



威海市商业银行

WEIHAI CITY COMMERCIAL BANK

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

Stock Short Name: Weihai Bank Stock Code: 9677



2021
ANNUAL REPORT

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CHAPTER 1 IMPORTANT NOTICE

1. The Board of Directors, the Board of Supervisors, Directors, Supervisors and senior management of the Bank warrant that there are no false representations, misleading statements or material omissions contained in this report, and they jointly and severally accept responsibility for the truthfulness, accuracy and completeness of the information contained in this report.
2. The 2021 annual report of the Bank (the "Report") was approved unanimously at the fifth meeting of the eighth session of the Board of the Bank held on March 30, 2022, which was considered and approved by way of valid voting. 15 directors were eligible to attend the meeting, and 14 directors attended such meeting in person. Certain Supervisors of the Bank attended the meeting.
3. The 2021 annual financial report of the Group prepared in accordance with the China Accounting Standards for Business Enterprises has been audited by BDO China Shu Lun Pan Certified Public Accountants LLP, which has issued a standard unqualified audit report. The 2021 annual financial report prepared in accordance with the International Financial Reporting Standards has been audited by BDO Limited, which has issued a standard unqualified audit report.
4. TAN Xianguo, the Chairman, MENG Dongxiao, the President, TAO Zunjian, the Vice President and Chief Accountant, and LU Guangming, the Head of the Finance Department of the Bank, warrant the truthfulness, accuracy and completeness of the financial report in the Report.
5. The Board of Directors of the Bank proposes to distribute a cash dividend of RMB10 (tax inclusive) per 100 shares to the ordinary shareholders whose names appeared on the register of members on the record date for equity distribution. The profit distribution plan will be submitted to the 2021 Annual General Meeting for approval. Further announcement will be made in respect of the date of the closure of register and the record date in relation to the proposed final dividend.
6. Forward-looking statements, including future plans, contained in the Report do not constitute any actual commitments of the Bank to investors. Investors and related persons are advised to maintain sufficient risk awareness and understand the difference between plans, forecasts and commitments.
7. During the Reporting Period, the Bank was not aware of any major risks that would adversely affect the Bank's future development strategies and business objectives. The principal risks exposed by the Bank in its operation and management as well as the corresponding measures adopted by the Bank are detailed in the Report. For details, please refer to "Risk Management" and "Future Prospects" in the section headed "Management Discussion and Analysis" of the Report.
8. For the financial data and indicators set out in the Report, save as stated otherwise, the monetary unit is denominated in RMB. Certain amounts and percentage figures set out in the Report are subject to rounding adjustments. Any discrepancy between the totals and sum of the amounts in any tables is due to such rounding.
9. The Report has been prepared in both Chinese and English. In the event of any discrepancy, the Chinese version shall prevail.

CHAPTER 2 DEFINITIONS

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

“Bank”, “our Bank” or “Weihai City Commercial Bank”	Weihai City Commercial Bank Co., Ltd., a joint stock limited company established in the PRC in July 1997 in accordance with the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches, excluding its subsidiaries
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“CBIRC Shandong Office”	China Banking and Insurance Regulatory Commission Shandong Office
“CNHTC”	China National Heavy Duty Truck Group Co., Ltd. (中國重型汽車集團有限公司)
“Company Law”	The Company Law of the People’s Republic of China (《中華人民共和國公司法》)
“Corporate Governance Code”	Corporate Governance Code under Appendix 14 to the Listing Rules
“Group”, “our Group”, “we” or “us”	the Bank and its subsidiaries and, where the context requires, includes its predecessors, branches and sub-branches
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRSs”	International Financial Reporting Standards, International Accounting Standards, the related standards, amendments and explanatory announcement, as issued by the International Accounting Standards Board
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“PBOC” or “Central Bank”	the People’s Bank of China
“Qilu Expressway”	Qilu Expressway Company Limited (齊魯高速公路股份有限公司), Stock Code: 1576
“Qilu Expressway Group”	Qilu Expressway and its subsidiaries
“Reporting Period”	the year ended December 31, 2021

Chapter 2 Definitions

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shandong Hi-Speed”	Shandong Hi-Speed Company Limited (山東高速股份有限公司), a non-wholly owned subsidiary of Shandong Hi-Speed Group Company and a substantial Shareholder of the Bank
“Shandong Hi-Speed Group Company”	Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司), a controlling Shareholder of the Bank
“Shandong SASAC”	State-owned Assets Supervision and Administration Commission of Shandong Provincial People’s Government (山東省人民政府國有資產監督管理委員會)
“Subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Tongda Financial Leasing”	Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)

CHAPTER 3 CORPORATE INFORMATION

BASIC INFORMATION

Legal Chinese Name

威海市商業銀行股份有限公司
(Abbreviation “威海市商業銀行”)

Legal English Name

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

Legal Representative

TAN Xianguo (譚先國)

Secretary to the Board

ZHANG Jia'en (張家恩)⁽¹⁾
Contact Number: (86) 631-5236187
Facsimile: (86) 631-5210210
E-mail: whccb@whccb.com

Joint Company Secretaries

LU Jiliang (盧繼梁), TAM Pak Yu, Vivien (譚柏如)

Registered Capital

RMB5,980,058,344

Registered Address and Office Address

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

Principal Place of Business in Hong Kong

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

Unified Social Credit Code

913700002671339534

Financial License Institution Number

B0176H237100001

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

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

H Share Registrar

Computershare Hong Kong Investor Services Limited

Annual Reports are Available at:

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

Legal Adviser

Mainland China

Beijing Dentons Law Offices, LLP

Hong Kong, China

Paul Hastings

22/F, Bank of China Tower, 1 Garden Road, Central, Hong
Kong

Auditor

Mainland China Auditor

BDO China Shu Lun Pan Certified Public Accountants LLP
9/F, 17-20/F, Tower A, China Overseas International
Center, Building 7, No. 5 Anding Road, Chaoyang District,
Beijing, the PRC

International Auditor

BDO Limited

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

Compliance Adviser

Central China International Capital Limited

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

Note:

(1) Mr. ZHANG Jia'en was appointed as the Secretary to the Board of the Bank since December 2021, and his position qualification is subject to approval by CBIRC Shandong Office

COMPANY PROFILE

Since its establishment in 1997, the Bank has always kept in mind its original intention and mission of serving the real economy, adhered to the market positioning of “serving the local economy, serving small and micro enterprises, and serving urban and rural residents”, adhered to the service concept of “mutual support and delightful growth”, insisted on innovation in reform, and surpassed in development, thus moving out a unique development path. The Bank currently has 122 branches and sub-branches in Jinan, Tianjin, Qingdao, etc., and is the first local legal person bank in Shandong Province to achieve “full coverage of the province”. In 2016, the Bank was the first financial institution in Shandong Province to initiate the establishment of a financial leasing company, marking a substantial step in its integrated operation. On October 12, 2020, the Bank was successfully listed on the Main Board of the Hong Kong Stock Exchange. The Bank formally adopted the “Equator Principle” (“赤道原則”) in 2021 and became the first “Equator Bank” (“赤道銀行”) in Shandong Province, making breakthroughs in terms of green finance.

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

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

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

Development Strategies:

1. Consolidate the advantages of featured businesses. Adhere to the strategy of “Bi-Focus Retail Banking”, focus on high-end customers in corporate banking, and adhere to the direction of professional and intensive development. As for the retail banking business, the Bank continues to innovate featured products by closely following the mass market.
2. Enhance application of advanced Fintech. The Bank has established the concepts of “technology leading business” and “technology serving business”, and implemented the “three-step” strategy of “offline business online, online business enrichment, and digital banking strategy”. Working in line with the three new concepts of “data standardization, online standardization, and online intelligence”, the Bank firmly promoted digital transformation and continued to develop “smart digital banking” providing “the best customer experience and excellent income and profit generation”.

Chapter 3 Corporate Information

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

Core Competitiveness:

1. Comprehensive network layout. The Bank has established branches and sub-branches in all cities in Shandong Province, and has set up branches in Tianjin outside the province. The number of branches reached 122, of which 51 were located in Weihai, creating a comprehensive branch network and forming a unique comparative advantage of serving regional economy.
2. Quality shareholder structure. Our substantial shareholders include Shandong Hi-Speed Group Company, which is a large state-owned enterprise, and Weihai Municipal Finance Bureau, and other corporate shareholders which are mostly large and well-developed local listed companies in Weihai. All our substantial shareholders are able to comply with laws and regulations and act in a scientific and reasonable manner to provide strong support for the long-term development of the Bank.
3. Featured product portfolio. In the corporate banking segment, the Bank focuses on high-end customers and provides comprehensive financial products and services. In the retail banking segment, the Bank adheres to the principle of “customer-oriented and market-oriented” and accelerates the implementation of platform marketing. In the financial market business segment, the Bank has optimized the structure of assets and liabilities, established a sound investment product line, and continuously improved investment returns.
4. Rich cultural heritage. With “Happy Culture” and “Execution Culture” as the core, the Bank has established corporate culture concepts which value learning, gratitude and responsibility, created a rich cultural atmosphere and formed unique cultural competitiveness.

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

Unit: RMB million

	2021	2020	Current year compared to previous year	2019	2018	2017
Operating results			Change (%)			
Net interest income	6,047.5	4,658.3	29.82	3,306.2	1,902.5	3,644.3
Net fee and commission income	592.1	463.7	27.69	271.7	73.2	236.7
Net trading gains, net gains arising from investment securities and other net operating income	737.8	912.0	(19.10)	1,369.3	1,857.9	27.0
Operating income	7,377.4	6,034.0	22.26	4,947.2	3,833.6	3,908.0
Operating expenses	(1,592.9)	(1,577.7)	0.96	(1,462.3)	(1,348.8)	(1,439.2)
Impairment losses on assets	(3,569.6)	(2,505.0)	42.50	(1,671.2)	(1,335.3)	(511.2)
Profit before tax	2,214.9	1,951.3	13.51	1,813.7	1,149.5	1,957.6
Net profit	1,891.7	1,648.2	14.77	1,523.7	1,017.3	1,602.8
Including: Net profit attributable to equity shareholders of the Bank	1,745.4	1,509.5	15.63	1,439.7	964.4	1,567.0
Per share (RMB/share)						
Earnings per share attributable to equity shareholders of the Bank	0.26	0.26	0.00	0.29	0.23	0.38

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

Item	2021	2020	As at the end of current year compared to the end of previous year	2019	2018	2017
Key indicators of assets and liabilities			Change (%)			
Total assets	304,520.8	267,601.6	13.80	224,635.5	203,121.9	204,497.9
Including: Total loans	143,292.7	120,293.4	19.12	92,451.6	75,195.7	66,518.6
Add: Accrued interests	668.5	522.7	27.89	413.4	350.2	0
Less: Impairment allowances for loans and advances to customers measured at amortised costs	3,593.9	3,067.0	17.18	2,753.4	2,229.4	1,721.2
Loans and advances to customers	140,367.3	117,749.1	19.21	90,111.6	73,316.5	64,797.4
Total liabilities	280,350.6	245,927.9	14.00	206,712.0	189,314.4	193,426.8
Including: Total deposits from customers	203,833.6	177,481.1	14.85	142,201.4	115,784.5	120,096.0
Add: Accrued interests	3,008.4	2,107.4	42.75	2,032.6	1,685.2	0
Deposits from customers	206,842.0	179,588.5	15.18	144,234.0	117,469.7	120,096.0
Share capital	5,980.1	5,980.1	0.0	4,971.2	4,971.2	4,171.2
Total equity attributable to equity shareholders of the Bank	19,156.7	17,906.0	6.98	14,399.4	13,367.0	10,683.5
Total equity	24,170.2	21,673.7	11.52	17,923.5	13,807.5	11,071.1
Per share (RMB/share)						
Net assets per share attributable to equity shareholders of the Bank	3.20	2.99	7.02	2.90	2.69	2.56

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

Item	2021	2020	As at the end of current year compared to the end of previous year	2019	2018	2017
Profitability indicators (%)			Change			
Return on average total assets ⁽¹⁾	0.66	0.67	(0.01)	0.71	0.50	0.82
Weighted average return on net assets ⁽²⁾	8.55	8.42	0.13	10.27	8.02	15.30
Net interest spread ⁽³⁾	2.12	1.88	0.24	1.83	1.49	1.73
Net interest margin ⁽⁴⁾	2.24	1.99	0.25	1.74	1.16	1.96
Net fee and commission income to operating income ratio	8.03	7.69	0.34	5.48	1.91	6.08
Cost-to-income ratio ⁽⁵⁾	20.50	25.08	(4.58)	28.68	34.23	35.89
Asset quality indicators (%)						
Non-performing loan ratio ⁽⁶⁾	1.47	1.47	0.00	1.80	1.82	1.47
Provision coverage ratio ⁽⁷⁾	171.56	173.39	(1.83)	165.50	163.26	175.93
Allowance-to-borrowing ratio ⁽⁸⁾	2.53	2.56	(0.03)	2.99	2.98	2.59
Capital adequacy indicators (%)						
Core tier-one capital adequacy ratio	9.35	9.88	(0.53)	9.76	10.39	8.29
Tier-one capital adequacy ratio	11.33	11.53	(0.20)	11.78	10.42	8.32
Capital adequacy ratio	14.59	15.18	(0.59)	16.03	15.12	12.82
Total equity to total assets ratio	7.94	8.10	(0.16)	7.98	6.80	5.41
Other indicators (%)						
Liquidity ratio	63.22	52.61	10.61	61.89	46.67	30.50
Loan-to-deposit ratio ⁽⁹⁾	70.30	67.78	2.52	65.01	64.94	55.38

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

Notes:

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

CHAPTER 5 MANAGEMENT DISCUSSION AND ANALYSIS

I. REVIEW OF ECONOMIC, FINANCIAL AND POLICY ENVIRONMENT

In 2021, recovery largely dominated the global economy, with the economic development of major economies gradually back on track. However, continued pandemic relapse remained the greatest uncertainty amidst economic recovery. In addition, issues such as surging global inflation pressure, supply chain crisis and energy crisis hindered the pace of world economic recovery. Inadequate and uneven recovery phenomenon remained prevalent. The statistics compiled by the International Monetary Fund (IMF), the World Bank and the Organisation for Economic Co-operation and Development (OECD) showed that the global economy grew by 5.9%, 5.5% and 5.7% in 2021, respectively.

During 2021, the first year of building a new development pattern in the PRC, faced by complicated and severe international environment and challenges such as the recurring and sporadic pandemic nationwide, the government leveraged on its mega-scale market advantages to keep deepening the reform and opening-up, actively smooth the internal and external circulation of the economy, and take new steps in building a new development pattern. Its economic development and pandemic prevention and control maintained global leadership, national strategic technology strengths grew at an accelerated pace, the resilience of the industrial chain increased, reform and opening-up deepened, people's livelihood received effective and robust protection, ecological civilisation progressed continuously, and high-quality development saw new achievements, presenting a good start for the "14th Five-Year Plan". China recorded its GDP of RMB114,367 billion in 2021, representing an increase of 8.1% from last year and an average growth of 5.1% for the past two years in terms of constant prices. In 2021, Shandong Province's economic development was stable and progressive, with a stronger momentum of quality enhancement as the province made lighter, faster and more practical efforts on the road of high-quality development. It recorded an annual GDP of RMB8,309.6 billion, representing a year-on-year increase of 8.3%, and an average growth of 5.9% for the past two years in terms of comparable prices.

In 2021, the PBOC implemented a prudent monetary policy to maintain steady credit growth, with integrated application of multiple monetary policy tools to retain reasonable and sufficient liquidity. Significant results were achieved in instruments for supporting the deferment of inclusive SME loans and the plan for supporting such loans, with the launch of tools for supporting carbon emissions reduction support and special refinancing for supporting clean and efficient use of coal, which was designed to help achieve the "dual-carbon" goal in a scientific and orderly manner and ensure national energy safety. Besides, the credit structure continued to improve, and solid results were achieved in stabilizing enterprises and securing employment. Cross-cycle regulation for liquidity was strengthened, and open market operation was conducted in a flexible and precise manner. Market-based reform of interest rates deepened, with efforts to lower finance costs for enterprises and provide clear annual interest rates for loans to protect the rights of consumers and strive to keep RMB exchange rates at reasonably balanced levels.

II. SUMMARY OF OVERALL OPERATIONS

During the Reporting Period, in the face of the complicated macroeconomic and financial situation, we have always adhered to the general working principle of "making progress while maintaining stability" and the working principle of "Stability, Accuracy, and Transcendence" by continuously innovating our service mode, increasing credit supply and actively participating in economic and social development, thereby successfully completing various targets and tasks and maintaining a momentum of continuous stable and high-quality development.

II. SUMMARY OF OVERALL OPERATIONS (CONT'D)

Stable expansion of business scale. The total assets amounted to RMB304,521 million, representing an increase of RMB36,919 million or 13.80% as compared to 2020; deposit balances increased by RMB26,353 million as compared to the end of 2020; and loan balances grew by RMB22,999 million as compared to the end of 2020.

Stable quality. The Bank's non-performing loan ratio was 1.47%, which was roughly the same as compared to the end of 2020, as we withstood the challenges and tests brought by complicated situations; the Bank's capital adequacy ratio exceeded 14% and our allowance coverage ratio was 171.56%. All regulatory indicators met standards continuously, while the development was steadier and more scientific.

Constantly increasing efficiency. Net profit for the year amounted to RMB1,892 million, representing a year-on-year increase of RMB243 million or 14.77%.

Sound compliance atmosphere. In accordance with regulatory requirements and deployments, we actively carried out the "Year of Improving Industrial Standardisation" activities, established a mechanism for rectifying and evaluating the problems identified through supervision, bravely explored the mode of compliance management of our business departments, and seriously carried out the "Months of System Series (制度系列月)" activities such as month of system study, month of system examination, month of system revision and month of system implementation, in order to consolidate the results of compliance construction and solidify the foundation of compliance work.

Faster transformation. We launched comprehensive digital transformation, formulated a three-year digital transformation plan according to the three concepts of "data standardization, online standardization, and online intelligence", and spared no effort in building a "smart digital bank" with "double first-class" (the best customer experience and excellent income and profit generation). At the same time, a new data center was opened, with the CBUS5.0 smart banking system launched, the Digital Banking Department established and our technical support capability improved continuously.

Accurate and efficient service provided. In response to the national strategy of "peaking carbon dioxide emissions and carbon neutrality", we became the first "Equator Bank" with the "Equator Principle" in Shandong Province, achieving a new breakthrough in green finance. We actively built our "Smart Platform (智慧平台)", fully amplified the advantages of "Property e-Loan (房e贷)", "Quick e-Loan (快e贷)", "Shui e Rong (税e融)", "Zheng e Rong (政e融)", etc. and developed the exclusive APP "Shang Che Bao (商車寶)" on top of "Commercial Vehicle Loan" (商車贷) to serve the real economy through online and platform-based modes in a more precise way.

