following:

- Real estate and land use rights
- Machinery and equipment
- Right to receive payments and accounts receivable
- Financial instruments such as time deposits, debt securities and equities

In order to minimise its credit risk, once an indication of impairment has been identified with an individual loan, the Group will seek additional collateral from counterparties/require additional guarantors or squeeze the credit limit. It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

Collateral held as security for financial assets other than loans and receivable is determined by the instruments' nature. Debt securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(e) **Maximum credit risk exposure**

As at the end of the reporting period, the maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements is set out below:

The Group

	31 December 2021	31 December 2020
Deposits with central bank	52,872,068	46,653,791
Deposits with banks and other financial institutions	2,126,922	2,568,919
Placements with banks and other financial institutions	5,108,646	–
Derivative financial assets	146,617	286,400
Financial assets held under resale agreements	12,288,925	9,726,476
Loans and advances to customers	238,608,698	202,358,484
Financial investments		
– Financial investments measured at FVTPL	15,974,162	12,886,535
– Financial investments measured at FVOCI	72,590,145	66,804,752
– Financial investments measured at amortised cost	61,422,152	74,157,602
Long-term receivables	11,688,253	11,001,178
Others	347,590	398,303
Subtotal	473,174,178	426,842,440
Off-balance sheet credit commitments	46,410,525	36,522,967
Total maximum credit risk exposure	519,584,703	463,365,407

(f) Risk concentrations

Credit risk is often greater when counterparties are concentrated in one single industry or have comparable economic features. In addition, different industrial sectors have their unique characteristics in terms of economic development, and could present a different credit risk.

The composition of the Group's and the Bank's gross loans and advances to customers (excluding accrued interest) by industry is analysed as follows:

	31 December 2021		31 December 2020	
	Amount	Percentage	Amount	Percentage
Manufacturing	33,331,662	13.65%	27,657,606	13.37%
Construction	28,960,161	11.86%	24,704,927	11.95%
Real estate	21,257,028	8.70%	20,970,449	10.14%
Water, environment and public utility management	20,997,541	8.60%	19,600,238	9.48%
Renting and business activities	20,453,934	8.38%	21,806,775	10.55%
Wholesale and retail trade	20,430,787	8.37%	15,003,646	7.26%
Financial service	7,721,467	3.16%	1,869,095	0.90%
Transportation, storage and postal services	3,859,235	1.58%	3,082,904	1.49%
Production and supply of electric and heating power, gas and water	3,783,905	1.55%	3,797,074	1.84%
Scientific research and technical services industries	2,218,078	0.91%	2,241,260	1.08%
Others	4,448,494	1.81%	5,258,151	2.55%
Subtotal for corporate loans and advances	167,462,292	68.57%	145,992,125	70.61%
Personal loans and advances	76,743,188	31.43%	60,755,096	29.39%
Total for loans and advances to customers	244,205,480	100.00%	206,747,221	100.00%

Distribution of debt securities investments (excluding accrued interest) analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The ratings are obtained from Wind, Bloomberg Composite, or major rating agencies where the issuers of debt securities are located. The carrying amounts of debt securities investments analysed by rating as at the end of the reporting period are as follows:

	31 December 2021					
	Unrated	AAA	AA	A	Below A	Total
Debt securities (analysed by type of issuers):						
Government	-	59,622,492	-	-	-	59,622,492
Policy banks	-	11,064,290	-	-	-	11,064,290
Banks and other financial institutions	-	20,963,937	1,505,958	-	397,575	22,867,470
Corporate entities	-	7,259,714	13,381,301	113,111	3,108,691	23,862,817
Total	-	98,910,433	14,887,259	113,111	3,506,266	117,417,069
	31 December 2020					
	Unrated	AAA	AA	A	Below A	Total
Debt securities (analysed by type of issuers):						
Government	-	42,043,464	-	-	-	42,043,464
Policy banks	-	18,236,685	-	-	-	18,236,685
Banks and other financial institutions	-	28,848,403	1,024,690	-	418,859	30,291,952
Corporate entities	49,379	10,886,302	12,345,129	162,340	4,895,424	28,338,574
Total	49,379	100,014,854	13,369,819	162,340	5,314,283	118,910,675

(g) *Analysis on the credit quality of financial instruments*

At the end of the reporting period, the Group's credit risk stages of financial instruments are as follows:

The Group

Financial assets measured at amortised cost	31 December 2021							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central banks	53,241,394	-	-	53,241,394	-	-	-	-
Deposits with banks and other financial institutions	2,128,396	-	-	2,128,396	(1,474)	-	-	(1,474)
Placements with banks and other financial institutions	5,113,556	-	-	5,113,556	(4,910)	-	-	(4,910)
Financial assets held under resale agreements	12,310,035	-	-	12,310,035	(21,110)	-	-	(21,110)
Loans and advances to customers								
– General corporate loans and advances	145,413,919	2,087,461	2,959,656	150,461,036	(2,886,893)	(509,657)	(2,397,947)	(5,794,497)
– Personal loans and advances	76,070,083	457,479	406,213	76,933,775	(272,405)	(94,210)	(265,225)	(631,840)
Financial investments	60,537,453	1,557,821	574,700	62,669,974	(298,990)	(516,032)	(432,800)	(1,247,822)
Long-term receivables	11,691,987	247,189	58,069	11,997,245	(227,836)	(36,120)	(45,036)	(308,992)
Total	<u>366,506,823</u>	<u>4,349,950</u>	<u>3,998,638</u>	<u>374,855,411</u>	<u>(3,713,618)</u>	<u>(1,156,019)</u>	<u>(3,141,008)</u>	<u>(8,010,645)</u>

Financial assets measured at FVOCI	31 December 2021							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers								
– Discounted bills	17,640,224	-	-	17,640,224	(13,269)	-	-	(13,269)
Financial investments	68,822,269	3,316,960	450,916	72,590,145	(60,404)	(121,265)	(300,555)	(482,224)
Total	<u>86,462,493</u>	<u>3,316,960</u>	<u>450,916</u>	<u>90,230,369</u>	<u>(73,673)</u>	<u>(121,265)</u>	<u>(300,555)</u>	<u>(495,493)</u>
Off-balance sheet credit commitments	<u>46,226,356</u>	<u>184,119</u>	<u>50</u>	<u>46,410,525</u>	<u>(129,789)</u>	<u>(7,652)</u>	<u>-</u>	<u>(137,441)</u>