Brand image enhanced. We have been recognised as the "Top 10 City Commercial Banks in China" (全國十佳城市商業銀行) for consecutive years, and obtained the highest grade of AAA in the performance evaluation of local financial enterprises organized by the Shandong Provincial Government. As for the management model, business innovation, party building work and corporate culture, we won the first place in Shandong and attained the best performance in China for many times, which enhanced our brand image greatly.

III. ANALYSIS OF INCOME STATEMENT

3.1 Financial Highlights

During the Reporting Period, our operating income amounted to RMB7,377 million, representing an increase of RMB1,343 million or 22.26% as compared to 2020; profit before tax amounted to RMB2,215 million, representing an increase of RMB264 million or 13.51% as compared to 2020; net profit amounted to RMB1,892 million, representing an increase of RMB243 million or 14.77% as compared to 2020, mainly due to the continuing development of corporate and retail banking businesses, resulting in year-on-year increases in net interest income and net fee and commission income.

Unit: RMB million

	2021	2020	Change	Rate of change (%)
Net interest income	6,047.5	4,658.3	1,389.2	29.82
Interest income	13,123.1	11,090.5	2,032.6	18.33
Interest expenses	(7,075.6)	(6,432.2)	(643.4)	10.00
Net fee and commission income	592.1	463.7	128.4	27.69
Fee and commission income	668.4	533.4	135.0	25.31
Fee and commission expenses	(76.3)	(69.7)	(6.6)	9.47
Net trading gains, net gains arising from investment securities and other net operating gains	737.8	912.0	(174.2)	(19.10)
Operating income	7,377.4	6,034.0	1,343.4	22.26
Operating expenses	(1,592.9)	(1,577.7)	(15.2)	0.96
Impairment losses on assets	(3,569.6)	(2,505.0)	(1,064.6)	42.50
Profit before tax	2,214.9	1,951.3	263.6	13.51
Income tax expense	(323.2)	(303.1)	(20.1)	6.63
Net profit	1,891.7	1,648.2	243.5	14.77
Including: Net profit attributable to equity shareholders of the Bank	1,745.4	1,509.5	235.9	15.63
Net profit attributable to non-controlling interests	146.3	138.7	7.6	5.48

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.2 Net Interest Income

Net interest income was the largest component of our operating income, representing 77.20% and 81.97% of our operating income in 2020 and 2021, respectively. Our net interest income amounted to RMB6,048 million in 2021, representing an increase of RMB1,389 million or 29.82% from 2020, mainly attributable to an increase of 18.33% in interest income and an increase of 10.00% in interest expenses. The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, related interest income or expense and the average yields on related assets or the average costs of related liabilities for the periods indicated.

Unit: RMB million

	2021			2020		
	Average balance	Interest income/expense	Average yield/cost (%) ⁽¹⁾	Average balance	Interest income/expense	Average yield/cost (%) ⁽¹⁾
Interest-earning assets						
Loans and advances to customers	136,248.1	7,603.5	5.58	108,274.2	5,844.2	5.40
Financial investments	89,289.4	3,928.6	4.40	85,873.3	3,854.4	4.49
Deposits with the central bank ⁽²⁾	19,354.0	269.9	1.39	17,355.8	245.8	1.42
Deposits with banks and other financial institutions	2,790.0	5.7	0.20	1,180.4	1.8	0.15
Placements with banks	3,154.8	88.4	2.80	1,869.3	69.3	3.71
Finance lease receivables	17,290.9	1,187.8	6.87	15,763.8	1,011.8	6.42
Financial assets held under resale agreements	1,759.2	39.2	2.23	3,504.2	63.2	1.80
Total interest-earning assets	269,886.4	13,123.1	4.86	233,821.0	11,090.5	4.74
Interest-bearing liabilities						
Deposits from customers	188,409.8	4,891.6	2.60	163,048.8	4,399.0	2.66
Deposits from banks	3,264.1	102.4	3.14	3,473.0	110.9	3.19
Placements from banks and other financial institutions	16,578.7	687.9	4.15	13,363.8	555.7	4.16
Borrowing from the central bank	9,842.7	204.8	2.08	6,539.0	164.4	2.51
Financial assets sold under repurchase agreements	7,727.9	159.9	2.07	6,655.0	114.3	1.72
Discounted bills	612.6	16.7	2.73	1,307.7	32.6	2.49
Debt securities issued ⁽³⁾	31,420.7	1,012.3	3.22	30,325.0	1,055.3	3.48
Total interest-bearing liabilities	257,856.5	7,075.6	2.74	224,712.3	6,432.2	2.86
Net interest income		6,047.5			4,658.3	
Net interest spread			2.12			1.88
Net interest margin			2.24			1.99

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.2 Net Interest Income (Cont'd)

Notes:

- (1) Calculated as interest income/expenses divided by average balance.
- (2) Consisted primarily of statutory deposit reserves and surplus deposit reserves.
- (3) Consisted of certificates of interbank deposits, financial bonds and tier-two capital bonds issued by us.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.2 Net Interest Income (Cont'd)

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

Unit: RMB million

	2021 vs 2020		Net increase/ (decrease) ⁽³⁾
	Increase/(decrease) due to Volume ⁽¹⁾	Rate ⁽²⁾	
Assets			
Loans and advances to customers	1,561.1	198.2	1,759.3
Financial investments	150.3	(76.1)	74.2
Deposits with the Central Bank	27.9	(3.8)	24.1
Deposits with banks and other financial institutions	3.3	0.6	3.9
Placements with banks	36.0	(16.9)	19.1
Financial lease receivables	104.9	71.1	176.0
Financial assets held under resale agreements	(38.9)	14.9	(24.0)
Changes in interest income	1,844.6	188.0	2,032.6
Liabilities			
Deposits from customers	658.4	(165.8)	492.6
Deposits from banks	(6.6)	(1.9)	(8.5)
Placements from banks and other financial institutions	133.4	(1.2)	132.2
Borrowing from the central bank	68.7	(28.3)	40.4
Financial assets sold under repurchase agreements	22.2	23.4	45.6
Discounted bills	(18.9)	3.0	(15.9)
Debt securities issued	35.3	(78.3)	(43.0)
Changes in interest expenses	892.5	(249.1)	643.4
Changes in net interest income	952.1	437.1	1,389.2

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.2 Net Interest Income (Cont'd)

Notes:

- (1) Represented the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for the year.
- (2) Represented the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the average balance for the previous year.
- (3) Represented interest income/expense for the year minus interest income/expense for the previous year.

3.3 Interest Income

During the Reporting Period, our interest income increased by RMB2,033 million or 18.33% to RMB13,123 million as compared to 2020, primarily due to an increase in the average balance of our interest-earning assets from RMB233,821 million in 2020 to RMB269,886 million in 2021; and an increase in the average yield on our interest-earning assets from 4.74% in 2020 to 4.86% in 2021. The increase in the average balance of interest-earning assets was primarily attributable to an increase in the average balance of loans and advances to customers. The increase in the average yield on interest-earning assets was primarily due to an increase in the average yield on loans and advances to customers and the average yield on financial investments.

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

Unit: RMB million

	2021		2020	
	Amount	% of total	Amount	% of total
Interest income				
Loans and advances to customers	7,603.5	57.94	5,844.2	52.70
Financial investments	3,928.6	29.94	3,854.4	34.75
Deposits with banks and other financial institutions	5.7	0.04	1.8	0.02
Placements with banks	88.4	0.67	69.3	0.62
Financial assets held under resale agreements	39.2	0.30	63.2	0.57
Finance lease receivables	1,187.8	9.05	1,011.8	9.12
Deposits with the central bank	269.9	2.06	245.8	2.22
Total interest income	13,123.1	100.00	11,090.5	100.00

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.3 Interest Income (Cont'd)

Interest income from loans and advances to customers

Our interest income from loans and advances to customers represented 52.70% and 57.94% of our interest income in 2020 and 2021, respectively. In 2021, our interest income from loans and advances to customers amounted to RMB7,604 million, representing an increase of RMB1,759 million or 30.10% as compared to 2020, primarily due to a 25.84% increase in the average balance of loans and advances to customers from RMB108,274 million in 2020 to RMB136,248 million in 2021 as a result of rapid growth in our loan business; and an increase in average yield from 5.40% in 2020 to 5.58% in 2021 as the overall yield on loans and advances to customers increased.

Interest income from financial investments

During the Reporting Period, our interest income from financial investments amounted to RMB3,929 million, representing an increase of RMB74 million or 1.93% as compared to 2020, primarily due to an increase in the average balance of the corresponding financial investment business as a result of our increased efforts in bond investments.

Interest income from financial assets held under resale agreements

During the Reporting Period, our interest income from financial assets held under resale agreements amounted to RMB39 million, representing a decrease of RMB24 million or 37.97% as compared to 2020, primarily due to the adjustment of our asset allocation strategy, which resulted in a decrease of 49.79% in the average balance of financial assets held under resale agreements from RMB3,504 million in 2020 to RMB1,759 million in 2021, partially offset by an increase in the average yield on financial assets held under resale agreements from 1.80% in 2020 to 2.23% in 2021.

Interest income from placements with banks

During the Reporting Period, our interest income from placements with banks amounted to RMB88 million, representing an increase of RMB19 million or 27.56% as compared to 2020, mainly due to the increased cooperation with financial leasing companies under the banking system. The average daily balance of placements with banks increased by 68.77% from RMB1,869 million in 2020 to RMB3,155 million in 2021, partially offset by a decrease in the average yield of placements with banks from 3.71% in 2020 to 2.80% in 2021.

Interest income from finance lease receivables

During the Reporting Period, our interest income from finance lease receivables was RMB1,188 million, representing an increase of RMB176 million or 17.39% as compared to 2020, primarily due to the continuing expansion of our financial leasing business, which resulted in an increase of 9.69% in the average balance of our financial leasing business from RMB15,764 million in 2020 to RMB17,291 million in 2021; and an increase of average yield from 6.42% in 2020 to 6.87% in 2021 as a result of a general increase in the yield of our financial leasing business.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.4 Interest Expenses

During the Reporting Period, our interest expenses amounted to RMB7,076 million, representing an increase of RMB643 million or 10.00% as compared to 2020, primarily due to an increase of 14.75% in the average balance of interest-bearing liabilities from RMB224,712 million in 2020 to RMB257,857 million in 2021, partially offset by a slight decrease in the average cost on interest-bearing liabilities from 2.86% in 2020 to 2.74% in 2021. The following table sets forth a breakdown of our interest expenses for the periods indicated.

Unit: RMB million

	2021		2020	
	Amount	% of total	Amount	% of total
Interest expenses				
Deposits from customers	4,891.6	69.13	4,399.0	68.39
Deposits from banks	102.4	1.45	110.9	1.72
Placements from banks and other financial institutions	687.9	9.72	555.7	8.64
Borrowing from the central bank	204.8	2.89	164.4	2.56
Financial assets sold under repurchase agreements	159.9	2.26	114.3	1.78
Discounted bills	16.7	0.24	32.6	0.51
Debt securities issued	1,012.3	14.31	1,055.3	16.40
Total interest expenses	7,075.6	100.00	6,432.2	100.00

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.4 Interest Expenses (Cont'd)

Interest expenses on deposits from customers

Deposits from customers were our primary source of funding. Interest expenses on deposits from customers accounted for 68.39% and 69.13% of our total interest expenses in 2020 and 2021, respectively. Our interest expenses on deposits from customers increased by RMB493 million or 11.20% to RMB4,892 million in 2021 as compared to 2020, primarily due to an increase of 15.55% in the average balance of deposits from customers to RMB188,410 million in 2021 from RMB163,049 million in 2020 as we enhanced our efforts to develop the deposit business.

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

Unit: RMB million

	Average balance	2021 Interest expenses	Average cost (%)	Average balance	2020 Interest expenses	Average cost (%)
Corporate deposits⁽¹⁾						
Time	55,797.4	1,617.8	2.90	51,183.3	1,790.6	3.44
Demand	52,607.0	525.9	1.00	45,657.4	374.6	0.82
Sub-total	108,404.4	2,143.7	1.98	96,840.7	2,165.2	2.21
Personal deposits						
Time	71,122.2	2,707.5	3.81	58,028.3	2,189.9	3.71
Demand	8,883.2	40.4	0.45	8,179.8	43.9	0.54
Sub-total	80,005.4	2,747.9	3.43	66,208.1	2,233.8	3.32
Total deposits from customers	188,409.8	4,891.6	2.60	163,048.8	4,399.0	2.66

Note:

(1) Consisted of pledged deposits.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.4 Interest Expenses (Cont'd)

Interest expenses on deposits from banks

Interest expenses on deposits from banks accounted for 1.72% and 1.45% of our total interest expenses in 2020 and 2021, respectively. Our interest expenses on deposits from banks decreased by RMB9 million or 7.66% to RMB102 million in 2021 as compared to 2020, primarily due to our adjustment of the financing structure, a smaller scale of deposits from banks and lower market interest rates of deposits from banks.

Interest expenses on placements from banks and other financial institutions

Interest expenses on placements from banks and other financial institutions accounted for 8.64% and 9.72% of our total interest expenses in 2020 and 2021, respectively. Interest expenses on placements from banks and other financial institutions amounted to RMB688 million in 2021, representing an increase of RMB132 million or 23.79% as compared to 2020, primarily due to more placements from banks and other financial institutions as a result of the larger scale of our finance leasing business.

Interest expenses on debt securities issued

Interest expenses on debt securities issued accounted for 16.40% and 14.31% of our total interest expenses in 2020 and 2021, respectively. Our interest expenses on debt securities issued decreased by RMB43 million or 4.07% to RMB1,012 million in 2021 as compared to 2020, primarily due to lower average interest rates of our debt securities issued under the impact of lower market interest rates amidst liquidity easing.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.5 Net Fee and Commission Income

During the Reporting Period, our net fee and commission income amounted to RMB592 million, representing an increase of RMB128 million or 27.69% as compared to 2020, primarily due to the rapid development of agency wealth management and trade finance businesses, as a result of which our fee income increased accordingly. The following table sets forth the principal components of our net fee and commission income for the periods indicated.

Unit: RMB million

	2021	2020
Fee and commission income		
Agency service fees	237.3	166.5
Settlement and clearing fees	62.3	71.2
Consultancy service fees	190.4	98.5
Bank card service fees	34.0	36.2
Acceptance and guarantee service fees	62.4	42.3
Finance leases service fees	67.1	99.9
Others ⁽¹⁾	14.9	18.8
Sub-total	668.4	533.4
Fee and commission expenses		
Settlement and clearing fees	(50.2)	(46.2)
Bank card service fees	(17.0)	(14.9)
Others ⁽²⁾	(9.1)	(8.6)
Sub-total	(76.3)	(69.7)
Net fee and commission income	592.1	463.7

Notes:

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

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

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

During the Reporting Period, our net trading gains and losses, net gains and losses arising from investment securities and other net operating gains and losses amounted to RMB738 million, representing a decrease of RMB174 million or 19.10% as compared to 2020, of which net trading gains and losses increased by RMB119 million, primarily due to an increase in the gains and losses from changes in fair value of held-for-trading financial assets; net investment gains and losses decreased by RMB318 million, primarily due to the smaller scale of held-for-trading financial assets, the corresponding decrease in interest income from held-for-trading financial assets, and the decline in gains and losses from investment on derivatives. The following table sets forth the details of our net trading (losses)/gains, net gains arising from investment securities and other net operating income for the periods indicated:

Unit: RMB million

	2021	2020
Net trading gains and losses	(40.2)	(159.0)
Net gains and losses arising from investment securities	739.1	1,056.8
Other net operating gains and losses	38.9	14.2
Total	737.8	912.0

3.7 Operating Expenses

During the Reporting Period, our operating expenses amounted to RMB1,593 million, representing an increase of RMB15 million or 0.96% as compared to 2020. The following table sets forth the principal components of our total operating expenses for the periods indicated.

Unit: RMB million

	2021	2020
Staff costs	799.9	855.8
Depreciation and amortisation	212.5	204.6
Taxes and surcharges	80.9	64.1
Rental and property management expenses	17.5	17.9
Interest expenses on lease liabilities	18.5	20.3
Other general and administrative expenses	463.6	415.0
Total operating expenses	1,592.9	1,577.7
Cost-to-income ratio	20.50%	25.08%

Our cost-to-income ratio (excluding taxes and surcharges) was 25.08% and 20.50% in 2020 and 2021, respectively. The decrease in cost-to-income ratio was primarily due to our enhanced cost control and higher operating income.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.8 Impairment Losses on Assets

During the Reporting Period, our impairment losses on assets amounted to RMB3,570 million, representing an increase of RMB1,065 million or 42.50% as compared to 2020, primarily due to an increase of 39.89% in our impairment losses on loans and advances to customers from RMB1,935 million in 2020 to RMB2,707 million in 2021, and an increase of 30.98% in our impairment losses on financial investments from RMB410 million in 2020 to RMB537 million in 2021, primarily due to more allowance for and disposal of risk assets to improve our ability of withstanding risks along with the expansion of our business scale and changes in economic environment. The table below sets forth the principal components of our impairment losses on assets for the periods indicated.

Unit: RMB million

	2021	2020
Financial assets held under resale agreements	(0.4)	(3.2)
Loans and advances to customers	2,706.5	1,934.7
Financial investments	536.9	409.9
Financial lease receivables	241.1	114.0
Credit commitments	17.7	15.8
Others	67.8	33.8
Total	3,569.6	2,505.0

3.9 Income Tax Expense

During the Reporting Period, our income tax expense was RMB323 million, representing an increase of RMB20 million or 6.67% as compared to 2020, primarily due to an increase in profit before tax in 2021. The following table sets forth the reconciliation between the income tax calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax for the periods indicated.

Unit: RMB million

	2021	2020
Profit before tax	2,214.9	1,951.3
Income tax calculated at statutory tax rate	553.8	487.8
Non-deductible expenses	8.0	16.7
Non-taxable income ⁽¹⁾	(238.6)	(201.5)
Income tax expense	323.2	303.0

Note:

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

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION

4.1 Assets

As of the end of the Reporting Period, our total assets amounted to RMB304,521 million, representing an increase of RMB36,919 million or 13.80% as compared to the end of 2020, primarily due to an increase of 19.21% in loans and advances to customers from RMB117,749 million as of the end of 2020 to RMB140,367 million as of the end of 2021, and an increase of 11.30% in financial investments from RMB101,221 million as of the end of 2020 to RMB112,659 million as of the end of 2021. The following table sets forth the composition of our total assets as of the dates indicated.