31 December 2020

	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Cash and balances with central banks	47,219,397	–	–	47,219,397	–	–	–	–
Deposits with banks and other financial institutions	2,569,828	–	–	2,569,828	(909)	–	–	(909)
Financial assets held under resale agreements	9,735,116	–	–	9,735,116	(8,640)	–	–	(8,640)
Loans and advances to customers								
– General corporate loans and advances	133,689,112	2,978,016	2,862,647	139,529,775	(1,861,218)	(862,231)	(2,021,614)	(4,745,063)
– Personal loans and advances	60,338,517	232,329	330,505	60,901,351	(252,539)	(60,983)	(229,216)	(542,738)
Financial investments	73,294,008	1,626,202	333,912	75,254,122	(282,041)	(541,384)	(273,095)	(1,096,520)
Long-term receivables	10,848,974	377,392	62,396	11,288,762	(192,063)	(59,446)	(36,075)	(287,584)
Total	337,694,952	5,213,939	3,589,460	346,498,351	(2,597,410)	(1,524,044)	(2,560,000)	(6,681,454)

31 December 2020

	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at FVOCI								
Loans and advances to customers								
– Discounted bills	7,215,159	–	–	7,215,159	(14,781)	–	–	(14,781)
Financial investments	65,610,916	1,143,302	50,534	66,804,752	(51,291)	(20,935)	(62,521)	(134,747)
Total	72,826,075	1,143,302	50,534	74,019,911	(66,072)	(20,935)	(62,521)	(149,528)
Off-balance sheet credit commitments	36,514,860	8,057	50	36,522,967	(102,164)	(99)	–	(102,263)

Note:

- (i) As simplified approach of impairment allowance is applied to other financial assets measured at amortised cost, three-stage model is not applicable.

(2) 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, exchange rates, commodity prices, stock prices and other prices.

The Group has constructed a market risk management system that formulates procedures to identify, measure, supervise and control market risks. This system aims to limit market risk to an acceptable level through examining and approving new products and quota management.

The Group employs sensitivity analysis, interest repricing gap analysis and foreign currency gap analysis to measure and monitor market risks. The Group classifies the transactions as banking book and trading book transactions, and applies different approaches based on the nature and characteristics of these books to monitor the risks.

Interest rate risk and currency risk are major market risks that confront the Group.

(a) **Interest rate risk**

The Group's interest rate exposures mainly comprise the mismatching of interest-earning assets and interest-bearing liabilities' repricing dates, as well as the effect of interest rate volatility on trading positions.

The Group primarily uses gap analysis to assess and monitor its repricing risk and adjusts the ratio of floating and fixed rate accounts, the loan repricing cycle, as well as optimises the term structure of its deposits according to the gap status.

The Group implements various methods, such as sensitivity analysis and scenario simulation to measure and monitor interest risk exposure; risk exposure limits, such as interest rate sensitivity and risk exposure are set regularly, and the relevant implementation of these limits is also supervised, managed and reported on a regular basis.

The following tables indicate the assets and liabilities analysis as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	31 December 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 central bank	53,241,394	658,301	52,583,093	-	-	-
Deposits with banks and other financial institutions	2,126,922	13,627	1,292,963	820,332	-	-
Placements with banks and other financial institutions	5,108,646	1,229	4,709,329	398,088	-	-
Financial assets held under resale agreements	12,288,925	6,680	12,282,245	-	-	-
Loans and advances to customers (Note (i))	238,608,698	722,057	47,395,444	160,137,145	27,784,004	2,570,048
Financial investments (Note (ii))	189,982,801	2,166,417	36,751,457	22,696,344	63,938,385	64,430,198
Long-term receivables	11,688,253	123,235	3,259,607	1,941,766	6,363,645	-
Others	9,203,971	9,203,971	-	-	-	-
Total assets	<u>522,249,610</u>	<u>12,895,517</u>	<u>158,274,138</u>	<u>185,993,675</u>	<u>98,086,034</u>	<u>67,000,246</u>
Liabilities						
Borrowings from central bank	25,494,116	117,877	4,705,475	20,670,764	-	-
Deposits from banks and other financial institutions	6,341,814	10,074	4,947,740	1,384,000	-	-
Placements from banks and other financial institutions	16,904,500	104,283	6,756,684	10,043,533	-	-
Financial assets sold under repurchase agreements	25,305,596	1,365	25,304,231	-	-	-
Deposits from customers	317,965,807	4,645,562	188,067,563	42,120,930	83,037,959	93,793
Debt securities issued	92,218,300	521,108	18,644,037	58,064,515	3,998,127	10,990,513
Others	4,691,749	4,185,854	50,612	83,860	290,449	80,974
Total liabilities	<u>488,921,882</u>	<u>9,586,123</u>	<u>248,476,342</u>	<u>132,367,602</u>	<u>87,326,535</u>	<u>11,165,280</u>
Asset-liability gap	<u>33,327,728</u>	<u>3,309,394</u>	<u>(90,202,204)</u>	<u>53,626,073</u>	<u>10,759,499</u>	<u>55,834,966</u>

31 December 2020

	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	47,219,397	772,999	46,446,398	–	–	–
Deposits with banks and other financial institutions	2,568,919	945	2,567,974	–	–	–
Financial assets held under resale agreements	9,726,476	536	9,725,940	–	–	–
Loans and advances to customers <i>(Note (i))</i>	202,358,484	780,189	44,812,630	123,282,741	32,059,405	1,423,519
Financial investments <i>(Note (ii))</i>	178,236,009	2,433,932	28,892,907	23,985,340	57,862,325	65,061,505
Long-term receivables	11,001,178	92,202	4,618,966	2,749,007	3,541,003	–
Others	8,717,142	8,717,142	–	–	–	–
Total assets	459,827,605	12,797,945	137,064,815	150,017,088	93,462,733	66,485,024
Liabilities						
Borrowings from central bank	11,207,069	4,616	3,425,475	7,776,978	–	–
Deposits from banks and other financial institutions	17,024,732	87,919	11,974,813	4,962,000	–	–
Placements from banks and other financial institutions	12,947,575	96,969	6,087,107	6,763,499	–	–
Financial assets sold under repurchase agreements	33,099,349	5,910	33,093,439	–	–	–
Deposits from customers	275,750,710	3,964,154	168,676,139	44,435,723	58,477,093	197,601
Debt securities issued	72,834,508	337,587	14,850,629	36,658,605	15,992,125	4,995,562
Others	6,056,804	5,603,133	36,271	80,909	279,542	56,949
Total liabilities	428,920,747	10,100,288	238,143,873	100,677,714	74,748,760	5,250,112
Asset-liability gap	30,906,858	2,697,657	(101,079,058)	49,339,374	18,713,973	61,234,912

Notes:

- (i) For the Group's loans and advances to customers, the category "Less than three months" as at 31 December 2021 includes overdue loans and advances (net of provision for impairment losses) of RMB805 million (31 December 2020: RMB837 million).
- (ii) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI, and financial investments measured at amortised cost.

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth the results of the Group's interest rate sensitivity analysis at the end of the reporting period.

Changes in annualized net interest income	31 December 2021 (Decrease)/Increase	31 December 2020 (Decrease)/Increase
Interest rates increase by 100 bps	(499,826)	(640,745)
Interest rates decrease by 100 bps	499,826	640,745

This sensitivity analysis is based on a static interest rate risk profile of the Group's assets and liabilities and certain simplified assumptions. The analysis measures only the impact of changes in the interest rates within one year, showing how annualized interest income would have been affected by the repricing of the Group's assets and liabilities within the one-year period. The analysis is based on the following assumptions:

- (i) All assets and liabilities that are repriced or mature within three months and after three months but within one year are repriced or mature at the beginning of the respective periods (i.e., all the assets and liabilities that are repriced or mature within three months are repriced or mature immediately, and all the assets and liabilities that are repriced or mature after three months but within one year are repriced or mature immediately after three months);
- (ii) There is a parallel shift in the yield curve and in interest rates; and
- (iii) There are no other changes to the portfolio and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

(b) Currency risk

The Group's currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The currency exposures of the Group's assets and liabilities as at the end of the reporting period are as follows:

	31 December 2021			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	52,741,302	495,804	4,288	53,241,394
Deposits with banks and other financial institutions	1,325,898	748,980	52,044	2,126,922
Placements with banks and other financial institutions	997,875	4,110,771	–	5,108,646
Financial assets held under resale agreements	12,288,925	–	–	12,288,925
Loans and advances to customers	233,929,169	4,674,624	4,905	238,608,698
Financial investments (Note (i))	181,494,714	8,466,242	21,845	189,982,801
Long-term receivables	11,688,253	–	–	11,688,253
Others	9,202,432	1,539	–	9,203,971
Total assets	503,668,568	18,497,960	83,082	522,249,610
Liabilities				
Borrowings from central bank	25,494,116	–	–	25,494,116
Deposits from banks and other financial institutions	6,309,931	31,883	–	6,341,814
Placements from banks and other financial institutions	12,910,214	3,972,626	21,660	16,904,500
Financial assets sold under repurchase agreements	25,305,596	–	–	25,305,596
Deposits from customers	311,367,844	6,547,363	50,600	317,965,807
Debt securities issued	92,218,300	–	–	92,218,300
Others	4,652,134	39,615	–	4,691,749
Total liabilities	478,258,135	10,591,487	72,260	488,921,882
Net position	25,410,433	7,906,473	10,822	33,327,728
Off-balance sheet credit commitments	45,084,332	1,129,301	196,892	46,410,525

	31 December 2020			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	47,060,885	154,237	4,275	47,219,397
Deposits with banks and other financial institutions	2,095,761	444,813	28,345	2,568,919
Financial assets held under resale agreements	9,726,476	–	–	9,726,476
Loans and advances to customers	200,428,758	1,929,726	–	202,358,484
Financial investments (<i>Note (i)</i>)	167,537,884	10,698,125	–	178,236,009
Long-term receivables	11,001,178	–	–	11,001,178
Others	8,714,915	2,227	–	8,717,142
Total assets	446,565,857	13,229,128	32,620	459,827,605
Liabilities				
Borrowings from central bank	11,207,069	–	–	11,207,069
Deposits from banks and other financial institutions	17,024,727	5	–	17,024,732
Placements from banks and other financial institutions	11,723,203	1,224,372	–	12,947,575
Financial assets sold under repurchase agreements	32,599,411	499,938	–	33,099,349
Deposits from customers	272,876,962	2,851,152	22,596	275,750,710
Debt securities issued	72,834,508	–	–	72,834,508
Others	6,052,421	4,383	–	6,056,804
Total liabilities	424,318,301	4,579,850	22,596	428,920,747
Net position	22,247,556	8,649,278	10,024	30,906,858
Off-balance sheet credit commitments	36,265,560	198,199	59,208	36,522,967

Note:

- (i) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI, and financials investment measured at amortised cost.

Changes in annualized net profit

	31 December 2021 Increase/(Decrease)	31 December 2020 Increase/(Decrease)
Foreign exchange rate increase by 100 bps	9,313	9,953
Foreign exchange rate decrease by 100 bps	(9,313)	(9,953)

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions. The analysis is based on the following assumptions:

- (i) the foreign exchange sensitivity is the gain or loss recognised as a result of 100 basis point fluctuation in the foreign currency exchange rates against RMB;
- (ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously;

- (iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net foreign exchange gain or loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

(3) 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 meet repayment obligations or sustain its asset business even if a bank's solvency remains strong. Liquidity risk management is to ensure that the Group has sufficient cash flow to meet payment obligations and fund business operations on a timely basis. To achieve this, the Group should have the ability to make full payment due on demand deposits or early withdrawal of term deposits, make full repayment of placement upon maturity, or meet other payment obligations. The bank also needs to comply with statutory requirements on liquidity ratios, and actively carry out lending and investment business. The Group monitors the future cash flow according to its liquidity management policies, and keeps its high liquidity assets at an appropriate level.

Under the guidance of the Asset and Liability Management Committee, the Financial Planning Department performs daily management of liquidity risk in accordance with the liquidity management objectives, and to ensure payment of the business.

The Group holds an appropriate amount of liquid assets (such as deposits with central bank, other short-term deposits and securities) to ensure liquidity needs and unpredictable demand for payment in the ordinary course of business. A substantial portion of the Group's assets are funded by deposits from customers. As a major source of funding, customer deposits have been growing steadily in recent years and are widely diversified in terms of type and duration.

The Group principally uses liquidity gap analysis to measure liquidity risk. Stress testing is also adopted to assess the impact of liquidity risk.