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Loans and advances to customers	140,367.3	46.09	117,749.1	44.00
Financial investments	112,659.0	37.00	101,221.4	37.83
Cash and deposits with the central bank	24,356.6	8.00	23,500.3	8.78
Financial assets held under resale agreements	200.2	0.07	605.1	0.23
Deposits with banks and other financial institutions	4,312.8	1.42	4,875.3	1.82
Placements with banks	2,052.0	0.67	241.4	0.09
Property and equipment	1,019.3	0.33	702.2	0.26
Right-of-use assets	394.7	0.13	454.0	0.17
Deferred tax assets	1,746.4	0.57	1,372.7	0.51
Other assets ⁽¹⁾	17,412.5	5.72	16,880.1	6.31
Total assets	304,520.8	100.00	267,601.6	100.00

Note:

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

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

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers

As of the end of the Reporting Period, the balance of our corporate loans amounted to RMB94,366 million, representing an increase of RMB15,133 million or 19.10% as compared to the end of 2020; personal loans amounted to RMB40,131 million, representing an increase of RMB6,597 million or 19.67% as compared to the end of 2020; discounted bills amounted to RMB8,796 million, representing an increase of RMB1,269 million or 16.86% as compared to the end of 2020; our total loans and advances to customers amounted to RMB143,293 million, representing an increase of RMB22,999 million or 19.12% as compared to the end of 2020.

Loans by business type

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Corporate loans	94,366.1	65.85	79,233.2	65.86
Personal loans	40,130.7	28.01	33,533.4	27.88
Discounted bills	8,795.9	6.14	7,526.8	6.26
Total loans and advances to customers	143,292.7	100.00	120,293.4	100.00
Add: Interest accrued	668.5	–	522.7	–
Less: Provision for loans and advances to customers measured at amortised cost	3,593.9	–	3,067.0	–
Net loans and advances to customers	140,367.3	–	117,749.1	–

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

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Corporate loans by maturity

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Short-term loans ⁽¹⁾ and advances	30,600.7	32.43	31,577.7	39.85
Medium-and long-term loans	63,765.4	67.57	47,655.5	60.15
Total corporate loans	94,366.1	100.00	79,233.2	100.00

Note:

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

As of the end of the Reporting Period, the balance of our short-term loans and advances was RMB30,601 million, accounting for 32.43% of our loans and representing a decrease of RMB977 million or 3.09% as compared to the end of 2020, mainly because we took the initiative to increase medium- and long-term loans to enterprises suffering a greater impact from the epidemic.

As of the end of the Reporting Period, the balance of our medium- and long-term loans amounted to RMB63,765 million, accounting for 67.57% of our loans and representing an increase of RMB16,110 million or 33.80% as compared to the end of 2020. This was mainly because we actively responded to the control pursuant to national macroeconomic policies and regulatory requirements by increasing our infrastructure loans concerning people's livelihood and medium- and long-term loans to the manufacturing sector, with the aim of fully supporting the development of real economy in local areas.

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

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Corporate loans by product type

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Working capital loans	61,758.9	65.45	52,347.7	66.07
Fixed asset loans	29,705.6	31.48	25,097.3	31.67
Other loans ⁽¹⁾	2,901.6	3.07	1,788.2	2.26
Total corporate loans	94,366.1	100.00	79,233.2	100.00

Note:

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

As of the end of the Reporting Period, the balance of our working capital loans amounted to RMB61,759 million, representing an increase of RMB9,411 million or 17.98% as compared to the end of 2020; the balance of our fixed asset loans amounted to RMB29,706 million, representing an increase of RMB4,608 million or 18.36% as compared to the end of 2020. The increase in our working capital loans and fixed asset loans as compared to the end of 2020 was mainly due to our active response to the government and regulatory call to adhere to the market positioning of "serving the local economy, serving small and micro enterprises, and serving urban and rural residents", as we kept increasing credit supply and constantly innovating our service model to fully support local economic development.

As of the end of the Reporting Period, the balance of our other loans amounted to RMB2,901 million, representing an increase of RMB1,113 million or 62.26% as compared to the end of 2020, mainly due to an significant increase in on-balance sheet financing activities denominated in foreign currencies as we actively supported the development of foreign trade enterprises.

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

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Corporate loans by industry

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Industry:				
Leasing and business services	20,457.9	21.68	14,658.0	18.50
Water conservancy, environment and public facilities management	18,810.8	19.93	11,370.4	14.35
Manufacturing	17,104.3	18.12	18,149.3	22.91
Construction	10,462.1	11.09	7,801.6	9.85
Real estate	7,362.5	7.80	7,654.7	9.66
Wholesale and retail	6,746.0	7.15	6,365.0	8.03
Transportation, warehousing and postal services	2,489.9	2.64	1,849.2	2.33
Agriculture, forestry, animal husbandry and fishery	2,481.0	2.63	3,031.6	3.83
Electricity, heat, gas and water production and supply	2,290.4	2.43	2,357.3	2.97
Hygiene and social welfare	889.4	0.94	895.1	1.13
Culture, sports and entertainment	199.2	0.21	325.8	0.41
Others ⁽¹⁾	5,072.6	5.38	4,775.2	6.03
Total corporate loans	94,366.1	100.00	79,233.2	100.00

Note:

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

As of the end of the Reporting Period, the top five industries to which we distributed loans were leasing and business services, water conservancy, environment and public facilities management, manufacturing, construction and real estate; loans to customers in these five industries totaled RMB20,458 million, RMB18,811 million, RMB17,104 million, RMB10,462 million and RMB7,363 million, accounting for 21.68%, 19.93%, 18.12%, 11.09% and 7.80% of our total corporate loans, respectively.

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

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Personal loans by product type

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Residential mortgage loans	16,319.9	40.67	13,913.6	41.49
Personal consumption loans	3,680.1	9.17	3,173.7	9.47
Personal business loans	18,803.4	46.85	15,704.6	46.83
Credit cards	1,327.3	3.31	741.5	2.21
Total personal loans	40,130.7	100.00	33,533.4	100.00

As of the end of the Reporting Period, the balance of our residential mortgage loans amounted to RMB16,320 million, representing an increase of RMB2,406 million or 17.29% as compared to the end of 2020, mainly attributable to our efforts to grow the personal residential mortgage loans by improving the approval efficiency of personal residential mortgage loans through process optimization and automatic review and approval. These loans were generally secured by residential properties with relatively low risks.

As of the end of the Reporting Period, the balance of our personal consumption loans amounted to RMB3,680 million, representing an increase of RMB506 million or 15.96% as compared to the end of 2020, mainly due to the larger scale of online consumer loans as we accepted new cooperative institutions in 2021.

As of the end of the Reporting Period, the balance of our personal business loans amounted to RMB18,803 million, representing an increase of RMB3,099 million or 19.73% as compared with the end of 2020, mainly because we optimized our product service model and accurately cater to the financial needs of small and micro customers: first, we took the service concept of meeting customer needs as the starting point, and leveraged our digital transformation and innovation laboratory platform to conduct continuous innovation, iteration and upgrading of products; second, we took strengthening fintech empowerment as a breakthrough point, actively arranged the online service channels of credit products for small and micro enterprises, constantly optimized and upgraded online product service functions, and further improved the quality and efficiency of customer service; third, we developed special marketing operation plans based on the principle of "value orientation" to further stimulate the marketing enthusiasm of inclusive customer managers.

As of the end of the Reporting Period, the balance of our credit cards amounted to RMB1,327 million, representing an increase of RMB586 million or 79.00% as compared to the end of 2020, mainly because we distributed 39,900 new cards in 2021, representing an increase of 40.36% to a total of 138,900 issued; at the same time, we increased the activation of existing credit cards, facilitated the use of credit cards by customers and promoted the installment business of credit card scenarios in an orderly way, thus driving the growth of credit card overdraft balance.

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

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Discounted bills

As of the end of the Reporting Period, the total amount of discounted bills was RMB8,796 million, accounting for 6.14% of our total loans and advances to customers and representing an increase of RMB1,269 million or 16.86% as compared with the end of 2020, mainly due to the moderate increase of our bills as we kept enhancing our support to the real economy.

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

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Bank acceptance bills	7,824.7	88.96	6,671.8	88.64
Commercial acceptance bills	971.2	11.04	855.0	11.36
Total discounted bills	8,795.9	100.00	7,526.8	100.00

Distribution of loans and advances to customers by collateral

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Pledged loans	8,877.7	6.19	6,224.3	5.17
Collateralised loans	56,926.1	39.73	50,123.0	41.67
Guaranteed loans	55,156.0	38.49	46,346.4	38.53
Unsecured loans	13,537.0	9.45	10,072.9	8.37
Discounted bills	8,795.9	6.14	7,526.8	6.26
Gross loans and advances to customers	143,292.7	100.00	120,293.4	100.00

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

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Distribution of loans and advances to customers by geographical region

Unit: RMB million

As of:	December 31, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Region:				
Weihai City	43,508.7	30.36	34,703.0	28.85
Outside Weihai City	99,784.0	69.64	85,590.4	71.15
Gross loans and advances to customers	143,292.7	100.00	120,293.4	100.00

4.1.2 Financial investments

As of the end of the Reporting Period, the carrying value of our financial investments was RMB112,659 million, representing an increase of RMB11,438 million or 11.30% as compared with the end of 2020. The following table sets forth the composition of our financial investment portfolio as of the dates indicated.

Classification of financial investments by business model and cash flow characteristics

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Financial investments measured at amortised cost	77,122.2	68.46	68,052.2	67.23
Financial investments measured at fair value through other comprehensive income	23,369.5	20.74	18,272.2	18.05
Financial investments measured at fair value through profit or loss	12,167.2	10.80	14,897.0	14.72
Total financial investments	112,658.9	100.00	101,221.4	100.00

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

4.1 Assets (Cont'd)

4.1.2 Financial investments (Cont'd)

Financial investments measured at amortised cost

As of the end of the Reporting Period, the carrying value of our financial investments measured at amortised cost amounted to RMB77,122 million, representing an increase of RMB9,070 million or 13.33% as compared with that as of the end of 2020. In 2021, the increase in such assets was mainly due to our active risk management and adjustment of investment structure by moderately increasing the investment in low-risk government bonds according to the situation of bond markets; and the adjustment of investment structure by increasing the investment in non-financial corporate bonds under the orientation of supporting the real economy.

Unit: RMB million

	December 31, 2021	December 31, 2020
Debt securities issued by the following institutions in mainland China:		
Central government	5,152.2	5,249.8
Policy banks	15,025.2	15,171.8
Banks and other financial institutions	1,020.0	760.0
Corporates	20,537.5	16,447.3
Government-backed institutions	1,889.8	2,559.5
Local governments	21,062.9	12,770.9
Interests accrued	1,268.9	1,182.8
Sub-total	65,956.5	54,142.1
Investment management products	11,387.8	14,032.5
Asset-backed securities	944.1	509.4
Less: Provision for impairment losses	(1,166.2)	(631.8)
Total	77,122.2	68,052.2

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

4.1 Assets (Cont'd)

4.1.2 Financial investments (Cont'd)

Financial investments measured at fair value through other comprehensive income

As of the end of the Reporting Period, the carrying value of our financial investments measured at fair value through other comprehensive income amounted to RMB23,370 million, representing an increase of RMB5,097 million or 27.90% as compared with that of the end of 2020. Such increase was mainly due to the increase in local government bonds, treasury bonds and policy financial bonds for the purpose of both liquidity and efficiency. The following table sets forth the components of our financial investments measured at fair value through other comprehensive income as of the dates indicated.

Unit: RMB million

	December 31, 2021	December 31, 2020
Debt securities held for trading and issued by the following entities in mainland China		
Governments	371.8	–
Policy banks	11,992.2	10,648.7
Banks and other financial institutions	221.1	130.5
Corporates	5,908.7	5,841.0
Government-backed institutions	263.8	264.6
Local governments	2,064.2	19.5
Interests accrued	457.1	408.5
Sub-total	21,278.9	17,312.8
Interbank deposits	1,561.5	615.8
Asset-backed securities	85.5	85.1
Equity investments	443.6	258.5
Total	23,369.5	18,272.2

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

4.1 Assets (Cont'd)

4.1.2 Financial investments (Cont'd)

Financial investments measured at fair value through profit or loss

As of the end of the Reporting Period, the carrying value of our financial investments measured at fair value through profit or loss amounted to RMB12,167 million, representing a decrease of RMB2,730 million or 18.33% as compared with that of the end of 2020. Such decrease was mainly due to the fact that the Bank did not resume the trading trust scheme and capital management scheme business when due and that the investment was increased in public funds with stronger liquidity and tax-free advantage. The following table sets forth the components of our financial investments measured at fair value through profit or loss as of the dates indicated.

Unit: RMB million

	December 31, 2021	December 31, 2020
Debt securities issued by the following institutions in mainland China		
– Policy banks	923.9	1,156.4
– Banks and other financial institutions	615.4	593.8
– Corporates	1,178.5	1,901.0
Sub-total	2,717.8	3,651.2
Asset-backed securities	413.1	418.6
Investment funds	3,996.3	714.7
Investment management products	5,040.0	10,112.5
Total	12,167.2	14,897.0

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

4.2 Liabilities

As of the end of the Reporting Period, our total liabilities amounted to RMB280,351 million, representing an increase of RMB34,423 million or 14.00% as compared to the end of 2020, mainly due to fast increases in deposits from customers. The following table sets forth the composition of our total liabilities as of the dates indicated.

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Deposits from customers	206,842.0	73.78	179,588.5	73.02
Financial assets sold under repurchase agreements	7,004.0	2.50	6,545.7	2.66
Deposits from banks	4,031.7	1.44	3,085.8	1.25
Placements from banks and other financial institutions	15,066.2	5.37	15,234.6	6.19
Debt securities issued	32,698.3	11.66	30,872.7	12.55
Borrowing from the central bank	11,281.7	4.02	7,240.7	2.94
Income tax payable	429.3	0.15	345.4	0.14
Deferred tax liabilities	48.0	0.02	0.3	0.00
Lease liabilities	374.2	0.13	423.6	0.17
Other liabilities ⁽¹⁾	2,575.2	0.93	2,590.6	1.08
Total liabilities	280,350.6	100.00	245,927.9	100.00

Note:

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

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

4.2 Liabilities (Cont'd)

4.2.1 Deposits from customers

Deposits from customers are our primary source of funding, accounting for 73.02% and 73.78% of our total liabilities as of the end of 2020 and the end of 2021, respectively. As of the end of the Reporting Period, our deposits from customers amounted to RMB206,842 million, representing an increase of RMB27,254 million or 15.18% as compared to the end of 2020, mainly due to the increases in our corporate deposits and personal deposits. The following table sets forth the composition of our deposits from customers as of the dates indicated.

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Corporate deposits				
Demand deposits	55,204.3	27.08	56,744.6	31.97
Time deposits	62,543.8	30.68	47,526.0	26.78
Sub-total	117,748.1	57.76	104,270.6	58.75
Personal deposits				
Demand deposits	9,573.5	4.70	9,270.8	5.23
Time deposits	76,450.0	37.51	63,882.2	35.99
Sub-total	86,023.5	42.21	73,153.0	41.22
Inward and outward remittances	62.0	0.03	57.5	0.03
Total	203,833.6	100.00	177,481.1	100.00
Interests accrued	3,008.4		2,107.4	
Deposits from customers	206,842.0		179,588.5	

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

4.2 Liabilities (Cont'd)

4.2.2 *Financial assets sold under repurchase agreements*

As of the end of the Reporting Period, the balance of our financial assets sold under repurchase agreements was RMB7,004 million, representing an increase of RMB458 million or 7.00% as compared to the end of 2020, primarily because we had appropriately adjusted the scale of financial assets sold under repurchase agreements according to our liquidity management needs.

4.2.3 *Deposits from banks*

As of the end of the Reporting Period, our deposits from banks amounted to RMB4,032 million, representing an increase of RMB946 million or 30.65% as compared to the end of 2020, primarily because we increased the scale of deposits from banks to increase our stable funding sources.

4.2.4 *Debt securities issued*

Debt securities issued consist primarily of certificates of interbank deposit and tier-two capital debts issued by us. As of the end of the Reporting Period, the balance of our debt securities issued amounted to RMB32,698 million, representing an increase of RMB1,826 million or 5.91% as compared to the end of 2020, mainly due to the increase in the scale of interbank deposits issued by us.

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

4.3. Shareholders' Equity

As of the end of the Reporting Period, our total shareholders' equity amounted to RMB24,170 million, representing an increase of RMB2,497 million or 11.52% as compared to the end of 2020, mainly due to the issuance of perpetual bonds of RMB1.1 billion in the second half of 2021 and the increase in retained earnings; our total equity attributable to shareholders amounted to RMB19,157 million, representing an increase of RMB1,251 million or 6.98% as compared to the end of 2020. The following table sets forth the composition of our shareholders' equity as of the dates indicated.

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Share capital	5,980.1	24.74	5,980.1	27.59
Capital reserve	4,947.6	20.47	4,947.6	22.83
Surplus reserve	1,379.2	5.71	1,225.7	5.66
General reserve	2,648.1	10.96	2,293.0	10.58
Fair value reserve	25.0	0.10	(225.6)	(1.04)
Impairment reserve	25.3	0.10	11.4	0.05
Retained earnings	4,151.4	17.18	3,673.8	16.95
Total equity attributable to equity shareholders of the Bank	19,156.7	79.26	17,906.0	82.62
Perpetual bonds	4,099.2	16.96	2,999.7	13.84
Non-controlling interests	914.3	3.78	768.0	3.54
Total equity	24,170.2	100.00	21,673.7	100.00

V. OFF-BALANCE SHEET ITEMS

Our off-balance sheet items particularly include credit commitment and capital commitment. Credit commitment is the most important component, and as of the end of the Reporting Period, the balance of credit commitment amounted to RMB49,946 million. For details, please refer to note 45(a) to the financial statements in this report.

VI. ANALYSIS OF LOAN QUALITY

During the Reporting Period, we continued to strengthen the management and control of the quality of credit assets. Non-performing loan ratio remained the same and the quality of credit assets remained stable as compared with the beginning of the year. As of the end of the Reporting Period, our total loans (excluding accrued interest) amounted to RMB143,293 million, representing an increase of RMB22,999 million or 19.12% as compared with the end of 2020; overdue loans totaled RMB2,946 million, representing a decline of RMB715 million or 19.53% from the end of 2020; total non-performing loans amounted to RMB2,109 million, representing an increase of RMB335 million or 18.91% as compared with the end of 2020; and non-performing loan ratio was 1.47%, which stood at the same level as compared with the end of 2020.

6.1 Distribution of Loans by Five-category Classification

Unit: RMB million

Item	December 31, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Normal loans	137,184.4	95.74	113,454.4	94.32
Special-mentioned loans	3,999.2	2.79	5,065.3	4.21
Sub-total of normal loans	141,183.6	98.53	118,519.7	98.53
Substandard loans	1,557.7	1.09	1,573.3	1.31
Doubtful loans	551.4	0.38	200.4	0.16
Loss loans	–	–	–	–
Sub-total of non-performing loans	2,109.1	1.47	1,773.7	1.47

Under the five-category loan classification system, our non-performing loans include substandard, doubtful and loss loans. As of the end of the Reporting Period, our non-performing loan ratio remained the same at 1.47% as compared with the end of 2020. In particular, the proportion of substandard loans decreased by 0.22 percentage point from the end of last year to 1.09%, the proportion of doubtful loans increased by 0.22 percentage point from the end of last year to 0.38%, and the loss loans remained the same as compared with the end of last year.