(a) **Maturity analysis**

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 the reporting period:

	31 December 2021							
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	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	Total
Assets								
Cash and deposits with central bank	18,573,917	34,667,477	-	-	-	-	-	53,241,394
Deposits with banks and other financial institutions	-	1,294,015	-	-	832,907	-	-	2,126,922
Placements with banks and other financial institutions	-	-	4,309,743	400,410	398,493	-	-	5,108,646
Financial assets held under resale agreements	-	-	12,288,925	-	-	-	-	12,288,925
Loans and advances to customers	768,511	193,010	16,095,815	14,831,687	68,874,816	74,696,010	63,148,849	238,608,698
Financial investments (Note (i))	203,972	718	31,632,103	5,952,505	22,608,383	64,364,533	65,220,587	189,982,801
Long-term receivables	13,032	-	514,843	1,151,131	4,057,157	5,908,065	44,025	11,688,253
Others	7,237,589	36	16,344	5,794	32,313	379,192	1,532,703	9,203,971
Total assets	<u>26,797,021</u>	<u>36,155,256</u>	<u>64,857,773</u>	<u>22,341,527</u>	<u>96,804,069</u>	<u>145,347,800</u>	<u>129,946,164</u>	<u>522,249,610</u>
Liabilities								
Borrowings from central bank	-	-	545,601	4,161,544	20,786,971	-	-	25,494,116
Deposits from banks and other financial institutions	-	4,951,605	-	-	1,390,209	-	-	6,341,814
Placements from banks and other financial institutions	-	-	3,202,124	3,614,623	10,087,753	-	-	16,904,500
Financial assets sold under repurchase agreements	-	-	25,305,596	-	-	-	-	25,305,596
Deposits from customers	-	148,703,400	20,686,126	19,586,867	43,230,122	85,664,710	94,582	317,965,807
Debt securities issued	-	-	9,015,956	9,776,947	58,436,757	3,998,127	10,990,513	92,218,300
Others	153,052	535,866	1,021,520	105,808	497,062	1,276,633	1,101,808	4,691,749
Total liabilities	<u>153,052</u>	<u>154,190,871</u>	<u>59,776,923</u>	<u>37,245,789</u>	<u>134,428,874</u>	<u>90,939,470</u>	<u>12,186,903</u>	<u>488,921,882</u>
Net position	<u>26,643,969</u>	<u>(118,035,615)</u>	<u>5,080,850</u>	<u>(14,904,262)</u>	<u>(37,624,805)</u>	<u>54,408,330</u>	<u>117,759,261</u>	<u>33,327,728</u>

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	Indefinite (Note (ii))	Repayable on demand (Note (ii))	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	Total
Assets								
Cash and deposits with central bank	22,076,437	25,142,960	-	-	-	-	-	47,219,397
Deposits with banks and other financial institutions	-	2,568,919	-	-	-	-	-	2,568,919
Financial assets held under resale agreements	-	-	9,726,476	-	-	-	-	9,726,476
Loans and advances to customers	980,712	160,477	10,215,835	11,268,647	50,329,217	70,898,797	58,504,799	202,358,484
Financial investments (Note (i))	392,299	24,783	18,884,477	6,965,259	23,642,091	61,915,282	66,411,818	178,236,009
Long-term receivables	55,128	22,186	437,613	1,161,694	3,688,618	5,635,939	-	11,001,178
Others	6,965,783	154	20,381	2,592	72,763	446,753	1,208,716	8,717,142
Total assets	30,470,359	27,919,479	39,284,782	19,398,192	77,732,689	138,896,771	126,125,333	459,827,605
Liabilities								
Borrowings from central bank	-	-	758,662	2,671,429	7,776,978	-	-	11,207,069
Deposits from banks and other financial institutions	-	7,847,471	2,220,299	1,963,637	4,993,325	-	-	17,024,732
Placements from banks and other financial institutions	-	-	2,872,838	3,270,838	6,803,899	-	-	12,947,575
Financial assets sold under repurchase agreements	-	-	32,599,411	499,938	-	-	-	33,099,349
Deposits from customers	-	135,345,742	16,521,262	18,015,568	45,682,640	59,986,805	198,693	275,750,710
Debt securities issued	-	-	3,012,339	11,868,597	36,965,885	15,992,125	4,995,562	72,834,508
Others	116,849	307,271	1,964,668	153,995	831,206	1,960,036	722,779	6,056,804
Total liabilities	116,849	143,500,484	59,949,479	38,444,002	103,053,933	77,938,966	5,917,034	428,920,747
Net position	30,353,510	(115,581,005)	(20,664,697)	(19,045,810)	(25,321,244)	60,957,805	120,208,299	30,906,858

Notes:

- (i) Financial investments include financial assets measured at FVTPL, financial investment measured at FVOCI, and financial investment measured at amortised cost.
- (ii) For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers, financial investments and long-term receivables, the “indefinite” period amount represents the balance being credit-impaired or not credit-impaired but overdue for more than one month, and the balance not credit-impaired but overdue within one month is included in “repayable on demand”.

(b) Analysis on contractual undiscounted cash flows of non-derivative financial liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities at the end of the reporting period:

31 December 2021									
	Indefinite	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	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central bank	-	-	546,150	4,232,874	20,793,145	-	-	25,572,169	25,494,116
Deposits from banks and other financial institutions	-	4,951,605	-	-	1,426,866	-	-	6,378,471	6,341,814
Placements from banks and other financial institutions	-	-	3,205,511	3,670,105	10,241,802	-	-	17,117,418	16,904,500
Financial assets sold under repurchase agreements	-	-	25,312,275	-	-	-	-	25,312,275	25,305,596
Deposits from customers	-	148,703,400	20,739,555	19,671,274	43,816,519	93,372,743	112,181	326,415,672	317,965,807
Debt securities issued	-	-	9,030,000	9,872,000	59,779,400	6,427,200	12,644,000	97,752,600	92,218,300
Others	153,052	535,866	1,021,331	104,842	497,436	1,169,582	1,125,057	4,607,166	4,547,060
Total	153,052	154,190,871	59,854,822	37,551,095	136,555,168	100,969,525	13,881,238	503,155,771	488,777,193

31 December 2020									
	Indefinite	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	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central bank	-	-	759,411	2,717,444	7,855,080	-	-	11,331,935	11,207,069
Deposits from banks and other financial institutions	-	7,847,471	2,223,114	1,971,487	5,082,140	-	-	17,124,212	17,024,732
Placements from banks and other financial institutions	-	-	2,876,667	3,308,604	6,954,249	-	-	13,139,520	12,947,575
Financial assets sold under repurchase agreements	-	-	32,606,741	500,563	-	-	-	33,107,304	33,099,349
Deposits from customers	-	135,345,742	16,536,469	18,101,525	46,360,362	66,111,333	237,474	282,692,905	275,750,710
Debt securities issued	-	-	3,023,542	11,964,083	38,135,975	17,894,600	5,500,000	76,518,200	72,834,508
Others	116,849	307,271	1,929,661	151,622	838,391	1,733,762	739,423	5,816,979	5,768,457
Total	116,849	143,500,484	59,955,605	38,715,328	105,226,197	85,739,695	6,476,897	439,731,055	428,632,400

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

(c) **Analysis on contractual undiscounted cash flows of derivatives**

The following tables provide an analysis of the contractual undiscounted cash flow of derivative financial instruments at the end of the reporting period:

The Group

	31 December 2021							Contractual undiscounted cash flow
	Indefinite	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	
Derivative cash flows:								
Derivative financial instruments settled on net basis	-	-	149	(939)	172	2,497	-	1,879
Derivative financial instruments settled on gross basis								
Including: Cash inflow	-	-	15,757	5,633	466,946	-	-	488,336
Cash outflow	-	-	(15,748)	(5,630)	(465,937)	-	-	(487,315)
	-	-	9	3	1,009	-	-	1,021
	31 December 2020							Contractual undiscounted cash flow
	Indefinite	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	
Derivative cash flows:								
Derivative financial instruments settled on net basis	-	-	(276)	(620)	(4,316)	(685)	-	(5,897)
Derivative financial instruments settled on gross basis								
Including: Cash inflow	-	-	41,170	-	54,169	-	-	95,339
Cash outflow	-	-	(41,164)	-	(54,164)	-	-	(95,328)
	-	-	6	-	5	-	-	11

(4) Operational risk

Operational risk refers to the risk arising from inadequate or failed internal control procedures, personnel and information technology systems, or external events. The primary operational risks the Group face include internal and external frauds, worksite safety failures, business interruptions and failure in the information technology system.

The board of directors of the Bank is ultimately responsible for the operational risk management, and the Bank's senior management leads the bank-wide operational risk management on a day-to-day basis. The Group has established "three lines of defenses" to manage operational risk on an end-to-end basis. The business lines and functions are the first line of defense against operational risks, taking direct responsibilities for operational risk management. The legal and compliance department is the second line of defense against operational risks, responsible for the establishment of operational risk management policies and procedures and the coordination, support, and supervision of operational risk management. The audit department is the third line of defense against operational risk, responsible for evaluating the adequacy and effectiveness of operational risk management policies and procedures and assessing the internal control system and compliance.

(5) Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management. Among them, capital adequacy ratio management is especially important. The Group calculates capital adequacy ratios in accordance with the guidance issued by the former CBRC. The capital of the Group is divided into three pieces: core tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the core of the capital management of the Group. Capital adequacy ratio reflects the Group's sound operations and risk management capability. The Group's capital management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testing and other measures to forecast, plan and manage capital adequacy ratio. The required information is filed with the regulatory authority by the Group periodically.

As at 31 December 2021 and 2020, the Group calculated the capital adequacy ratios in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) issued by the former CBRC in 2012 and relevant requirements as follows:

	31 December 2021	31 December 2020
Total core tier-one capital	25,220,636	22,846,168
– Share capital	4,509,690	4,509,690
– Qualifying portion of capital reserve	8,337,869	8,337,869
– Surplus reserve	2,103,883	1,859,737
– General reserve	5,576,461	5,072,217
– Retained earnings	3,507,129	2,618,980
– Other comprehensive income	746,499	32,717
– Qualifying portion of non-controlling interests	439,105	414,958
Core tier-one capital deductions	(309,651)	(461,170)
Net core tier-one capital	24,910,985	22,384,998
Other tier-one capital	7,912,511	7,909,292
– Additional tier-one capital instruments and related premium	7,853,964	7,853,964
– Valid portion of minority interests	58,547	55,328
Net tier-one capital	32,823,496	30,294,290
Tier two capital	14,251,730	7,512,290
– Qualifying portions of tier-two capital instruments issued	11,000,000	5,000,000
– Surplus provision for loan impairment	3,134,635	2,401,634
– Qualifying portion of non-controlling interests	117,095	110,656
Net capital base	47,075,226	37,806,580
Total risk weighted assets	297,412,693	267,941,143
Core tier-one capital adequacy ratio	8.38%	8.35%
Tier-one capital adequacy ratio	11.04%	11.31%
Capital adequacy ratio	15.83%	14.11%

45 FAIR VALUE

(1) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

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

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group has established policies and internal controls with respect to the measurement of fair value, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

The Group adopts the following methods and assumptions when evaluating fair value:

(a) Debt securities investments

The fair value of debt securities that are traded in an active market is based on their quoted market prices in an active market at the end of the reporting period.

(b) Other financial investments and other non-derivative financial assets

Fair value is estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(c) Debt securities issued and other non-derivative financial liabilities

The fair value of debt securities issued is based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair value of other non-derivative financial liabilities is evaluated 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.

(d) Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards and swaps, etc. The most frequently applied valuation techniques include discounted cash flow model, etc. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

(2) **Financial instruments recorded at fair value**

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

The Group

	31 December 2021			Total
	Level 1 <i>Note (i)</i>	Level 2 <i>Note (i)</i>	Level 3 <i>Note (i) ~ (ii)</i>	
Financial investments measured at FVTPL				
– Debt securities	–	984,580	–	984,580
– Asset management plans	–	–	13,488,145	13,488,145
– Trust fund plans	–	–	1,501,437	1,501,437
– Investment funds	–	39,973,092	–	39,973,092
Derivative financial assets	–	146,617	–	146,617
Financial investments measured at FVOCI				
– Debt securities	–	67,991,092	–	67,991,092
– Asset management plans	–	3,870,136	–	3,870,136
– Other investments	–	–	728,917	728,917
– Equity investments	–	–	23,250	23,250
Loans and advances to customers measured at FVOCI	–	–	17,640,224	17,640,224
Total financial assets	–	112,965,517	33,381,973	146,347,490
Derivative financial liabilities	–	142,242	2,447	144,689
Total financial liabilities	–	142,242	2,447	144,689

	31 December 2020			
	Level 1	Level 2	Level 3	Total
	<i>Note (i)</i>	<i>Note (i)</i>	<i>Note (i) ~ (ii)</i>	
Financial investments measured at FVTPL				
– Debt securities	–	882,952	–	882,952
– Asset management plans	–	–	9,998,794	9,998,794
– Trust fund plans	–	–	2,004,789	2,004,789
– Investment funds	–	24,313,480	50,390	24,363,870
Derivative financial assets	–	285,405	995	286,400
Financial investments measured at FVOCI				
– Debt securities	–	60,231,523	–	60,231,523
– Asset management plans	–	5,842,695	–	5,842,695
– Other investments	–	–	730,534	730,534
– Equity investments	–	–	23,250	23,250
Loans and advances to customers measured at FVOCI	–	–	7,215,159	7,215,159
Total financial assets	–	91,556,055	20,023,911	111,579,966
Derivative financial liabilities	–	286,621	1,726	288,347
Total financial liabilities	–	286,621	1,726	288,347

Note:

- (i) During the reporting period, there were no significant transfers among each level.

(ii) Movements in Level 3 of the fair value hierarchy

The Group

	As at 1 January 2021	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year		Purchases, issues, disposals and settlements			As at 31 December 2021
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
Financial investments measured at FVTPL									
– Asset management plans	9,998,794	-	-	37,554	-	5,362,658	-	(1,910,861)	13,488,145
– Trust fund plans	2,004,789	-	-	22,330	-	-	-	(525,682)	1,501,437
– Investment funds	50,390	-	-	(390)	-	-	-	(50,000)	-
Derivative financial assets	995	-	-	(995)	-	-	-	-	-
Financial investments measured at FVOCI									
– Other investments	730,534	-	-	40,312	71	-	-	(42,000)	728,917
– Equity investments	23,250	-	-	-	-	-	-	-	23,250
Loans and advances to customers measured at FVOCI	7,215,159	-	-	376,236	25,546	48,156,016	-	(38,132,733)	17,640,224
Total financial assets	<u>20,023,911</u>	<u>-</u>	<u>-</u>	<u>475,047</u>	<u>25,617</u>	<u>53,518,674</u>	<u>-</u>	<u>(40,661,276)</u>	<u>33,381,973</u>
Derivative financial liabilities	<u>1,726</u>	<u>-</u>	<u>-</u>	<u>721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,447</u>
Total financial liabilities	<u>1,726</u>	<u>-</u>	<u>-</u>	<u>721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,447</u>

The Group

	As at 1 January 2020	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year		Purchases, issues, disposals and settlements			As at 31 December 2020
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
Financial investments measured at FVTPL									
– Asset management plans	9,240,047	–	–	249,550	–	6,145,739	–	(5,636,542)	9,998,794
– Wealth management products	1,033,973	–	–	6,727	–	–	–	(1,040,700)	–
– Trust fund plans	2,829,424	–	–	(52,983)	–	2,000,000	–	(2,771,652)	2,004,789
– Investment funds	50,258	–	–	2,321	–	–	–	(2,189)	50,390
Derivative financial assets	5,588	–	–	(4,593)	–	–	–	–	995
Financial investments measured at FVOCI									
– Other investments	732,842	–	–	41,835	(2,143)	–	–	(42,000)	730,534
– Equity investments	23,250	–	–	–	–	–	–	–	23,250
Loans and advances to customers measured at FVOCI	6,249,822	–	–	(219,328)	11,679	30,832,820	–	(29,659,834)	7,215,159
Total financial assets	20,165,204	–	–	23,529	9,536	38,978,559	–	(39,152,917)	20,023,911
Derivative financial liabilities	2,015	–	–	(289)	–	–	–	–	1,726
Total financial liabilities	2,015	–	–	(289)	–	–	–	–	1,726

(3) Level 2 of the fair value hierarchy

A majority of the financial instruments classified as level 2 of the Group are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

(4) Fair value of financial assets and liabilities not carried at fair value

(i) *Cash and deposits with central bank, borrowings from central bank, deposits and placements with/from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements*

Given that these financial assets and financial liabilities mainly mature within one year or adopt floating interest rates, their carrying amounts approximate their fair value.

(ii) *Loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and long-term receivables*

Loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and long-term receivables' estimated fair value represents the amount of estimated future cash flows expected to be received, discounted at current market rates.

(iii) Debt securities financial investments measured at amortised cost

The fair value for debt securities financial investments measured at amortised cost is based on “bid” market prices or brokers’/dealers’ price quotations. If relevant market information is not available, the fair value is based on quoted price of security products with similar characteristics such as credit risk, maturities and yield.

(iv) Deposits from customers

The fair value of checking and savings is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices is estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(v) Debt securities issued

The fair value of debt securities issued is based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of debt securities financial instruments measured at amortised cost and debt securities issued:

	31 December 2021				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial investments measured at amortised cost (including accrued interest)					
– Debt securities	<u>50,243,999</u>	<u>50,258,045</u>	<u>–</u>	<u>50,159,263</u>	<u>98,782</u>
Total	<u>50,243,999</u>	<u>50,258,045</u>	<u>–</u>	<u>50,159,263</u>	<u>98,782</u>
Financial liabilities					
Securities issued (including accrued interest)					
– Debt securities	<u>27,506,812</u>	<u>27,981,076</u>	<u>–</u>	<u>27,981,076</u>	<u>–</u>
– Certificates of interbank deposit	<u>64,711,488</u>	<u>64,778,081</u>	<u>–</u>	<u>64,778,081</u>	<u>–</u>
Total	<u>92,218,300</u>	<u>92,759,157</u>	<u>–</u>	<u>92,759,157</u>	<u>–</u>

31 December 2020

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial investments measured at amortised cost (including accrued interest)					
– Debt securities	59,794,985	59,230,899	–	59,149,398	81,501
Total	59,794,985	59,230,899	–	59,149,398	81,501
Financial liabilities					
Securities issued (including accrued interest)					
– Debt securities	22,825,071	22,816,947	–	22,816,947	–
– Certificates of interbank deposit	50,009,437	50,022,903	–	50,022,903	–
Total	72,834,508	72,839,850	–	72,839,850	–

46 COMMITMENTS AND CONTINGENCIES

(1) Credit commitments

The Group's credit commitments take the form of bank acceptances, credit card limits, letters of credit and financial guarantees, etc.

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 its customers. The contractual amounts of credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

	31 December 2021	31 December 2020
Bank acceptances	22,764,516	23,968,377
Unused credit card commitments	12,977,027	6,292,802
Usance letters of credit	8,642,765	4,883,274
Financing letters of guarantees issued	1,071,373	208,498
Non-financing letters of guarantees issued	553,838	826,891
Sight letters of credit	228,836	140,955
Irrevocable loan commitments	172,170	202,170
Total	46,410,525	36,522,967

Irrevocable loan commitments only include unused loan commitments granted to syndicated loans.

The Group may be exposed to credit risk in all the above credit businesses. 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.

For details of ECL of credit commitments, please refer to Note 36(3).

(2) **Credit risk-weighted amount**

	31 December 2021	31 December 2020
Credit risk-weighted amount of contingent liabilities and commitments	<u>12,256,845</u>	<u>8,550,965</u>

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the former CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors.

(3) **Capital commitments**

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

	31 December 2021	31 December 2020
Contracted but not paid for	85,154	75,802
Authorised but not contracted for	<u>600</u>	<u>–</u>
Total	<u>85,754</u>	<u>75,802</u>

(4) **Outstanding litigations and disputes**

A number of outstanding litigation matters against the Group had arisen in the normal course of its operation as at 31 December 2021 and 31 December 2020. With the professional advice from counselors, the Group's management believes such litigation will not have a significant impact on the Group.