VI. ANALYSIS OF LOAN QUALITY (CONT'D)

6.2 Distribution of Non-performing Corporate Loans by Industry

Unit: RMB million

Item	December 31, 2021			December 31, 2020		
	Amount of non-performing loans	% of total (%)	Non-performing loan ratio (%)	Amount of non-performing loans	% of total (%)	Non-performing loan ratio (%)
Manufacturing	606.5	33.86	3.55	1,165.7	71.24	6.42
Wholesale and retail	354.5	19.79	5.25	269.8	16.49	4.24
Construction	340.3	19.00	3.25	94.5	5.78	1.21
Leasing and business services	185.7	10.37	0.91	0.0	0.00	0.00
Transportation, warehousing and postal services	126.8	7.08	5.09	2.9	0.18	0.16
Water conservancy, environment and public facilities management	71.0	3.96	0.38	71.0	4.34	0.62
Agriculture, forestry, animal husbandry and fishery	44.6	2.49	1.80	2.2	0.13	0.07
Other ⁽¹⁾	61.8	3.45	0.60	30.2	1.84	0.10
Total	1,791.2	100.00	1.90	1,636.3	100.00	2.07

Note:

- (1) Consist primarily of accommodation and catering; electricity, heat, gas and water production and supply; real estate; culture, sports and entertainment; information transmission, software and information technology services, etc.

VI. ANALYSIS OF LOAN QUALITY (CONT'D)

6.3 Distribution of Non-performing Loans by Product Type

Unit: RMB million

Item	December 31, 2021			December 31, 2020		
	Amount	% of total	Non-performing loan ratio (%)	Amount	% of total	Non-performing loan ratio (%)
Working capital loans	1,295.9	61.44	2.10	1,476.0	83.22	2.82
Fixed asset loans	264.9	12.56	0.89	20.0	1.13	0.08
Other corporate loans ⁽¹⁾	230.4	10.92	7.94	140.3	7.91	7.85
Residential mortgage loans	44.4	2.11	0.27	13.7	0.77	0.10
Personal consumption loans	13.7	0.65	0.37	4.7	0.26	0.15
Personal business loans	223.1	10.58	1.19	113.7	6.41	0.72
Credit cards	36.7	1.74	2.76	5.3	0.30	0.71
Total	2,109.1	100.00	1.47	1,773.7	100.00	1.47

Note:

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

6.4 Distribution of Non-performing Loans by Geographical Region

Unit: RMB million

Region	December 31, 2021			December 31, 2020		
	Amount	% of total	Non-performing loan ratio (%)	Amount	% of total	Non-performing loan ratio (%)
Weihai City	180.1	8.54	0.41	105.1	5.93	0.30
Outside Weihai City	1,929.0	91.46	1.93	1,668.6	94.07	1.95
Total non-performing loans	2,109.1	100.00	1.47	1,773.7	100.00	1.47

VI. ANALYSIS OF LOAN QUALITY (CONT'D)

6.5 Concentration of Borrowers

Pursuant to the Administrative Measures for the Large Risk Exposure of Commercial Banks and the Core Indicators for Risk Supervision of Commercial Banks (Provisional), loans to a single borrower by a commercial bank shall not exceed 10% of its net capital. As of the end of the Reporting Period, our largest single customer accounted for 6.41% of our net capital, which was in compliance with regulatory requirements.

Loans to the top ten single borrowers

Unit: RMB million

Borrower:	Industry	Loan amount as of the end of the Reporting Period	% of total loans	% of net capital	Five category classification
Borrower A	Leasing and business services	1,966.0	1.37	6.41	Normal
Borrower B	Water conservancy, environment and public facilities management	1,784.9	1.25	5.82	Normal
Borrower C	Manufacturing	1,780.0	1.24	5.80	Normal
Borrower D	Real estate	1,700.0	1.19	5.54	Normal
Borrower E	Water conservancy, environment and public facilities management	1,675.4	1.17	5.46	Normal
Borrower F	Leasing and business services	1,498.0	1.04	4.88	Normal
Borrower G	Water conservancy, environment and public facilities management	1,426.1	0.99	4.65	Normal
Borrower H	Construction	1,300.0	0.91	4.23	Normal
Borrower I	Water conservancy, environment and public facilities management	1,298.5	0.91	4.23	Normal
Borrower J	Leasing and business services	1,290.0	0.90	4.20	Normal
Total		15,718.9	10.97	51.22	

VII. SEGMENT REPORTING

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

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Operating income of the segment	% of total	Operating income of the segment	% of total
Corporate banking	4,425.9	59.99	3,521.0	58.35
Retail banking	1,543.0	20.92	1,272.6	21.09
Financial market business	1,380.9	18.72	1,230.8	20.40
Others	27.6	0.37	9.6	0.16
Total	7,377.4	100.0	6,034.0	100.00

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Segment profit before tax	% of total	Segment profit before tax	% of total
Corporate banking	1,059.9	47.85	897.8	46.01
Retail banking	620.6	28.02	451.4	23.13
Financial market business	527.9	23.83	609.3	31.23
Others	6.5	0.30	(7.2)	(0.37)
Total	2,214.9	100.00	1,951.3	100.00

VIII. BUSINESS DEVELOPMENT

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

8.1 Corporate Banking

The Bank's corporate banking business focused on high-end customers, fully relied on the advantages of its shareholders, business scale and network, strengthened the collaboration and linkage marketing mechanism, improved the comprehensive service capabilities, actively promoted digital transformation, deepened model innovation, focused on "strengthening the headquarters" and "strengthening the head office", continued to improve supply capacities, and continuously drove the steady growth of the business scale and efficiency of the Bank through establishing a headquarters-to-headquarters platform, managing clients based on lists, marketing to cover the entire chain, managing strategic customers and promoting technology empowerment. During the Reporting Period, the operating income from our corporate banking business amounted to RMB4,426 million, representing an increase of 25.70% as compared with 2020 and accounting for 59.99% of our total operating income.

(1) Corporate customers

The Bank has established a vast, stable and growing corporate customer base in Shandong Province and Tianjin Municipality. The corporate banking customers of the Bank primarily comprise the governmental agencies, state-owned enterprises, business units, and industrial and commercial enterprises in Shandong Province and Tianjin Municipality. As of the end of the Reporting Period, there were 62,972 corporate customers, representing an increase of 6,660 customers or 11.83% as compared with that as of the end of 2020. The marketing focus of the Bank's corporate customers was firstly, to give full play to the headquarters-to-headquarters marketing model, focus on the Bi-Focus strategy, expand the scale and speed advantages of the Bank, highlight the "high-end" business marketing, and form a group of high quality customers in the livelihood, high-end manufacturing, technology and trade finance categories with platform building and selected customers as the starting point; secondly, the Bank carried out chain marketing, relied on core customers, integrated core customer resources, made full use of supply chain products, explored upstream and downstream industrial chains, marketed high-quality supply chain financial customers, gained in-depth linkage and explored the potential of customer resources.

(2) Corporate deposits

During the Reporting Period, the Bank deepened its cooperation with enterprises and governments, strengthened the marketing of net liability deposits and institutional deposits; improved the quality and efficiency of service, and took "digital transformation" as an opportunity to enhance customer stickiness and increase fund settlement through online, comprehensive and skilled service upgrades; strengthened linkage and collaboration, continuously increased customer capital accumulation through business, line and customer linkage, and helped to steadily increase the scale of corporate deposits.

As of the end of the Reporting Period, the balance of corporate deposits amounted to RMB117,748 million, representing an increase of RMB13,478 million or 12.93% as compared with the end of 2020, accounting for 57.76% of the balance of all deposits. In particular, corporate demand deposits amounted to RMB55,204 million, accounting for 46.88% of corporate deposits; and corporate time deposits amounted to RMB62,544 million, accounting for 53.12% of corporate deposits.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.1 Corporate Banking (Cont'd)

(3) Corporate loans

As of the end of the Reporting Period, the balance of corporate loans was RMB94,366 million, representing an increase of RMB15,133 million or 19.10% as compared with the end of 2020, of which the balance of working capital loans was RMB61,759 million, accounting for 65.45% of total corporate loans; the balance of fixed asset loans was RMB29,706 million, accounting for 31.48% of total corporate loans; and the balance of other loans was RMB2,901 million, accounting for 3.07% of total corporate loans.

Loans to large and medium enterprises

During the Reporting Period, the Bank actively implemented its policy requirements. Firstly, the Bank implemented the Bi-Focus strategy, and insisted on “platform mode” and “headquarters-to-headquarters” marketing; secondly, the Bank earnestly supported the financial anti-epidemic work, actively assisted the coordinated resumption of work and production of the industrial chain, and supported the recovery of the real economy; thirdly, the Bank actively supported the development of the real economy, implemented the national policy orientation and regulatory requirements, attached great importance to shifting credit resources to green finance, inclusive finance, private enterprises, rural revitalization, marine economy, infrastructure construction, advanced manufacturing, technological innovation enterprises, strategic emerging industries and the industrial upgrading, technological transformation, energy conservation and environmental protection projects of traditional enterprises, continued to optimize the credit business environment and improved credit services.

As of the end of the Reporting Period, the balance of loans to large enterprises was RMB18,413 million, and the balance of loans to medium enterprises was RMB32,142 million.

Loans to small and micro enterprises

The Bank has set up a specialized institution for small and micro enterprises – the small enterprise financial service center, under which it directly operates a business center and a small and micro enterprise financial service center. The Bank’s primary sub-branches focused on retail and inclusive business. With community and small and micro banks as carriers, the Bank positioned itself in the community to serve small and micro enterprises in the inclusive business. As of the end of the Reporting Period, the Bank had 4 community sub-branches and 2 small and micro sub-branches.

Proactively using the two-policy tools of inclusive small and micro enterprise loans, the Bank strengthened financial support for inclusive small and micro customers through measures such as deferred payment, credit loan, and low-cost capital on-lending. As of the end of the Reporting Period, the balance of the Bank’s inclusive small and micro loans (including loans to small and micro enterprises, loans to individual industrial and commercial households, and loans to owners of small and micro enterprises) amounted to RMB20,758 million, representing an increase of RMB3,427 million or 19.77% as compared with the beginning of the year. The average loan interest rate for inclusive small and micro enterprises was 6.06%, and the number of inclusive small and micro-enterprise loans was 64,100, representing an increase of 15,800 as compared with the beginning of the year, which effectively supported the capital requirements from brick-and-mortar enterprises.

The Bank comprehensively optimized the business processing procedures, simplified materials and business nodes, and launched the government e-finance business with the support of the Weihai Xincai Bancassurance Platform (威海市信財銀保平台) and the Xincai Bancassurance Fund (信財銀保基金). The government e-finance business was awarded the “2021 Excellent Case of Financial Services for Micro, Small and Medium-sized Enterprises (2021年金融服務中小微企業優秀案例)” by the Committee of China SME Investment & Finance Expo (中國中小企業投融資交易會委員會).

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.1 Corporate Banking (Cont'd)

(4) Trade finance business

The Bank provides a wide range of financial products and services to corporate customers involving cross-border transactions and domestic trade. Our international settlement services primarily include remittance, collection, letters of credit, letters of guarantee and cross-border RMB settlement. As of the end of the Reporting Period, the Bank had 22 branches and sub-branches providing international settlement services and has established agency relationship with a total of 216 banks, covering 30 countries (regions) including mainland China, Hong Kong, Germany and the United States. Since 2021, the Bank has continued to strengthen its marketing efforts based on its trading and financial customer list to enhance its business scale. As of the end of the Reporting Period, the trading and financial services transaction volume amounted to US\$6,681 million. The Bank obtained the foreign exchange derivatives business qualification in the second quarter of 2021. As of the end of the Reporting Period, a total of US\$110 million in forward foreign exchange settlement and sales was processed.

8.2 Retail Banking Business

During the Reporting Period, under the general environment of “digital” transformation, the Bank clarified the strategic positioning of “focusing on retail”, and achieved high-quality and rapid development of its retail business by strengthening technology investment and improving online product functions and service. During the Reporting Period, the operating income from retail banking business amounted to RMB1,543 million, representing an increase of 21.25% as compared with 2020 and accounting for 20.92% of total operating income.

(1) Retail customers

The Bank adheres to the “customer-oriented and market-oriented” principle and follows the development strategy of “Bi-Focus retail banking” to establish the concept of platform development, enhance technology empowerment, and strengthen cooperation with technology finance companies, internet platforms, life service enterprises, etc. It also works to promote the development of ecological banks and create scenario-based online marketing, driving low-frequency consumption of financial products via high-frequency consumption in living scenarios, and achieving online customer acquisition and activation in the digital era. In addition, the Bank strengthens cross-industry cooperation by deepening its collaboration with local leading enterprises, hospitals and schools, introducing designated merchants in “medical, food, housing and travel” industries around its outlets to achieve effective resource sharing and continuously improve customer services.

The Bank has a wide range of retail banking customers in Shandong Province and Tianjin. As of the end of the Reporting Period, the assets retained by retail customers in the Bank amounted to RMB128,949 million, representing an increase of 21.63% as compared with the end of 2020. As the wealth management of the Bank gradually improves, the number of mid- to high-end customers continues to grow. As of the end of the Reporting Period, the financial assets retained in the Bank by customers with personal financial assets of over RMB200,000 amounted to RMB106,399 million, accounting for 82.51% of the Bank’s personal financial assets.

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

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.2 Retail Banking Business (Cont'd)

(2) *Personal deposit business*

During the Reporting Period, the Bank's total personal deposits increased significantly. In addition to traditional demand deposits and time deposits, we provide mid- to high-end customers with large denomination certificates of deposit products of at least RMB200,000. As of the end of the Reporting Period, the balance of the Bank's personal deposits reached RMB86,024 million, representing an increase of RMB12,871 million or 17.59% as compared with the end of 2020.

(3) *Personal loan business*

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

Personal consumption loans

The Bank vigorously promoted a series of personal consumption loans under the brand name of "Happy Consumption Loan" and featured revolving online personal loan product "Quick e-Loan" to meet personal and family consumption needs. During the Reporting Period, under the premise of effective risk management and control, the Bank actively explored the online process of its personal consumption loan business to steadily improve the scale of consumption loans. As of the end of the Reporting Period, the balance of personal consumption loans of the Bank amounted to RMB3,680 million, representing an increase of RMB506 million or 15.96% as compared with the end of 2020, and the NPL ratio of personal consumption loans remained within 0.40%.

Residential mortgage loans

During the Reporting Period, the Bank adhered to the positioning of "houses are for living in, not for speculation" and implemented differentiated housing credit policies to support residents' reasonable housing needs and steadily develop individual residential mortgage loans. The Bank strengthened the risk prevention and control of mortgage business, and focused on marketing high-quality developers, high-quality properties and high-quality customers to promote the steady growth of residential mortgage business. As at the end of the Reporting Period, the balance of our residential mortgage loans amounted to RMB16.320 billion, representing an increase of RMB2.406 billion or 17.29% as compared with 2020.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.2 Retail Banking Business (Cont'd)

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

Personal business loans

The Bank progressively developed its personal inclusive finance. The Bank proactively implemented digital transformation and gradually improved customer experience by optimizing its business processes and strengthening risk prevention and control as well as other measures; it replicated and promoted its first online inclusive financial product – Property e-Loan (房e貸), which was independently developed and designed by the Bank to bring better service experience and higher efficiency to customers; it deepened its cooperation with tax authorities as well as banking and insurance regulatory authorities, actively tapped into loan demand, and made a breakthrough in its Shui e Rong (稅e融) business; it proactively responded to market changes, launched Shang Che Bao (商車寶) APP, and created the brand effect of “Commercial Vehicle Loan (商車貸)” of our Bank. As of the end of the Reporting Period, the balance of the Bank’s personal business loans amounted to RMB18,803 million, representing an increase of RMB3,099 million or 19.73% as compared with the beginning of the year.

Relying on the two drivers of “finance + technology”, the Bank made full use of the advantages of online application, online approval, and convenient borrowing and repayment services, and continued to develop featured platform products such as “Property e-Loan” (房e貸) and “Shui e Rong (稅e融)”. As of the end of the Reporting Period, the two products recorded growth rates of 86.75% and 174.92% in loan balances, respectively, as compared with the beginning of the period. The online platform model has become the backbone to promote the growth of inclusive business.

(4) *Personal wealth management business*

During the Reporting Period, the Bank stepped up its efforts in the development of wealth management business and provided customers with a series of products including “Steady Growth (穩健成長)” and “Happy Share of Earnings (快樂享盈)”. The personal wealth management business achieved leapfrog growth. As of the end of the Reporting Period, the scale of the Bank’s personal wealth management business reached RMB42,604 million, representing an increase of RMB10,462 million or 32.55% as compared with the end of 2020, all of which were net-worth wealth management.

(5) *Bank card business*

Debit card business: On top of issuing ordinary debit cards, we have launched our VIP cards to gold grade customers, platinum grade customers, diamond grade customers and private banking customers. Compared with traditional debit cards, VIP cardholders can enjoy additional services, such as free ATM interbank withdrawal, use of VIP lounges at airports in Weihai/Jinan or other cities, use of fingerprint safes and other preferential services. In addition, we are a member of China UnionPay, and debit cards issued by us can be used in the China UnionPay network in China as well as other countries and regions overseas. As at the end of the Reporting Period, the total number of debit cards issued was 4,220,200, representing an increase of 435,900 cards as compared with the end of 2020. During the Reporting Period, the total transaction amount through the Bank’s debit cards was RMB9,496 million.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.2 Retail Banking Business (Cont'd)

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

Citizen card business: The Bank actively participated in various livelihood projects and payment agency projects in Weihai. In order to cooperate with the construction of "Smart City" of Weihai, the Bank launched the "Weihai City Citizen Card", which allows cardholders to enjoy services such as public transportation, government services and payment for public utilities. During the Reporting Period, the Bank continued to carry out in-depth marketing for customers of "Weihai City Citizen Card", achieving extensive coverage of various retail products. As of the end of the Reporting Period, the Bank issued 1,440,700 Citizen Cards in total.

Credit card business: The Bank provides different services to various target customer groups and provides three types of credit cards, namely, general cards, gold cards and platinum cards, based on the credit rating of the applicants. The holder of each type of credit card is entitled to receive and enjoy specific services and benefits tailored for the corresponding type of credit card. The Bank's credit cards provide cardholders with a variety of installment products and convenient installment repayment services, including the purchase of automobiles and consumer products in addition to the ordinary functions of other credit cards. Under the premise of strict risk management, the Bank vigorously expanded the market, and the credit card business formed a good trend of stable development, deep exploration of potential and strong management, and realized the simultaneous improvement of business scale and quality. During the Reporting Period, the Bank issued 41,215 new credit cards, with a total of 140,186 credit cards issued.

8.3 Financial Market Business

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

(1) *Proprietary investment*

The Bank continued to optimize investment structure, reduced the proportion of investment and SPV investment, improved asset liquidity and supported the development of the real economy. During the Reporting Period, the Bank had financial investments with a carrying amount of RMB112,659 million, representing an increase of RMB11,438 million or 11.30% as compared to the end of 2020. The increase in such assets in 2021 was mainly due to the increase in holding of policy financial bonds for both liquidity and efficiency, the adjustment in investment structure by increasing the investment in non-financial corporate bonds to support the real economy, and the increase in the investment in public funds with strong liquidity and tax-free advantages.

(2) *Interbank business*

The Bank actively utilized different types of interbank liabilities and reasonably matched their maturity structure, which effectively reduced the cost of interbank liabilities and also met the Bank's needs for liquidity management. During the Reporting Period, the Bank was approved to carry out RMB and foreign exchange derivatives businesses and interbank gold inquiry business; the Bank's bond settlement volume in the national interbank market reached RMB2.37 trillion.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.3 Financial Market Business (Cont'd)

(3) *Investment banking business*

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

(4) *Wealth management*

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

During the Reporting Period, 90 tranches of wealth management products were issued with a total amount of RMB193,169 million. As of the end of the Reporting Period, the balance was RMB42,937 million, representing an increase of 27.12% as compared to the end of 2020. Among them, 41 tranches of net-worth wealth management products were issued, and their balance amounted to RMB42,937 million, representing an increase of RMB14,858 million or 52.91% as compared to the end of 2020. The proportion of net-worth wealth management products was 100%, representing an increase of 16.87 percentage points as compared to the end of 2020. The transformation of net-worth wealth management business was completed.

8.4 Internet Finance

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

(1) *Self-service banking*

The Bank's self-service banking facilities include ATMs, self-service deposit and withdrawal machines, smart teller machines, Smart Terminals (智能终端), Smart Self-Service Receipt Machines (智能回單機) and automatic inquiry machines. These facilities provide customers with convenient banking services while allowing the Bank to reduce operating costs. Services provided through these facilities include balance inquiry, cash deposit and withdrawal, fund transfer, and payment of public utility bills. As of the end of the Reporting Period, the Bank had 412 self-service banking facilities.

In addition, the Bank actively upgrades and uses innovative applied technology on its self-service banking facilities in order to provide better services and experiences to customers. For instance, the Bank had rolled out facial recognition systems on smart devices. Smart devices offer similar functions as traditional bank counters and operate only on touch-screen systems instead of dealing with bank tellers. As of the end of the Reporting Period, the Bank had 147 smart devices.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.4 Internet Finance (Cont'd)

(2) *Electronic banking channels*

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

Online banking

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

As of the end of the Reporting Period, the Bank had a total of approximately 544,000 online banking customers, including approximately 51,000 corporate banking customers and approximately 493,000 retail banking customers. During the Reporting Period, an aggregate transaction volume of RMB881,772 million was processed through the Bank's online banking platform.

Mobile banking

The Bank began offering mobile banking services through its client terminal in 2014. A variety of services are offered through its mobile banking app, including account inquiry and management, money transfer, wealth management products and bill payment. To better secure the transactions of our customers, we provide the customers with short message services (SMS) notification service, whereby we send them SMS notifications relating to bank account transactions, account safety verification, and risk alerts. As of the end of the Reporting Period, the Bank had approximately 1.95 million mobile banking users, representing an increase of 44.10% as compared with the end of 2020. During the Reporting Period, an aggregate transaction volume of RMB220,081 million was processed through the Bank's mobile banking platform.

In addition, the Bank opened its official WeChat account in 2014, which serves as an important hub for our communications with the customers. By following this account, the Bank's customers can enjoy a variety of services, including checking bank account information, conversion of time and demand deposits, wealth management products, payment of public utility bills, application for personal loans, application for credit cards, management of credit cards, outlet inquiry and appointment for opening accounts. As of the end of the Reporting Period, the Bank's official WeChat account had approximately 337,000 subscribers.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.4 Internet Finance (Cont'd)

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

Video banking

During the Reporting Period, the Bank continuously enhanced its customer service so as to improve customer experience. A remote online service channel of video banking was added to break through geographical restrictions for outlets and facilitate customers to handle their business through remote video on their mobile phones. A supportive management system was also set up to ensure efficient operation of the video banking business in relation to both personnel and system. In respect of the video business, themed training activities were also organized for its staff to enhance their service. With interdepartmental efforts, video business training was organized within the Bank, to allow outlet staff to be more familiar and skillful with the video business and staff were encouraged to actively recommend video banking to customers, thus expediting the movement of business from offline to online.

Direct banking

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

Online loans

In order to improve the convenience of services, the Bank launched the online "Quick e-Loan" (快e貸) product by using technology means. It applies identification technologies such as device fingerprint, biological probes, simulator identification, and network connections to quickly identify the common online fraud methods in a targeted manner, and is equipped with the digital inclusive financial service capabilities of full online process, full real-time approval, and full customer group opening, so as to support the standardized, bulk and intelligent retail credit operations in accordance with the models of "one second for scanning code", "one minute for customer input", "one minute for system approval" and "lifetime cloud authorization". As of the end of the Reporting Period, the balance of Quick e-Loan was RMB1,857 million, representing an increase of 172.28% as compared with the end of 2020.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.5 Digital Development

During the Reporting Period, the Bank launched a comprehensive digital transformation, actively embraced financial technology by centering on the development vision of “dual leadership and dual first-class smart digital bank (雙領先、雙一流的智慧數字銀行)” and adhering to the development strategy of digitization-driven “Bi-Focus Retail Banking (兩端型零售銀行)”, so as to strengthen technology infrastructure construction and continuously establish a sound system and mechanism. Following the concept of “offline business online, online business enrichment, and digital banking strategy (數據標準化·標準線上化·線上智慧化)”, the Bank established the Digital Banking Department of the tier-one departments at the head office to deepen data governance and operation, empower business innovation and development, boldly explore innovation models, and continuously strengthen technology governance.

In terms of technology team building, the Bank introduced 35 technology professionals in 2021, actively strengthened technology team building, constantly increased training efforts, and continuously enhanced technology capabilities.

In terms of digital transformation, taking organizational structure transformation and talent echelon construction as two safeguard measures, the Bank worked toward its strategic vision of digital financial technology revolving around “SAIL+”, and focused on three strategies of specialization, streamlining and agility to promote four major changes of bank-wide data governance and data service, mid-office platform service-oriented application architecture, customer-centric industry-technology integration model, and integrated intelligent operation-maintenance and security management system, to build the core competitiveness of fintech in digital transformation.

In terms of infrastructure, the Bank built a new data center with high standards in 2021 and obtained the enhanced level (A-level) certification issued by the China Quality Certification Center, the highest level of certification in China. The center has completed the sorting and relocation of nearly 100 information systems, over 100 virtual machines, physical devices and more than 1,000 network policies in nine batches. The successful launch of the new data center marked a new leap forward in the development layout of the Bank’s financial technology infrastructure. The new data center is equipped with a full range of infrastructure such as advanced UPS (uninterruptible power supply) system, air-conditioning system, diesel generator set, low-voltage electrical system for computer rooms, HVAC system, security system, equipment environment monitoring system for computer rooms, multimedia system, identification system for computer rooms and fire protection system, which realizes the integration, informatization and automation of operation and maintenance management, and can efficiently meet the 7*24 uninterrupted demands of the business. The new data center uses IT device server, storage and other resources with high specifications, and has strong expansion capabilities. The IT architecture adopts the “dual storage locations” (存儲雙活) solution. Meanwhile, the Bank has built a complete structure of “three centers in two places (兩地三中心)”, with the capabilities of “dual centers in the same city (同城雙活)” and “remote disaster recovery (異地容災)”.

In terms of key project development, the Bank completed 25 key projects such as core business system CBUS5.0, “Shang Che Bao (商車寶)”, video bank, financial valuation and accounting throughout the year. Among them, the launch of the core business system CBUS5.0 project significantly improved the Bank’s teller business processing efficiency, effectively improved customer experience and provided strong support for business development; the “Shang Che Bao (商車寶)” project, after it was launched and put into operation, continued to undergo iteration and optimization, which continuously optimized our business processes, effectively improved processing efficiency and customer experience; the video bank project which covers a variety of business scenarios of operation, credit card, credit loans and other business lines, adopted the standardized centralized operation mode to remotely process business for customers, effectively expand new channels and comprehensively improve service efficiency.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.6 Analysis of Subsidiaries

We established Shandong Tongda Financial Leasing Co., Ltd. in June 2016, and became the first commercial bank in Shandong Province to initiate the establishment of a financial leasing company. The strong synergy between the businesses of Tongda Financial Leasing and the Bank has notably improved its ability to provide comprehensive financial services to customers. It has become one of the important forces of our “Broad Corporate Banking (大公司)” business segment. During the Reporting Period, Tongda Financial Leasing strived to support the development of the real economy, strengthen internal control and compliance management, and served customers in 23 provinces and cities across China, with its business covering public facilities management, urban public utilities, transportation and logistics, energy conservation and environmental protection, culture, tourism and education, medical and health care, and business services.

As of the end of the Reporting Period, the registered capital of Tongda Financial Leasing was RMB1.1 billion and it was registered in Jinan, Shandong. We held 59.09% equity interest in Tongda Financial Leasing, which is principally engaged in the provision of financial leasing solutions to customers, including direct lease and sale-and-leaseback. During the Reporting Period, the operating income of Tongda Financial Leasing was RMB798 million, representing an increase of 22.02% as compared to 2020; net profit amounted to RMB358 million, representing an increase of RMB10 million as compared to 2020, accounting for 18.92% of our consolidated net profit.

IX. CAPITAL MANAGEMENT

9.1 Capital Adequacy Ratio

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

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

IX. CAPITAL MANAGEMENT (CONT'D)

9.1 Capital Adequacy Ratio (Cont'd)

Corresponding relationship between regulatory capital items and balance sheet items

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

IX. CAPITAL MANAGEMENT (CONT'D)

9.1 Capital Adequacy Ratio (Cont'd)

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

As of the end of the Reporting Period, our capital adequacy ratio was 14.59%, representing a decrease of 0.59 percentage point as compared to the end of 2020; our tier-one capital adequacy ratio was 11.33%, representing a decrease of 0.20 percentage point as compared to the end of 2020; and our core tier-one capital adequacy ratio was 9.35%, representing a decrease of 0.53 percentage point as compared to the end of 2020. The slight decrease in capital adequacy ratio was mainly due to the increase in risk assets along with business development, which resulted in a slight decrease in our capital adequacy ratio indicators. The following table sets forth, as of the dates indicated, information relating to our capital adequacy ratios calculated in accordance with the Administrative Measures on the Capital of Commercial Banks (for Trial Implementation) (《商業銀行資本管理辦法(試行)》) and PRC GAAP.

Unit: RMB million

Basis of the Group	December 31, 2021	December 31, 2020
Core tier-one capital		
Share capital	5,980.1	5,980.1
Qualifying portion of capital reserve	4,947.6	4,947.6
Surplus reserve	1,379.2	1,225.7
General reserve	2,648.1	2,293.0
Other comprehensive income	50.3	(214.2)
Retained earnings	4,151.4	3,673.8
Qualifying portions of non-controlling interests	553.0	525.1
Total core tier-one capital	19,709.7	18,431.1
Core tier-one capital deductions	(47.9)	(39.0)
Net core tier-one capital	19,661.8	18,392.1
Other tier-one capital	4,173.2	3,069.7
Net tier-one capital	23,835.0	21,461.8
Tier-two capital	6,852.4	6,786.8
Total capital, net	30,687.4	28,248.6
Total risk-weighted assets	210,293.6	186,125.1
Including: Total credit risk-weighted assets	198,327.6	175,673.9
Total market risk-weighted assets	742.1	1,308.1
Total operational risk-weighted assets	11,223.9	9,143.1
Core tier-one capital adequacy ratio	9.35%	9.88%
Tier-one capital adequacy ratio	11.33%	11.53%
Capital adequacy ratio	14.59%	15.18%

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

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

As of the end of the Reporting Period, the Bank's capital adequacy ratio was 14.59%, representing a decrease of 0.70 percentage point as compared to the end of 2020, and its core tier-one capital adequacy ratio was 9.14%, representing a decrease of 0.69 percentage point as compared to the end of 2020.

Unit: RMB million

Basis of the Bank	December 31, 2021	December 31, 2020
Core tier-one capital		
Share capital	5,980.1	5,980.1
Qualifying portion of capital reserve	4,955.2	4,955.2
Surplus reserve	1,379.2	1,225.7
General reserve	2,487.4	2,156.5
Other comprehensive income	50.3	(214.2)
Retained earnings	3,633.7	3,343.3
Qualifying portions of non-controlling interests	N/A	N/A
Total core tier-one capital	18,485.9	17,446.6
Core tier-one capital deductions	(697.4)	(689.0)
Net core tier-one capital	17,788.5	16,757.6
Other tier-one capital	4,099.2	2,999.7
Net tier-one capital	21,887.7	19,757.3
Tier-two capital	6,509.3	6,293.4
Total capital, net	28,397.0	26,050.7
Total risk-weighted assets	194,664.2	170,398.3
Including: Total credit risk-weighted assets	183,880.5	160,864.1
Total market risk-weighted assets	742.1	1,308.1
Total operational risk-weighted assets	10,041.6	8,226.1
Core tier-one capital adequacy ratio	9.14%	9.83%
Tier-one capital adequacy ratio	11.24%	11.59%
Capital adequacy ratio	14.59%	15.29%

IX. CAPITAL MANAGEMENT (CONT'D)

9.2 Leverage Ratio Analysis

Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》) issued by the former China Banking Regulatory Commission and effective on April 1, 2015, a minimum leverage ratio of 4% is required for commercial banks. As of the end of the Reporting Period, our leverage ratio was 6.83%, which was higher than the regulatory requirements of the CBIRC and down by 0.30 percentage point as compared to the end of 2020. The above leverage ratio is calculated in accordance with the formula promulgated by the CBIRC.

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

	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Leverage ratio	6.83%	6.52%	6.69%	7.04%
Net tier-one capital	23,835.0	22,378.8	21,828.9	21,950.5
Balance of on – and off-balance sheet assets after adjustment	349,070.8	343,028.0	326,066.3	311,700.9

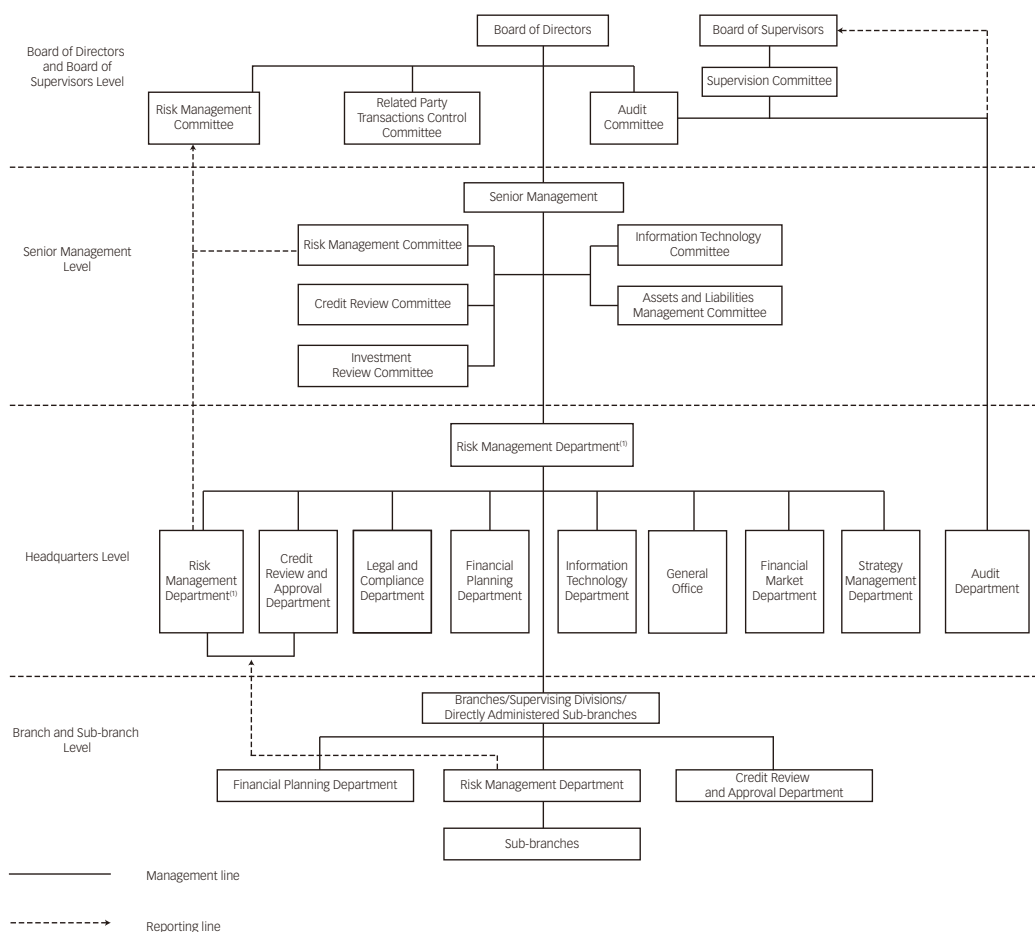
X. RISK MANAGEMENT

10.1 Organizational Structure and Management Functions of Risk Management System

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

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

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



Note:

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

X. RISK MANAGEMENT (CONT'D)

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

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

– *Board of Directors and its special committees*

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

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

– *Board of Supervisors and its special committees*

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

– *Senior management and its special committees*

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

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

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

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

– *Risk management of branches*

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

X. RISK MANAGEMENT (CONT'D)

10.2 Credit Risk

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

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

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

X. RISK MANAGEMENT (CONT'D)

10.3 Market Risk

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

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

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

As of the end of the Reporting Period, no market risk indicator of the Bank exceeded the market risk limits for 2021 as determined by the Board, so that the market risk assumed by the Bank could be controlled within a tolerable and reasonable range.

X. RISK MANAGEMENT (CONT'D)

10.4 Operational Risk

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

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

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

The Bank fully implemented the regulatory requirements on operational risk prevention and strictly implemented the regulations on rotation of important posts. The Bank actively carried out “Year of Developing Internal Control and Compliance Management”, “Year of Improving Industry Standardization Construction”, “Five Haves (五有)” system inspection, quarterly compliance inspection and other activities, adhering to the problem-oriented principle, strictly carrying out rectification and accountability and strengthening the knowledge test on swindle prevention, and the management and control of operational risks in key links and areas has been further improved. During the Reporting Period, the Bank had no material operational risk loss event.