(5) **Bond redemption obligations**

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the end of the reporting period:

	31 December 2021	31 December 2020
Bond redemption obligations	<u>4,224,832</u>	<u>4,565,939</u>

(6) **Pledged assets**

	31 December 2021	31 December 2020
Investment securities	41,968,938	41,511,935
Discounted bills	<u>10,301,931</u>	<u>1,475,348</u>
Total	<u>52,270,869</u>	<u>42,987,283</u>

Some of the Group's assets are pledged as collateral under repurchase agreements and borrowings from central bank.

The Group maintains statutory deposit reserves with the PBOC as required (Note 14). These deposits are not available for the Group's daily operations.

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 31 December 2021 and 31 December 2020, the Group did not have these discounted bills under resale agreements. As at 31 December 2021 and 31 December 2020, the Group did not sell or repledge any pledged assets which it has an obligation to repurchase when they are due.

47 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(1) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. The Group does not consolidate these structured entities. Such structured entities include wealth management products, asset management plans, trust fund plans, asset-backed securities and investment funds. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 31 December 2021 and 31 December 2020 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	31 December 2021				
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Asset management plans	13,488,145	3,870,136	4,122,278	21,480,559	21,480,559
Trust fund plans	1,501,437	–	820,382	2,321,819	2,321,819
Asset-backed securities	127,413	2,006,996	922,475	3,056,884	3,056,884
Investment funds	39,973,092	–	–	39,973,092	39,973,092
Total	55,090,087	5,877,132	5,865,135	66,832,354	66,832,354
	31 December 2020				
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Asset management plans	9,998,794	5,842,695	7,202,596	23,044,085	23,044,085
Trust fund plans	2,004,789	–	864,969	2,869,758	2,869,758
Asset-backed securities	202,415	1,366,797	583,637	2,152,849	2,152,849
Investment funds	24,363,870	–	–	24,363,870	24,363,870
Total	36,569,868	7,209,492	8,651,202	52,430,562	52,430,562

The maximum exposures to loss in the above structured entities are the amortised cost or the fair value of the assets held by the Group at the end of the reporting period in accordance with the line items of these assets recognised in the statement of financial position.

(2) Unconsolidated structured entities sponsored by the Group in which the Group holds an interest

The types of unconsolidated structured entities sponsored by the Group mainly include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services to these structured entities. As at 31 December 2021 and 31 December 2020, the carrying amounts of the management and other service fee receivables being recognised are not material in the statement of financial position.

As at 31 December 2021, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB167.804 billion (31 December 2020: RMB124.123 billion).

In addition, the unconsolidated structured entities sponsored by the Group also include asset-backed securities held and initiated by the Group. As at 31 December 2021, the balances of these asset-backed securities was RMB42 million (31 December 2020: RMB208 million).

(3) Structured entities sponsored and issued by the Group after 1 January but matured before 31 December at the end of the reporting period in which the Group no longer holds an interest

During the year ended 31 December 2021, the amount of fee and commission income recognised from the above mentioned structured entities by the Group was RMB127 million (2020: RMB166 million).

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2021 but matured before 31 December 2021 was RMB46.698 billion (2020: RMB79.120 billion).

48 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets in the statement of financial position.

(1) Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may require or be required to pay additional cash collateral in certain circumstances. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

(2) Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors, or carries out trust beneficial rights registration and transfer business in China Credit Assets Registry & Exchange Co., Ltd. (“Yindeng Center”).

In 2021, the Group transferred a portfolio of customer loans with a book value of RMB1.766 billion (2020: RMB8.393 billion) to an unconsolidated securitization vehicle managed by an independent trust company, which issued asset-backed securities to investors. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognised.

Under the servicing arrangements with the independent trust company, the Group collects the cash flows of the transferred assets on behalf of the unconsolidated securitisation vehicle. In return, the Group receives a fee that is expected to compensate the Group for servicing the related assets.

49 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in the statements of financial position as they are not the Group's assets.

As at 31 December 2021, the entrusted loans balance of the Group was RMB3.594 billion (31 December 2020: RMB2.773 billion).

50 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2021	31 December 2020
Assets		
Cash and deposits with central bank	53,195,208	47,173,947
Deposits with banks and other financial institutions	1,291,829	1,767,485
Placements with banks and other financial institutions	5,108,646	–
Derivative financial assets	146,617	286,400
Financial assets held under resale agreements	12,288,925	9,726,476
Loans and advances to customers	238,608,698	202,358,484
Financial investments:		
– Financial investments measured at fair value through profit or loss	55,947,254	37,250,405
– Financial investments measured at fair value through other comprehensive income	72,613,395	66,828,002
– Financial investments measured at amortised cost	61,422,152	74,157,602
Investment in subsidiary	1,510,000	1,510,000
Property and equipment	3,155,267	3,007,874
Right-of-use assets	839,847	814,438
Deferred tax assets	2,423,473	2,357,024
Other assets	2,264,579	1,833,325
	<u>510,815,890</u>	<u>449,071,462</u>
Total assets		
	31 December 2021	31 December 2020
Liabilities		
Borrowings from central bank	25,494,116	11,207,069
Deposits from banks and other financial institutions	7,316,642	17,305,182
Placements from banks and other financial institutions	6,896,877	3,624,918
Derivative financial liabilities	144,689	288,347
Financial assets sold under repurchase agreements	25,305,596	33,099,349
Deposits from customers	317,965,807	275,750,710
Income tax payable	–	375,322
Debt securities issued	92,218,300	72,834,508
Lease liabilities	500,327	441,849
Other liabilities	2,959,152	3,998,938
	<u>478,801,506</u>	<u>418,926,192</u>
Total liabilities		

	31 December 2021	31 December 2020
Equity		
Share capital	4,509,690	4,509,690
Other equity instrument		
Including: preference shares	7,853,964	7,853,964
Capital reserve	8,337,869	8,337,869
Surplus reserve	2,103,883	1,859,737
General reserve	5,409,946	4,981,263
Other comprehensive income	746,499	32,717
Retained earnings	3,052,533	2,570,030
	<u>32,014,384</u>	<u>30,145,270</u>
Total equity	<u>32,014,384</u>	<u>30,145,270</u>
Total liabilities and equity	<u>510,815,890</u>	<u>449,071,462</u>

Approved and authorised for issue by the board of directors on 25 March 2022.

Guo Shaoquan
Legal Representative
(Chairman)

Wang Lin
President

Meng Dageng
Chief Financial Officer

(Company Stamp)

51 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2021

Up to the date of issue of these financial statements, the IASB has issued a number of new and revised IFRSs. For the purpose of preparing the financial statements, the Group has adopted all the new and revised IFRSs in issue which are relevant to the Group for the reporting period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2021. The revised and new accounting standards and interpretations probably related to the Group, which are issued but not yet effective for the accounting period ended 31 December 2021, are set out below:

	Effective for accounting periods beginning on or after
Amendments to IAS 16, Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IFRS 3, Reference to Conceptual Framework	1 January 2022
Amendments to IAS 37, Onerous Contract – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8, Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12, Deferred income taxes related to assets and liabilities arising from a single transaction	1 January 2023

These standards are expected to have no material impact on financial position and financial performance of the Group.