X. RISK MANAGEMENT (CONT'D)

10.5 Liquidity Risk Management

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

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

During the Reporting Period, in accordance with the management and control requirements that “liquidity risk follows market movements closely”, the Bank paid close attention to market liquidity changes, made early deployment and timely adjustments to liquidity management measures based on changes in assets and liabilities business, reasonably adjusted the maturity structure of assets and liabilities and improved the stability of liabilities to ensure that liquidity risk is safe and controllable. The Bank strengthened liquidity risk management in the following aspects:

Firstly, strengthening liability management. The Bank strengthened the marketing of deposits and promoted the steady growth of the deposit business; increased the use of re-loans and rediscount funds from the central bank, expanded debt financing channels, reasonably allocated the maturity structure of liabilities, and improved the stability and diversity of funding sources.

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

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

Fourthly, strengthening the coordinated management of liquidity. The Bank regularly analyzes the liquidity management situation, and cooperates with business departments to continuously optimize the assets and liabilities business structure and maturity structure according to changes in liquidity indicators, so as to ensure sufficient liquidity.

Fifthly, focusing on liquidity emergency management. Liquidity stress tests are carried out on a quarterly basis, and stress scenarios and stress test parameters are prudently adjusted in response to changes in the market environment and intra-bank business to improve the effectiveness of stress tests; the stress test plans and emergency plans are adjusted in a timely manner based on the test results to effectively prevent and control liquidity risks.

X. RISK MANAGEMENT (CONT'D)

10.6 Bank Account Interest Rate Risk Management

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

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

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

Unit: RMB million

	December 31, 2021		December 31, 2020	
	Net profit	Equity	Net profit	Equity
Increase by 100 basis points	74.1	49.6	167.2	302.3
Decrease by 100 basis points	(74.1)	(49.6)	(167.2)	(302.3)

X. RISK MANAGEMENT (CONT'D)

10.7 Information Technology Risk

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

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

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

X. RISK MANAGEMENT (CONT'D)

10.8 Strategic Risk

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

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

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

10.9 Reputational Risk

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

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

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

X. RISK MANAGEMENT (CONT'D)

10.10 Concentration Risk

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

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

10.11 Compliance Risk

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

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

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

The Bank has formulated a series of systems to manage and control the compliance risks faced by the Bank, and established a system compliance review mechanism. During the Reporting Period, the Bank sorted out and revised relevant rules and regulations and operating procedures in accordance with the new regulatory rules to ensure the compliance of operation management and business development. The Bank organized activities such as the "Year of Developing Internal Control and Compliance Management", the "Year of Improving Industry Standardization", "Month of System Series (制度「系列月」)" and quarterly compliance inspection to strengthen compliance training and compliance warning education and continuously improve employees' compliance awareness.

X. RISK MANAGEMENT (CONT'D)

10.12 Money Laundering and Terrorist Financing Risk

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

- Objective of money laundering risk management: by adopting risk management measures against money laundering, the Bank aims to avoid serious reputational risks and legal risks as well as loss of customers, business and financing due to the occurrence of money laundering risk events or cases.
- Policies and procedures of money laundering risk management: The Risk Management Policies on Money Laundering and Terrorist Financing (《洗錢和恐怖融資風險管理政策》) of the Bank clearly defines the structure, strategies, methods and measures of managing money laundering risks, reasonably allocates resources according to the risk-based approach, continuously identifies, carefully evaluates, effectively controls and manages money laundering risks throughout the organization, and effectively prevents money laundering risks.

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

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

X. RISK MANAGEMENT (CONT'D)

10.13 Legal Risk

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

- Objectives of legal risk management: to standardize the Bank's legal work, improve the legal risk management framework system, improve the quality of legal work, integrate legal risk management, prevention and other risk management activities, improve the overall efficiency and effectiveness of risk management, improve the legal risk prevention and control mechanism, and promote legal operation.
- Policies and procedures of legal risk management: the Administrative Measures for Legal Work and Legal Risk Management (《法律工作及法律風險管理辦法》) of the Bank requires legal risk management to follow the principles of legal efficiency, unified standardization, division of work and coordination, and hierarchical responsibility, clarifies the management structure of legal risks, standardizes the management processes of identification, evaluation, analysis and response of legal risks, and establishes a sound legal risk management and control system.

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

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

XI. IMPACT ASSESSMENT TOWARDS COVID-19

In 2021, China adhered to the general strategy of “preventing imported cases and resurgence of domestic cases (外防輸入·內防反彈)”, and adopted strict prevention and control measures. As a result, China maintained a stable overall situation of COVID-19 epidemic prevention and control, and led the world in normalized epidemic prevention and control. It achieved notable results in coordinating epidemic prevention and control with economic and social development, with the order of production and life largely stable. Shandong Province implemented the general strategy of “preventing imported cases and resurgence of domestic cases”, followed the in-depth prevention strategy of “regarding existing measures as the basis, moving ahead thresholds and imposing multiple barriers (立足於有·關口前移·多重屏障)”, and strictly and earnestly managed all links and thresholds to continuously consolidate the results of epidemic prevention and control. As a result, the epidemic prevention and control was stable. The Bank earnestly implemented the requirements of the Notice on Further Strengthening Financial Support for Prevention and Control of COVID-19, which was issued by the PBOC, the Ministry of Finance, the CBIRC, the China Securities Regulatory Commission and the State Administration of Foreign Exchange, and strengthened financial support for epidemic prevention and control.

Notwithstanding the pandemic outbreak, in view of our branch network, strong technical capability to deliver convenient online financial products and services, sound customer portfolio, stable asset quality, and the better pandemic situation in Shandong Province and Tianjin, our branches operated normally in 2021. There was no material adverse impact on our business operations, liquidity position, asset quality and maturity profile of our loan portfolio, and that our impairment losses experienced no significant increase due to the COVID-19 pandemic.

XII. FUTURE PROSPECTS

12.1 Analysis of the Operating Situation in the New Year

Under the impact of the epidemic unseen in a century, tremendous changes have evolved at a faster place, with the external environment becoming more complex, severe, and uncertain. Economic development faces the triple pressures of shrinking demand, supply shocks, and weakening expectations. Still, China maintains its fundamentals of strong economic resilience and long-term improvement. In 2022, China will continue to implement proactive fiscal policies and prudent monetary policies. Proactive fiscal policies will improve efficiency, focus more on precision and sustainability, and strengthen support for small and micro enterprises, individual businesses, manufacturing and risk mitigation. Prudent monetary policies will be flexible and appropriate, maintain reasonable and sufficient liquidity, and guide financial institutions to increase support for the real economy, especially small and micro enterprises, technological innovation, and green development. Fiscal policy and monetary policy are coordinated and linked, with an organic combination of cross-cyclical and counter-cyclical macro-control policies.

In 2022, Shandong Province will extend its economic momentum of being stable and progressive with quality enhancement. The accumulation of positive factors for development has accelerated, with the cumulative effect of major strategies emerging. Expanding opening up will usher in new opportunities, and the effect of policy integration will continue to expand. The replacement of old economic drivers with new ones is poised for breakthroughs, with innovation and development advantages growing at a faster rate. Infrastructure support will be stronger, along with a greater entrepreneurial atmosphere. The province will continue to strengthen investment, consumption, and foreign trade as coordinators and drivers of economic growth, and consolidate the trend of economic stability and improvement; and will accelerate the replacement of old economic drivers with new ones, deepen the supply-side structural reform, and achieve high-quality economic development in the province.

XII. FUTURE PROSPECTS (CONT'D)

12.1 Analysis of the Operating Situation in the New Year (Cont'd)

In 2022, the regulatory policies of the banking industry focus on stabilizing the economy, preventing risks and deepening reforms. With respect to stabilizing the economy, financing provision was increased reasonably, with support for moderate advanced investment in infrastructure; the financing of medium, small and micro enterprises was encouraged to increase its volume, expand its coverage and lower its costs; green finance products and services were innovated around the theme of carbon peak and neutrality; and the quality and efficiency of rejuvenating rural areas with financial services was enhanced. With respect to preventing risks, the rebound of non-performing assets was well addressed; the long-term real estate mechanism of “stabilizing land prices, housing prices and expectation” was improved, with localized policies for different cities to facilitate a virtuous circle and healthy development of the real estate industry; high-risk shadow banking was dismantled, with new regulations of asset management fully implemented to ensure stable and sound operation of the financial system. With respect to deepening reforms, the Financial Technology Development Plan (2022-2025) (《金融科技發展規劃(2022-2025年)》) and the Guiding Opinions on the Digital Transformation of Banking and Insurance Industries (《關於銀行業保險業數字化轉型的指導意見》) were issued; efforts were made to promote digitization of the financial services industry, expand high-level opening up of the banking industry, and encourage financial institutions to strengthen their support to the “Belt and Road Initiative” co-construction projects; medium and small banks were encouraged to replenish their capital from multiple channels in accordance with laws and regulations; a effective corporate governance regime was enhanced to guide the Bank in in-depth integration of CCP leadership with corporate governance.

12.2 Development Strategies and Major Work Measures in the Next Year

Guiding philosophy

Guided by the spirit of the 19th CPC National Congress and the 2nd, 3rd, 4th, 5th and 6th Plenary Session of the 19th CPC Central Committee and the Central Economic Work Conference, we will adhere to the general principle of seeking progress while maintaining stability, follow the macro trend of the times, implement regulatory requirements, implement the “development of new industrialization, urbanization, information technology, modern agriculture and green industries (五化理念)”, carry forward the “Six Spirits (六大精神)”, deepen model innovation, accelerate transformation, cultivate green finance, strengthen core competitiveness, unswervingly pursue the featured development path of becoming a “digitization-driven” “Bi-Focus Retail Banking (兩端型零售銀行)”, and continue to build an excellent listed bank with faith, responsibility and value.

Work concepts

The work concepts of being “first class in six aspects”, namely first-class cultural experience, first-class transformation experience, first-class training experience, first-class compliance experience, first-class service experience and first-class value experience.

XII. FUTURE PROSPECTS (CONT'D)

12.2 Development Strategies and Major Work Measures in the Next Year (Cont'd)

Work measures

First, lead with the “spirit” of party building. We will give full play to the core leadership of party building, continuously improve our political understanding, and firmly grasp the direction of thinking, consideration and implementation.

Second, build cultural cohesion with “heart”. We will amplify the cultural advantage of “happy execution”, create experience-based culture and atmosphere, “instill culture in our heart and deliver it in action”, to forge strong cultural synergy.

Third, achieve success through digital “empowerment”. We will leverage on financial technology as well as thinking, technological ecology and platform models, to drive the digital transformation of our business model, reshape our business with digital operation, keep unleashing the benefit from digital transformation, and empower our development through digitization.

Fourth, respect “growth” as the focus. Focused on the top priority of development, we will center on growth and spare no effort to promote growth. We will correctly handle the relationship between stable development and risk control, and recognise, study and achieve growth with a respectful attitude to ensure sustainable growth.

Fifth, enhance efficiency through vertical management and “control”. We will explore and deepen the institutional model of business departments, improve the compliance management system that can reach every aspect, and continuously improve efficiency and effectiveness through vertical management and control.

Sixth, guide with “accurate” assessment. We will give full play to assessment as a “baton” and “navigator”, accurately allocate resources, measure contributions, and realize results to fully mobilize and protect development enthusiasm.

Seventh, strengthen training and “learning”. We will continuously improve our training and our team through a “digital” training system, a “normalized” training mode, and “diversified” training experience.

Eighth, prioritize “speed” in service. We will firmly establish the concept of “customer first”, fully develop the spirit of speed, improve our service response speed, and create a happy service chain of “the headquarters as the primary level, management for business, and the Bank for customers”.

CHAPTER 6 CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

There was no change in the Bank's share capital during the Reporting Period. As at the end of the Reporting Period, the total number of issued Shares of the Bank was 5,980,058,344 Shares, including 4,971,197,344 Domestic Shares and 1,008,861,000 H Shares.

	December 31, 2020		Changes during the Reporting Period Number of shares (Shares)	December 31, 2021	
	Number of shares (Shares)	Percentage of total shares (%)		Number of shares (Shares)	Percentage of total shares (%)
Domestic State Shares	919,671,509	15.38	–	919,671,509	15.38
Domestic state-owned legal person shares	3,162,241,152	52.88	–	3,162,241,152	52.88
Domestic social legal person shares	810,319,383	13.55	–	810,319,383	13.55
Domestic natural person shares	78,965,300	1.32	–	78,965,300	1.32
H Shares	1,008,861,000	16.87	–	1,008,861,000	16.87
Total number of Shares	5,980,058,344	100.00	–	5,980,058,344	100.00

II. INFORMATION ON SHAREHOLDERS

2.1 Total Number of Holders of Domestic Shares

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

Chapter 6 Changes in Share Capital and Information on Shareholders

II. INFORMATION ON SHAREHOLDERS (CONT'D)

2.2 Particulars of the Top Ten Shareholders of Domestic Shares

No.	Name of shareholders	Shareholder Nature	Total number of shares held as at the end of the Reporting Period (shares)	Percentage of total shares as at the end of the Reporting Period (%)	Pledging or freezing status of shares	Quantity
1	Shandong Hi-Speed Group Company	State-owned legal person shares	2,216,423,498	37.06	Normal	–
2	Weihai Municipal Finance Bureau	State-owned shares	919,671,509	15.38	Normal	–
3	Shandong Hi-Speed	State-owned legal person shares	693,957,987	11.60	Normal	–
4	CNHTC	State-owned legal person shares	243,084,607	4.06	Normal	–
5	Weihai Tianan Real Estate Development Co., Ltd.	Social legal person shares	164,163,991	2.75	Normal	–
6	Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd.	Social legal person shares	83,157,762	1.39	Normal	–
7	Shandong Homey Aquatic Development Co., Ltd.	Social legal person shares	71,463,546	1.20	Normal	–
8	Shandong Tianxicheng Enterprise Management Co., Ltd.	Social legal person shares	69,253,090	1.16	Normal	–
9	Weihai Xinghai Trading Co., Ltd.	Social legal person shares	60,054,251	1.00	Normal	–
10	Hongan Group Co., Ltd.	Social legal person shares	59,828,711	1.00	Normal	–

Chapter 6 Changes in Share Capital and Information on Shareholders

II. INFORMATION ON SHAREHOLDERS (CONT'D)

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

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

Name of Shareholders	Class of shares	Nature of interest	Number of Shares directly or indirectly held (shares)	Long position/ short position	Approximate % of interest in the Bank (%)	Approximate % of the relevant class of Shares of the Bank (%)
Shandong Hi-Speed Group Company ⁽¹⁾	Domestic Shares	Beneficial owner and interest in controlled corporation	2,910,381,485	Long position	48.67	58.54
Weihai Municipal Finance Bureau	Domestic Shares	Beneficial owner	919,671,509	Long position	15.38	18.50
Shandong Hi-Speed ⁽¹⁾	Domestic Shares	Beneficial owner	693,957,987	Long position	11.60	13.96
China Hongqiao Group Limited	H Shares	Beneficial owner	276,045,000	Long position	4.62	27.36
Shenzhen Shengqiu Investment Co., Ltd.	H Shares	Beneficial owner	137,305,000	Long position	2.30	13.61
Jinan Licheng Holdings Group Co., Ltd.	H Shares	Beneficial owner	111,852,000	Long position	1.87	11.09
Shandong Lulong Construction Co., Ltd. ⁽²⁾	H Shares	Beneficial owner	71,003,000	Long position	1.19	7.04
YANG Shulan ⁽²⁾	H Shares	Interest in controlled corporation	71,003,000	Long position	1.19	7.04
Xindu Group Limited ⁽²⁾	H Shares	Interest in controlled corporation	71,003,000	Long position	1.19	7.04
CICFH New Dynamics Investment SPC ⁽³⁾	H Shares	Beneficial owner	70,559,000	Long position	1.18	6.99
Dragonstone Capital Management Limited ⁽³⁾	H Shares	Investment manager	70,559,000	Long position	1.18	6.99
GMK Holdings Group Co., Ltd. ⁽⁴⁾	H Shares	Beneficial owner	68,712,000	Long position	1.15	6.81
LIU Xuejing ⁽⁴⁾	H Shares	Interest in controlled corporation	68,712,000	Long position	1.15	6.81
ZHANG Xiuying ⁽⁴⁾	H Shares	Interest of spouse	68,712,000	Long position	1.15	6.81
Jin Jiang Investment Limited	H Shares	Beneficial owner	68,577,000	Long position	1.15	6.80
Tianjin Guangcheng Investment Group Co., Ltd. ⁽⁵⁾	H Shares	Interest in controlled corporation	67,040,000	Long position	1.12	6.65
Tianjin Jizhou Xincheng Agricultural Development Co., Ltd. ⁽⁵⁾	H Shares	Beneficial owner	67,040,000	Long position	1.12	6.65

Chapter 6 Changes in Share Capital and Information on Shareholders

II. INFORMATION ON SHAREHOLDERS (CONT'D)

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

Name of Shareholders	Class of shares	Nature of interest	Number of Shares directly or indirectly held (shares)	Long position/ short position	Approximate % of interest in the Bank (%)	Approximate % of the relevant class of Shares of the Bank (%)
Tianjin Jizhou Xincheng Construction Investment Co., Ltd. ⁽⁵⁾	H Shares	Interest in controlled corporation	67,040,000	Long position	1.12	6.65
Global Miles International Holdings Limited ⁽⁶⁾	H Shares	Beneficial owner	62,472,000	Long position	1.04	6.19
LIU Zhiming ⁽⁶⁾	H Shares	Interest in controlled corporation	62,472,000	Long position	1.04	6.19

Notes:

- (1) Shandong Hi-Speed Group Company is the controlling shareholder of our Bank and is directly held by Shandong SASAC, Shandong Guohui Investment Co., Ltd., a wholly-owned subsidiary of Shandong SASAC, and Shandong Provincial Council for Social Security Fund as to 70%, 20% and 10%, respectively.

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

- (2) Xindu Group Limited indirectly holds 71,003,000 H Shares through its subsidiary, Shandong Lulong Construction Co., Ltd. Ms. YANG Shulan holds approximately 56% of the interests in Xindu Group Limited. Accordingly, Xindu Group Limited and Ms. YANG Shulan are deemed to be interested in 71,003,000 H Shares for the purpose of the SFO.
- (3) Dragonstone Capital Management Limited indirectly holds 70,559,000 H Shares through its subsidiary, CICFH New Dynamics Investment SPC. Accordingly, Dragonstone Capital Management Limited is deemed to be interested in 70,559,000 H Shares for the purpose of the SFO.
- (4) Mr. LIU Xuejing holds approximately 51% of the interests in GMK Holdings Group Co., Ltd. Ms. ZHANG Xiuying is the spouse of Mr. LIU Xuejing. Accordingly, Mr. LIU Xuejing and Ms. ZHANG Xiuying are deemed to be interested in the 68,712,000 H Shares held by GMK Holdings Group Co., Ltd for the purpose of the SFO.
- (5) Tianjin Guangcheng Investment Group Co., Ltd. wholly owns Tianjin Jizhou Xincheng Agricultural Development Co., Ltd. through its wholly-owned subsidiary, Tianjin Jizhou Xincheng Construction Investment Co., Ltd. Accordingly, Tianjin Guangcheng Investment Group Co., Ltd. and Tianjin Jizhou Xincheng Construction Investment Co., Ltd. are deemed to be interested in the 67,040,000 H Shares held by Tianjin Jizhou Xincheng Agricultural Development Co., Ltd. for the purpose of the SFO.
- (6) Mr. LIU Zhiming wholly owns Global Miles International Holdings Limited. Accordingly, Mr. LIU Zhiming is deemed to be interested in the 62,472,000 H Shares held by Global Miles International Holdings Limited for the purpose of the SFO.