52 THE IMPACT OF COVID-19

The outbreak of the COVID-19 in the beginning of 2020 has brought some uncertainties to the Group's operating environment and impacted on the financial and operational results of the Group to some extent. The Group earnestly implemented the requirements of the "Notice on Further Enhancing Financial Support for Prevention and Control of the COVID-19 《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》" and other relevant policies and regulations jointly published by the PBOC, the MOF, the CBIRC, the CSRC and the SAFE, to strengthen financial support for epidemic prevention and control. The Group has been closely monitoring the development of the COVID-19 and has taken proactive measures to minimize its impact on the financial condition, operating results and other aspects of the Group.

53 SUBSEQUENT EVENTS

(1) The profit distribution plan

The profit appropriation of the Bank was proposed in accordance with the resolution of the Bank's board of directors meeting as disclosed in Note 40.

(2) Rights issue to shareholders

The Bank completed the A Share Rights Issue and H Share Rights Issue after 31 December 2021 as disclosed in Note 37.

Up to the approval date of the financial statements, except for the above, the Group has no other significant subsequent events for disclosure.

54 COMPARATIVE FIGURES

For financial statements disclosure purpose, the Group made reclassification adjustments to some comparative figures.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the audited financial statements, and is included herein for information purposes only.

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplementary Financial Information as follows:

1 LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the relevant regulations promulgated by the former CBRC and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises issued by the MOF.

(1) Liquidity coverage ratio

	As at 31 December 2021	As at 31 December 2020
Qualified and high-quality current assets	99,172,073	84,342,175
Net cash outflows in next 30 days	55,237,499	55,334,625
Liquidity coverage ratio (RMB and foreign currency)	<u>179.54%</u>	<u>152.42%</u>

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, a minimum liquidity coverage ratio of commercial banks 100% is required.

(2) Leverage ratio

	As at 31 December 2021	As at 31 December 2020
Leverage ratio	<u>5.87%</u>	<u>6.14%</u>

Pursuant to the Leverage Ratio Management of Commercial Banks (Amended) issued by the former CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

(3) Net stable funding ratio

	As at 31 December 2021	As at 30 September 2021
Available stable funding	287,134,612	277,319,330
Required stable funding	283,156,997	270,548,400
Net stable funding ratio	<u>101.40%</u>	<u>102.50%</u>

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio of commercial banks 100% is required.

2 CURRENCY CONCENTRATIONS

	31 December 2021			
	US Dollars	HK Dollars	Others	Total
	<i>(RMB equivalent)</i>	<i>(RMB equivalent)</i>	<i>(RMB equivalent)</i>	
Spot assets	18,497,960	14,725	68,357	18,581,042
Spot liabilities	(10,591,487)	(8,413)	(63,847)	(10,663,747)
Forward purchases	240,109	–	–	240,109
Forward sales	335,744	–	–	335,744
Net long position	<u>8,482,326</u>	<u>6,312</u>	<u>4,510</u>	<u>8,493,148</u>
Structural position	(127,514)	–	–	(127,514)

	31 December 2020			
	US Dollars	HK Dollars	Others	Total
	<i>(RMB equivalent)</i>	<i>(RMB equivalent)</i>	<i>(RMB equivalent)</i>	
Spot assets	13,229,127	16,731	15,890	13,261,748
Spot liabilities	(4,579,850)	(10,194)	(12,402)	(4,602,446)
Forward purchases	52,656	–	–	52,656
Forward sales	127,692	–	–	127,692
Net long position	<u>8,829,625</u>	<u>6,537</u>	<u>3,488</u>	<u>8,839,650</u>
Structural position	(130,498)	–	–	(130,498)

3 INTERNATIONAL CLAIMS

The Group regards all claims on third parties outside Mainland China and claims dominated in foreign currency on third parties in Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions and financial investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	31 December 2021			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	495,354	9,593,288	7,837,804	17,926,446
– of which attributed to Hong Kong	–	4,986,197	–	4,986,197
– North and South America	–	558,692	–	558,692
– Europe	–	16,214	–	16,214
	<u>495,354</u>	<u>10,168,194</u>	<u>7,837,804</u>	<u>18,501,352</u>
	31 December 2020			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	151,757	5,831,539	6,822,701	12,805,997
– of which attributed to Hong Kong	–	5,191,831	–	5,191,831
– North and South America	–	367,640	–	367,640
– Europe	–	4,463	–	4,463
	<u>151,757</u>	<u>6,203,642</u>	<u>6,822,701</u>	<u>13,178,100</u>

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	31 December 2021	31 December 2020
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	214,473	272,235
– between 6 months and 1 year (inclusive)	342,925	724,238
– over 1 year	1,207,970	950,620
Total	1,765,368	1,947,093
As a percentage of total gross loans and advances (excluding accrued interest)		
– between 3 and 6 months (inclusive)	0.09%	0.13%
– between 6 months and 1 year (inclusive)	0.14%	0.35%
– over 1 year	0.49%	0.45%
Total	0.72%	0.93%

SECTION 6 RELEASE OF ANNUAL RESULTS ANNOUNCEMENT AND 2021 ANNUAL REPORT ON THE WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE BANK

This results announcement will be published on the HKEXnews website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Bank (www.qdccb.com). The 2021 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders and released on the website of the Hong Kong Stock Exchange and the website of the Bank in due course.

This results announcement was prepared in both Chinese and English versions, where there is a discrepancy between the Chinese and English versions, the Chinese version shall prevail.

By order of the Board
Bank of Qingdao Co., Ltd.*
Guo Shaoquan
Chairman

Qingdao, Shandong, the PRC
25 March 2022

As at the date of this announcement, the Board comprises Mr. Guo Shaoquan, Mr. Wang Lin, Mr. LIU Peng and Ms. Lu Lan as executive directors; Mr. Zhou Yunjie, Mr. Rosario Strano, Ms. Tan Lixia, Mr. Marco Mussita, Mr. Deng Youcheng and Mr. Choi Chi Kin, Calvin as non-executive directors; Mr. Simon Cheung, Ms. Fang Qiaoling, Mr. Tingjie Zhang, Mr. XING Lecheng and Mr. ZHANG Xu as independent non-executive directors.

* *Bank of Qingdao 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.*