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

III. MAJOR SHAREHOLDERS OF DOMESTIC SHARES DURING THE REPORTING PERIOD

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

3.1 Shareholders Holding 5% or More of the Shares

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

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

3.2 Other Major Shareholders

Under the requirements of the Interim Measures for Management of Commercial Bank Equity (《商業銀行股權管理暫行辦法》), the other major shareholders of the Bank are as follows:

Shandong Heavy Industry Group Co., Ltd. is the controlling shareholder of CNHTC, with Shandong SASAC as de facto controller and no persons acting in concert. The ultimate beneficiary is CNHTC.

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

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

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

IV. NOMINATION OF DIRECTORS AND SUPERVISORS BY SHAREHOLDERS

1. Shandong Hi-Speed Group Company nominated Mr. TAN Xianguo, Mr. SONG Bin and Mr. YIN Lin as Directors of the Bank;
2. Weihai Municipal Finance Bureau nominated Mr. ZHAO Bing as a Director of the Bank;
3. Shandong Hi-Speed nominated Mr. YI Jijun as a Director of the Bank;
4. CNHTC nominated Ms. ZHAO Yue as a Director of the Bank;
5. Weihai Tianan Real Estate Development Co., Ltd. nominated Ms. ZHAO Lijie as a Supervisor of the Bank;
6. Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd. nominated Mr. ZHOU Hao as a Supervisor of the Bank;
7. Shandong Homey Aquatic Development Co., Ltd. nominated Mr. FENG Yongdong as a Supervisor of the Bank.

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

During the Reporting Period, neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of the Bank's listed securities.

CHAPTER 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

I. CURRENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1.1 Directors

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

Name	Age	Position	Date of appointment ⁽¹⁾
Mr. TAN Xianguo	55	Executive Director and Chairman	September 2004
Mr. MENG Dongxiao	50	Executive Director and President	April 2016
Ms. TAO Zunjian	52	Executive Director, Vice President and Chief Accountant	January 2019
Mr. LU Jiliang	32	Executive Director and Vice President	August 2021
Mr. ZHANG Wenbin	39	Executive Director and Vice President	August 2021
Mr. SONG Bin	49	Non-executive Director	August 2021
Mr. YIN Lin	47	Non-executive Director	August 2021
Mr. ZHAO Bing	54	Non-executive Director	August 2021
Mr. YI Jijun	57	Non-executive Director	June 2015
Ms. ZHAO Yue	40	Non-executive Director	August 2021
Mr. SUN Guomao	61	Independent Non-executive Director	September 2017
Mr. FAN Chi Chiu	36	Independent Non-executive Director	June 2020
Mr. LU Qing	55	Independent Non-executive Director	July 2016
Mr. WANG Shaohong	58	Independent Non-executive Director	August 2021
Ms. SUN Zuying	59	Independent Non-executive Director	August 2021

Notes:

- (1) The date of appointment as a Director stated herein refers to the date on which the relevant Director obtained the qualification approval from CBIRC Shandong Office.

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

1.2 Supervisors

The board of Supervisors consists of nine Supervisors, including three employees' representative Supervisors, three Shareholders' representative Supervisors and three external Supervisors. Our Supervisors are elected for a term of three years and are subject to re-election, and the cumulative term of an external Supervisor shall not exceed six years. The following table sets forth certain information regarding our Supervisors.

Name	Age	Position	Date of appointment ⁽¹⁾
Mr. ZHANG Renzhao	50	Chairman of the Board of Supervisors and Employees' Representative Supervisor	June 2021
Ms. ZHAO Lijie	47	Shareholders' Representative Supervisor	May 2011
Mr. ZHOU Hao	42	Shareholders' Representative Supervisor	May 2011
Mr. FENG Yongdong	56	Shareholders' Representative Supervisor	April 2015
Mr. WANG Xifeng	53	Employees' Representative Supervisor	June 2021
Mr. ZHANG Chuanzheng	54	Employees' Representative Supervisor	June 2021
Mr. WANG Yong	48	External Supervisor	June 2021
Mr. YANG Yunhong	50	External Supervisor	June 2021
Ms. ZHU Yingwei	48	External Supervisor	June 2021

Note:

- (1) The date of appointment of Supervisors shall commence from the date of approval at the general meeting, and the term of office of re-elected Supervisors shall commence from the date of first election at the general meeting.

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

1.3 Senior Management

Name	Age	Position	Date of appointment ⁽¹⁾
Mr. MENG Dongxiao	50	President	February 2018
Ms. TAO Zunjian	52	Vice President	August 2021
		Chief Accountant	November 2018
Mr. ZHANG Xiaodong	52	Chief Risk Officer	June 2021 ⁽²⁾
Mr. LU Jiliang	32	Vice President	February 2021
Mr. ZHANG Wenbin	39	Vice President	August 2021
Mr. ZHANG Jia'en (張家恩)	46	Secretary to the Board	December 2021 ⁽³⁾

Notes:

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

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

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

2.1 Changes in Directors

On June 11, 2021, at the 2020 Annual General Meeting of the Bank, Mr. LU Jiliang and Mr. ZHANG Wenbin were appointed as executive Directors; Mr. SONG Bin, Mr. YIN Lin, Mr. ZHAO Bing and Ms. ZHAO Yue were appointed as non-executive Directors; Mr. ZHANG Hongdi, Mr. WANG Shaohong and Ms. SUN Zuying were appointed as independent non-executive Directors. The Directors mentioned above (except Mr. ZHANG Hongdi) had their qualifications approved by CBIRC Shandong Office on August 2, 2021, and Mr. LU Qing, a former Director, continued to serve as an independent executive Director.

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

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

2.2 Changes in Supervisors

On April 30, 2021, at the employees' representative meeting of the Bank, Mr. ZHANG Renzhao, Mr. WANG Xifeng and Mr. ZHANG Chuanzheng were elected as the employees' representative Supervisors; on June 11, 2021, at the 2020 Annual General Meeting of the Bank, Mr. WANG Yong, Mr. YANG Yunhong and Ms. ZHU Yingwei were appointed as the external Supervisors.

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

2.3 Changes in Senior Management

On January 15, 2021, the Board of the Bank appointed Mr. LU Jiliang as the vice president of the Bank, and his position qualification was approved by CBIRC Shandong Office on February 8, 2021;

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

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

On June 11, 2021, Mr. ZHANG Renzhao was elected as the chairman of the board of Supervisors of the Bank and ceased to serve as vice president of the Bank;

On June 11, 2021, the Board of the Bank appointed Ms. TAO Zunjian as the Bank's vice president and chief accountant; Mr. Zhang Xiaodong was appointed as the Chief Risk Officer of the Bank and ceased to be the vice president; Mr. LU Jiliang was appointed as the Bank's vice president and secretary to the Board; Mr. ZHANG Wenbin was appointed as the Bank's vice president. The position qualifications of Ms. TAO Zunjian as vice president, Mr. LU Jiliang as the secretary to the Board, and Mr. ZHANG Wenbin as vice president were approved by CBIRC Shandong Office on August 2, 2021.

On December 10, 2021, the Board of the Bank appointed Mr. ZHANG Jia'en as the secretary to the Board of the Bank, and his position qualification is subject to approval by CBIRC Shangdong Office. Mr. LU Jiliang ceased to be the secretary to the Board of the Bank.

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

III. CHANGES IN JOINT COMPANY SECRETARIES

On June 11, 2021, the Board of the Bank appointed Mr. LU Jiliang and Ms. TAM Pak Yu, Vivien, the current company secretary of the Bank, as joint company secretaries of the Bank. Mr. BI Qiubo ceased to serve as the joint company secretary of the Bank due to his age.

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

4.1 Biographies of Directors

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

Mr. Tan Xianguo, aged 55, is a senior accountant. Mr. Tan has been the secretary of the party committee of our Bank since May 2011 and the chairman of the Bank since July 2011. He served as the vice chairman and president of the Bank from September 2004 to July 2011, the deputy secretary of the party committee of our Bank from July 2001 to May 2011 and the chairman of the board of Supervisors of our Bank from July 2001 to August 2004. He served as a vice president and a member of the party committee of Weihai City Cooperative Bank (威海城市合作銀行) (the predecessor of our Bank) and our Bank from July 1997 to April 1998 and from April 1998 to July 2001, respectively. From July 1993 to July 1997, he successively served as an accountant, a section chief (科長), a deputy director (副主任) and a director (主任) of Weihai City Xinghai Urban Credit Cooperative (威海市興海城市信用合作社).

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

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

Mr. Meng Dongxiao, aged 50, has been the deputy secretary of the party committee of the Bank since December 2017 and the president of our Bank since February 2018. He has been the vice president of the Bank from March 2016 to February 2018, and a member of the party committee of the Bank from February 2016 to December 2017. Prior to joining our Bank, from October 2003 to February 2016, he successively served as the assistant to the president of the eastern sub-branch of the Shanghai branch of China Minsheng Bank (中國民生銀行), the general manager of the quality management center of the commercial enterprise finance division, the general manager of compliance and quality management center of the SME finance division and the general manager of the Shanghai branch of the health finance division. Mr. Meng was a lecturer at Shanghai Customs College (上海海關專科學校) (currently known as Shanghai Customs College (上海海關學院)) from August 1996 to September 2003.

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

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

4.1 Biographies of Directors (cont'd)

3. TAO Zunjian (陶遵建), Executive Director

Ms. Tao Zunjian, aged 52, is a professorate senior accountant. Ms. Tao has been a member of the party committee of our Bank, the chief accountant (總會計師) and the vice president of the Bank since October 2018, November 2018 and August 2021. Ms. Tao successively served for the planning and finance department (計劃財務部) of the Bank as the deputy manager, the deputy manager (in-charge), the general manager and the chief financial officer of the Bank from September 2008 to October 2018. She worked as a deputy director (副主任) of the customer business department (客戶業務部) of the Bank from November 2006 to September 2008, and a staff at the technology department of Weihai Xinwei City Credit Cooperatives (威海市新威城市信用社) and a staff at the credit management department of Weihai City Cooperative Bank (威海城市合作銀行) (the predecessor of our Bank) and our Bank from July 1990 to November 2006.

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

4. LU Jiliang (盧繼梁), Executive Director

Mr. Lu Jiliang, aged 32, is an economist. Mr. Lu has been serving as a committee member of the party committee of the Bank since December 2020, a vice president of the Bank since February 2021, and a secretary to the Board of the Bank from August 2021 to December 2021. He successively served as the deputy secretary to the party committee, the vice president, the secretary to the party committee, and the president of Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司) from February 2019 to February 2021. He successively served as the deputy general manager of the party community working department (黨群工作部), the secretary to the team committee (團委書記), the president (行長) of Huancui Governance Branch (環翠管轄行) of the Bank from January 2015 to February 2019. Before joining the Bank, he worked in China Development Bank Co., Ltd., Shandong Province Branch from July 2013 to December 2014.

Mr. Lu obtained a master's degree in accountancy from the University of Glasgow, the United Kingdom in 2012, majoring in international accounting and finance management.

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

4.1 Biographies of Directors (cont'd)

5. ZHANG Wenbin (張文斌), Executive Director

Mr. Zhang Wenbin, aged 39. Mr. Zhang has been serving as a committee member of the party committee of the Bank since April 2021 and a vice president of the Bank since August 2021. He successively served as the secretary of the party committee of Weifang Branch of the Bank, the president of Weifang Branch, general manager of Transportation Finance Department, the president of Corporate Banking Department, business controller of the Company and the assistant to the president from February 2017 to August 2021. He served as the general manager of Transportation Finance Department of the Bank from March 2016 to February 2017. He served as the deputy general manager of Shandong Hi-Speed Singapore Co., Ltd. (山東高速新加坡有限公司) from May 2014 to March 2016. He had served successively as a manager of the business department of sub-branches, the deputy general manager of corporate banking department, and the chairman of Industrial New Zone Sub-branch of the Bank from September 2004 to May 2014.

Mr. Zhang obtained a master's degree in business administration from the Ocean University of China (中國海洋大學) in 2012, majoring in business administration.

6. SONG Bin (宋斌), Non-executive Director

Mr. Song Bin, aged 49. Mr. Song has been an executive director of Shandong Hi-Speed Group Company since July 2020. He had served as the Chairman of Shandong Hi-Speed Minsheng Group Co., Ltd. (山東高速民生集團有限公司) from July 2021 to October 2021. He had served successively as the director of the integration office, the deputy chief counsel, the chief counsel, a member of the party committee, the chief auditor of Qilu Transportation Development Group Co., Ltd. (齊魯交通發展集團有限公司), as well as a director of Shandong Jile Hi-Speed Co., Ltd. (山東濟樂高速有限公司) from December 2015 to July 2020. He had been a staff member, senior staff member, principal staff member, deputy office director as well as the director of financial division of the Traffic and Transportation Department of Shandong Province from July 1997 to December 2015. He worked at the provincial authority vehicles management office of Shandong Province (山東省省級機關車管處) from July 1994 to July 1997.

Mr. Song obtained a master's degree in law from the Shandong University in 2007, majoring in law.

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

4.1 Biographies of Directors (cont'd)

7. *YIN Lin (尹林), Non-executive Director*

Mr. Yin Lin, aged 47, is an economist. Mr. Yin has been a director at the capital settlement center of Shandong Hi-Speed Group Company since July 2020. He had successively served as the deputy director of financial management department, the director of capital settlement center of Qilu Transportation Development Group Co., Ltd. (齊魯交通發展集團有限公司) as well as chairman and general manager of Shandong Tongjia Investment Co., Ltd. (山東通嘉投資有限公司), a director of Dongying United Petrochemical Co., Ltd. (東營聯合石化有限責任公司), a supervisor of Shandong Tonghui Capital Management Co., Ltd. (山東通匯資本管理有限公司), and a supervisor of Shandong Hi-Speed Energy Development Co., Ltd. (山東高速能源發展有限公司) from November 2015 to October 2020. He had successively worked in Highway Management Bureau of Jinan (濟南市公路管理局), and the Highway Bureau of Traffic and Transportation Department of Shandong Province (山東省交通運輸廳公路局) from July 1994 to November 2015.

Mr. Yin concurrently serves as a director of Shandong Tonghui Capital Investment Group Co., Ltd. (山東通匯資本投資集團有限公司).

Mr. Yin obtained a bachelor's degree in accountancy from the Central Radio and Television University (中央廣播電視大學) in 2000, majoring in accountancy.

8. *ZHAO Bing (趙冰), Non-executive Director*

Mr. Zhao Bing, aged 54, is an accountant. Mr. Zhao has been serving as external directors of municipal state-owned enterprises as accredited by Weihai State-Owned Enterprise External Directors Talent Management Center (威海市國有企業外部董事人才管理中心) since August 2019. He served as the chairman of the supervisory board of Weihai State-owned Property Management Ltd. (威海市國有資本運營公司) as accredited by Weihai State-owned Enterprise Directors and Supervisors Work Management Center (威海市國有企業董事監事工作管理中心) from August 2014 to August 2019. He had successively served at the Off-budget Integration Section (預算外綜合科), National Treasury Payment Center (國庫支付中心), and Finance and International Co-operation Section (金融與國際合作科) of Weihai City Finance Bureau (威海市財政局) as a staff member, deputy section chief, and section chief from May 1997 to August 2014. He successively served at the Finance Bureau of Huancui District of Weihai City as a staff member and a director of office from November 1986 to May 1997.

Mr. Zhao concurrently serves as an accredited external director (專職外部董事) at Weihai Water Affair Group Company Ltd. (威海市水務集團有限公司), Weihai Thermolectricity Group Co., Ltd. (威海熱電集團有限公司), Weihai Cultural and Tourism Development Group Co., Ltd. (威海文旅發展集團有限公司), Weihai Public Transportation Group Co., Ltd. (威海公共交通集團有限公司), Weihai City Construction Group Co., Ltd. (威海城建集團有限公司), and Weihai Municipal Gas Group Co., Ltd. (威海城市燃氣集團有限公司); and also serving at Weihai Towngas China Co., Ltd. (威海港華燃氣有限公司), and Shandong Weihai Rural Commercial Bank Co., Ltd. (山東威海農村商業銀行股份有限公司) as a director.

Mr. Zhao obtained a bachelor's degree at Shandong Economics Cadre Management Institute (山東經濟幹部管理學院) in 1996, majoring in economics management (經濟管理).

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

4.1 Biographies of Directors (cont'd)

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

Mr. Yi Jijun, aged 57, is a professorate senior accountant. Mr. Yi has been the chairman of the Board of Supervisors and a member of the party committee of Shandong Hi-Speed (a company listed on the Shanghai Stock Exchange, stock code: 600350) since January 2021 and June 2013, respectively. From May 2020 to January 2021, he was a supervisor of Shandong Hi-Speed. From April 2013 to May 2020, he was successively the chief accountant (總會計師), deputy general manager (副總經理) and director of Shandong Hi-Speed. From July 2001 to April 2013, he consecutively served as deputy director (副處長) and director (處長) of the financial division of the Highway Bureau of the Traffic Department of Shandong Province (山東省交通廳公路局). He served in the financial division of the Traffic Department of the Shandong Province (山東省交通廳) from September 1994 to July 2001. From July 1987 to September 1994, Mr. Yi worked as a teacher at the economics teaching and research office of Traffic Cadre School of Shandong Province (山東省交通幹部學校經濟教研室).

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

10. *ZHAO Yue (趙月), Non-executive Director*

Ms. Zhao Yue, aged 40, is a senior accountant. Ms. Zhao Yue has been serving as the vice general manager and chief financial officer of Sinotruk Auto Finance Co., Ltd. since December 2021. She has been serving as the head of finance department of China National Heavy Duty Truck Group Company Limited (中國重型汽車集團有限公司) since February 2020, and as the authorized representative and the general manager of CNHTC Ji'nan Investment Co., Ltd. (中國重汽集團濟南投資有限公司) from August 2020 to December 2021. She successively served as the accountant of the accounting and cost center under the finance department, the manager of budget management center under finance department, and the general manager of listing financial department of China National Heavy Duty Truck Group Company Limited (中國重型汽車集團有限公司) as well as a director of Sinotruk Finance Co., Ltd. (中國重汽財務有限公司) and a director of Sinotruk Auto Finance Co., Ltd. (formerly known as Shandong HOWO Auto Finance Co., Ltd. (山東豪沃汽車金融有限公司)) from June 2007 to February 2020.

Ms. Zhao Yue concurrently serves as a director of Sinotruk Group Insurance Broker Co., Ltd. (重汽集團保險經紀有限公司) and Dongyue Special Purpose Automobile Manufacturing Co., Ltd. (山東東岳專用汽車製造有限公司) and a supervisor of Sinotruk Jinan Power Co., Ltd. (中國重汽集團濟南動力有限公司).

Ms. Zhao obtained a master's degree in accountancy from Chang'an University (長安大學) in 2007, majoring in accountancy.

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

4.1 Biographies of Directors (cont'd)

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

Mr. Sun Guomao, aged 61, is a professor. Mr. Sun has been a professor and PhD tutor (博士生導師) of School of Economics, Qingdao University (青島大學經濟學院) since September 2016 and a professor of School of Finance of Shandong Technology and Business University (山東工商學院金融學院) and a chief expert (首席專家) of Collaborative Innovation Centre for Financial Service Transformation and Upgrade (金融服務轉型升級協同創新中心) since July 2019. Mr. Sun was the chief expert of Collaborative Innovation Centre for Innovation and Development of Capital Market of Shandong Province (山東省資本市場創新發展協同創新中心) and Institute of Finance, Jinan University (濟南大學金融研究院), respectively, from April 2016 to January 2018. Mr. Sun has been working for Jinan University (濟南大學) consecutively as a director (主任) and a professor of the Corporate Finance Research Centre (公司金融研究中心) from October 2011 to January 2018, and as a professor of business school (商學院) from December 2015 to January 2018. Mr. Sun was the chairman of the board of Wanjia Fund Management Co., Ltd. (萬家基金管理有限公司) from December 2009 to May 2011 and was registered as a securities practitioner in Qilu Securities Co., Ltd. (齊魯證券有限公司, currently known as Zhongtai Securities Co., Ltd. (中泰證券有限公司)) from July 2004 to December 2008. Mr. Sun was awarded the titles as a “Top-tier Financial Talent of Shandong Province” (山東省金融高端人才) by Shandong Provincial Financial Office (山東省金融工作辦公室) and a “Taishan Industry Leader” (泰山產業領軍人才) by People’s Government of Shandong Province in May 2018 and December 2017, respectively.

Mr. Sun concurrently serves as a director of Shanghai Xide Investment Management Co., Ltd. (上海熙德投資管理有限公司) and Shandong Hanxun Information Technology Co., Ltd. (山東瀚訊信息技術有限公司), and an independent director of Qingdao Rural Commercial Bank Co., Ltd. (青島農村商業銀行股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002958) and Shandong Qilu Huaxin Industry Co., Ltd. (山東齊魯華信實業股份有限公司).

Mr. Sun obtained a doctoral degree from Central University of Finance and Economics (中央財經大學) in 2002, majoring in national economics (國民經濟學).

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

4.1 Biographies of Directors (cont'd)

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

Mr. Fan Chi Chiu, aged 36, is a certified public accountant of Hong Kong. Mr. Fan has been serving as the investment director of AB Builders Group Limited since November 2021. He was an executive director of Grace Wine Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 8146), from July 2017 to September 2021. From April 2015 to September 2021, Mr. Fan successively served as the chief financial controller and the chief financial officer of ELL Environmental Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1395). He worked as an analyst in Barclays Investment Bank from July 2011 to February 2014 and a senior associate at PricewaterhouseCoopers from October 2007 to June 2011.

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

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

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

Mr. Lu Qing, aged 55, is a senior accountant. Mr. Lu has been a partner of ShineWing CPA (信永中和會計師事務所) (consolidated with Zhonghe Zhengxin Certified Public Accountants (中和正信會計師事務所)) since October 2009. He was a partner of Zhonghe Zhengxin Certified Public Accountants (中和正信會計師事務所) from September 2003 to October 2009 and Tianyi Certified Public Accountants (天一會計師事務所) from July 2001 to September 2003, respectively. Mr. Lu served as an independent non-executive director of Hisense Kelon Electrical Holdings Company Limited (currently known as Hisense Home Appliances Group Co., Ltd.), the shares of which are listed on the Hong Kong Stock Exchange (stock code: 921) from June 2006 to July 2010.

Mr. Lu concurrently serves as an independent director of Qingdao Weiao Rail Co., Ltd. (青島威奧軌道股份有限公司).

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

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

4.1 Biographies of Directors (cont'd)

14. *WANG Shaohong (王紹宏), Independent Non-executive Director*

Mr. Wang Shaohong, aged 58, is a senior economist. Mr. Wang has been the president of Shenzhen Research Association of Corporate Governance (深圳市公司治理研究會) and the chairman of Shenzhen Zhuxincheng Equity Investment and Fund Management Company Limited (深圳鑄信誠股權投資基金管理股份有限公司) since October 2016 and September 2017, respectively. He served as the managing director (董事總經理) of Guangdong Renewable Energy Industry Fund (廣東省可再生能源產業基金) from September 2015 to September 2017, and an assistant to the president (行長助理) and deputy president (副行長) of The Export-Import Bank of China, Shenzhen Branch (中國進出口銀行深圳分行) from February 2003 to September 2015. He successively worked as the controller of credit department (信貸部門負責人) and president of the sub-branches (支行行長) in China Construction Bank, Hainan Branch (中國建設銀行海南省分行), China Investment Bank, Shenzhen Branch (中國投資銀行深圳分行) and China Everbright Bank, Shenzhen Branch (中國光大銀行深圳分行) from March 1993 to February 2003. He was engaged in finance teaching and research at Tianjin University of Finance and Economics (天津財經大學) from July 1986 to March 1993.

Mr. Wang concurrently serves as an independent director of Prosperity Textiles Limited (北江智聯紡織股份有限公司).

Mr. Wang obtained a doctoral degree in economics from Tianjin University of Finance and Economics (天津財經大學) in 2008, majoring in finance.

15. *SUN Zuying (孫祖英), Independent Non-executive Director*

Ms. Sun Zuying, aged 59, is an accountant, an economist, a certified public accountant, and an asset appraiser. Ms. Sun has been serving at Weihai Yinghua Investment Consultation Co., Ltd. (威海英華投資諮詢有限公司) as the legal representative (法定代表人) since April 2021. She founded Shandong Yinghua Certified Public Accountants (山東英華會計師事務所), and served as the chief accountant (主任會計師) from November 1997 to May 2021. She was the department director (部門主任) of an accounting firm under Weihai Municipal Finance Bureau (威海市財政局) from July 1988 to November 1997, and was a teacher in Shandong Banking School (山東省銀行學校) from July 1984 to July 1988.

Ms. Sun obtained a bachelor's degree in philosophy from Shandong University (山東大學) in 1984, majoring in philosophy.

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

4.2 Biographies of Supervisors

1. *ZHANG Renzhao (張仁釗), Employee's Representative Supervisor*

Mr. Zhang Renzhao, aged 50, is an accountant. Mr. Zhang has been the deputy secretary of the party committee of the Bank since April 2021 and the chairman of the Board of Supervisors of the Bank since June 2021. Mr. Zhang was a member of the party committee of the Bank from July 2005 to April 2021 and was a vice president of the Bank from July 2005 to June 2021. Mr. Zhang served as the financial controller (財務負責人) of our Bank from March 2003 to November 2018. He also served as the president of the Jinan branch of our Bank from October 2009 to February 2015 and as a director of the planning and finance department (計劃財務部主任) from March 2003 to May 2006. He served as the director of the financial accounting department (財務會計部主任) of our Bank from November 1998 to March 2003. He served as a deputy director of the accounting and cashier department (會計出納部副主任) of Weihai City Cooperative Bank (威海城市合作銀行) (the predecessor of our Bank) from August 1997 to November 1998, and a deputy chief (副科長) and then the chief of accounting (會計科長) of Weihai City Xinghai Urban Credit Cooperative (威海市興海城市信用合作社) from April 1994 to August 1997. Prior to joining our Bank, Mr. Zhang worked at the Luojiang office, Deyang branch of the Bank of China (中國銀行德陽分行羅江分理處).

Mr. Zhang has been the chairman of the board of directors of Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司), a non-wholly owned subsidiary of the Bank, since April 2018 and its secretary to the party committee since January 2021. He was its president from February 2017 to June 2019, and the secretary to its party committee from June 2017 to July 2019.

Mr. Zhang graduated from Shandong University of Finance (山東財政學院) (currently known as Shandong University of Finance and Economics (山東財經大學)) in 2007, majoring in accountancy.

2. *WANG Xifeng (王希峰), Employee's Representative Supervisor*

Mr. Wang Xifeng, aged 53, is a senior economist. Mr. Wang has been the secretary to the party committee and the president of Tianjin branch of the Bank since September 2017. From November 2007 to September 2017, he successively served as the general manager of the marketing department no. 3 (市場三部) of Jinan branch, the president of Yanshan sub-branch, a member of the party committee and an assistant to the president of Jinan branch, the deputy head of the preparatory team of Zibo branch, the secretary to the party committee of Zibo branch, and the president of Zibo branch. Prior to joining the Bank, Mr. Wang worked for Tianqiao Sub-branch of China Construction Bank in Jinan.

Mr. Wang obtained a master's degree in business administration from Shanghai Maritime University (上海海事大學) in 2005, majoring in business administration.

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

4.2 Biographies of Supervisors (cont'd)

3. *ZHANG Chuanzheng (張傳政), Employee's Representative Supervisor*

Mr. Zhang Chuanzheng, aged 54, is a senior auditor, and an international registered internal auditor. Mr. Zhang has been serving as the general manager of the audit department of the Bank since September 2018. From July 1994 to September 2018, he successively served as the head of the teller counter under the sales department, the head of savings management section and the head of sales office of sub-branch, the deputy director of credit management department, the deputy general manager of risk management department, and the deputy general manager of audit department (in-charge) of Weihai City Shuntong Urban Credit Cooperative (威海市順通城市信用合作社), Weihai City Cooperative Bank (威海城市合作銀行) (the predecessor of our Bank) and the Bank. Prior to joining the Bank, Mr. Zhang worked at the Rushan County Brewery.

Mr. Zhang obtained a bachelor's degree in laws degree from Nanjing University in 2009, majoring in law.

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

Ms. Zhao Lijie, aged 47, is a senior accountant. Ms. Zhao has joined Weihai Tianan Real Estate Development Co., Ltd. (威海天安房地產開發有限公司) since September 2001 and has been the manager and deputy general manager of finance department of the Company since May 2004.

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

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

Mr. Zhou Hao, aged 42, is a senior economist. Mr. Zhou has joined Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd. (山東環球漁具股份有限公司) since September 2002, and has served as the general manager since August 2018.

Mr. Zhou concurrently serves as an executive director of Weihai Ailan Fishing Gear Technology Development Co., Ltd. (威海愛藍漁具科技發展有限公司) and Weihai Global Property Co., Ltd. (威海環球置業有限公司).

Mr. Zhou obtained a master's degree in business administration from Ecole des Dirigeants et Createurs d'entreprise in Paris, France, in 2002. He obtained a master's degree in law and a doctoral degree in western economics from Shandong University in 2008 and 2018, respectively. Mr. Zhou obtained the PRC legal professional qualification granted by the Ministry of Justice of the PRC in 2008.

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

4.2 Biographies of Supervisors (cont'd)

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

Mr. Feng Yongdong, aged 56, is an accountant. Mr. Feng has joined Homey Group Co., Ltd. (好當家集團有限公司) as the chief accountant in finance department since January 1983 and has been a director of that company since April 2016. He has been serving as a deputy president of that company since January 2021. Mr. Feng successively served as a financial controller and a deputy general manager in Shandong Homey Aquatic Development Co., Ltd. (山東好當家海洋發展股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600467) from January 2001 to December 2020.

Mr. Feng obtained a bachelor's degree in corporate management from Renmin University of China (中國人民大學) in 1996.

7. *WANG Yong (王勇), External Supervisor*

Mr. Wang Yong, aged 48, is a professor. Mr. Wang has been serving as the executive associate director (常務副所長) for Institute of Economics of the School of Social Sciences, Tsinghua University (清華大學社會科學學院經濟學研究所) since September 2018. He successively served as a lecturer, assistant director (所長助理) and associate director (副所長) for Institute of Economics of the School of Humanities and Social Sciences, Tsinghua University (清華大學人文社會科學學院經濟學研究所) from May 2004 to September 2018.

Mr. Wang obtained a doctoral degree in industrial economics (產業經濟學) from the Guanghua School of Management of Peking University in 2003, and a postdoctorate degree in economics from the Department of Economics of Harvard University in 2008.

8. *YANG Yunhong (楊雲紅), External Supervisor*

Mr. Yang Yunhong, aged 50, is a professor. Mr. Yang joined the Guanghua School of Management of Peking University (北京大學光華管理學院) in September 2000, and has been a professor from August 2011 till now. He served as an associate professor of School of Economics and Management of Wuhan University from July 1998 to September 2000.

Mr. Yang concurrently serves as an independent director of Hubei W-Olf Photoelectric Technology Co., Ltd. (湖北五方光電股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002962), and Xinghe Fund Management Company Limited (興合基金管理有限公司).

Mr. Yang obtained a doctoral degree in probability statistics (概率統計) from Wuhan University (武漢大學) in 1998.

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

4.2 Biographies of Supervisors (cont'd)

9. ZHU Yingwei (朱英偉), External Supervisor

Ms. Zhu Yingwei, aged 48, is an accountant and an International Certified Senior Public Accountant. Ms. Zhu founded Wendeng Tongxing Lianhe Certified Public Accountants (文登同興聯合會計師事務所) in July 2004 where she has been serving as a manager. She set up Weihai Bincheng Taxation Firm (威海濱城稅務師事務所) in May 2011 where she has been serving as a manager. She has been the vice chairman of Wendeng District Federation of Industry and Commerce, Weihai City (威海市文登區工商業聯合會) since March 2016, as well as the vice chairman and secretary general of the Wendeng District "Wendengxue" Education Foundation, Weihai City (威海市文登區“文登學”教育基金會) since September 2018. She worked in Wendeng Municipal Finance Bureau (文登市財政局) from June 1997 to July 2004

Ms. Zhu graduated from Shandong Economic University (山東經濟學院) (currently known as Shandong University of Finance and Economics (山東財經大學)) in 1995, majoring in international trade.

4.3 Biographies of Senior Management

For biographical details of Mr. Meng Dongxiao (孟東曉), Ms. Tao Zunjian (陶遵建), Mr. Lu Jiliang (盧繼梁) and Mr. Zhang Wenbin (張文斌), please see "Biographies of Directors" in this section.

Mr. Zhang Xiaodong (張曉東), aged 52, is an economist. Mr. Zhang has served as a member of the party committee of the Bank since November 2018 and a Chief Risk Officer since June 2021. He served as vice president of the Bank from November 2018 to June 2021. From September 2005 to November 2018, he successively served as a staff of development and renovation department, deputy director of the credit management department, director of the credit management department, general manager of the Risk Management Department, general manager of the small business banking department, the general manager of the Credit Review and Approval Department, Chief Credit Approver and assistant to the president. Prior to joining our Bank, Mr. Zhang was with the business development department of Huaxia Bank Co., Ltd. Jinan Branch from December 2003 to September 2005. From October 2002 to October 2003, he served as an assistant to the general manager at Weigao Group Co., Ltd. (威高集團有限公司). From July 1993 to May 2001, Mr. Zhang was the leader of import team of settlement business department at Bank of China Weihai Branch.

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

Mr. Zhang Jia'en (張家恩), aged 46, is an economist. Mr. Zhang has been the director of Policy Research Office of the Bank since November 2019, and the director (主任) of the general office of our Bank since October 2020. He has been appointed as the secretary to the Board of our Bank since December 2021, with his qualification pending approval from CBIRC Shandong Office. From October 2009 to August 2021, he successively served as a staff of the general office of the Bank, deputy director of the general office, the secretary (書記) of the youth league committee (團委), director (主任) of the general office, director of the Policy Research Office and general manager of the Strategic Management Department. Prior to joining our Bank, he worked for AJ Securities Company Limited from September 2007 to April 2009 and for Guangsha Holdings Venture Capital Co., Ltd. (廣廈控股創業投資有限公司) from July 2006 to July 2007.

Zhang Jia'en obtained a doctoral degree in management from Xi'an Jiaotong University in 2005, majoring in management science and engineering.

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

4.4 Joint Company Secretaries

Mr. Lu Jiliang (盧繼梁) was appointed as one of the joint company secretaries of the Bank in June 2021. For biographical details of Mr. Lu Jiliang, please see “Biographies of Directors” in this section.

Ms. Tam Pak Yu, Vivien (譚柏如) is one of the joint company secretaries of the Bank. Ms. Tam serves as an assistant manager of SWCS Corporate Services Group (Hong Kong) Limited (方圓企業服務集團(香港)有限公司), a professional services provider specializing in corporate services, and has over five years of experience in corporate secretarial field. Ms. Tam has been admitted as an associated member of both The Hong Kong Institute of Chartered Secretaries and Chartered Governance Institute in 2018.

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

4.5 Confirmation of Independence of Independent Non-executive Directors

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

V. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

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

VI. REMUNERATION PAID TO DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank paid remuneration to Directors, Supervisors and Senior Management in accordance with the Remuneration System for Directors and Supervisors (《董事、監事薪酬制度》) and the Remuneration Management System for Senior Management (《高級管理人員薪酬管理制度》). The specific remuneration scheme for Directors, Supervisors and Senior Management of the Bank shall be reviewed by the Nomination and Remuneration Management Committee of the Board and submitted to the Board for final decision. The remuneration system of Directors, Supervisors and Senior Management shall follow the principle of combining incentives and constraints, also giving consideration to short-term incentives and medium and long-term incentives.

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

VII. STAFF AND HUMAN RESOURCE MANAGEMENT

7.1 Composition of employees

As at the end of the Reporting Period, the total number of our regular employees reached 3,044, of which 56.2% were female and 25.0% were employees aged 30 or below, and 93.8% were employees with bachelor’s degree or above. An excellent team of professionals helps to cultivate a corporate culture of active innovation and strengthen the ability to respond to market changes and seize market opportunities.

VII. STAFF AND HUMAN RESOURCE MANAGEMENT (CONT'D)

7.2 Remuneration policy

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

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

The Bank has 677 senior management and employees in total whose positions have significant impact on risks. During the Reporting Period, the fixed remuneration of senior management and employees whose positions have significant impact on risks of the Bank was RMB87.83 million, the variable remuneration before the appraisal was RMB190.16 million, and the actual variable remuneration after the appraisal was RMB140.89 million, of which the deferred remuneration was RMB69.21 million. During the Reporting Period, the Bank deducted RMB324,000 for the performance compensation according to its business risk.

7.3 Training scheme

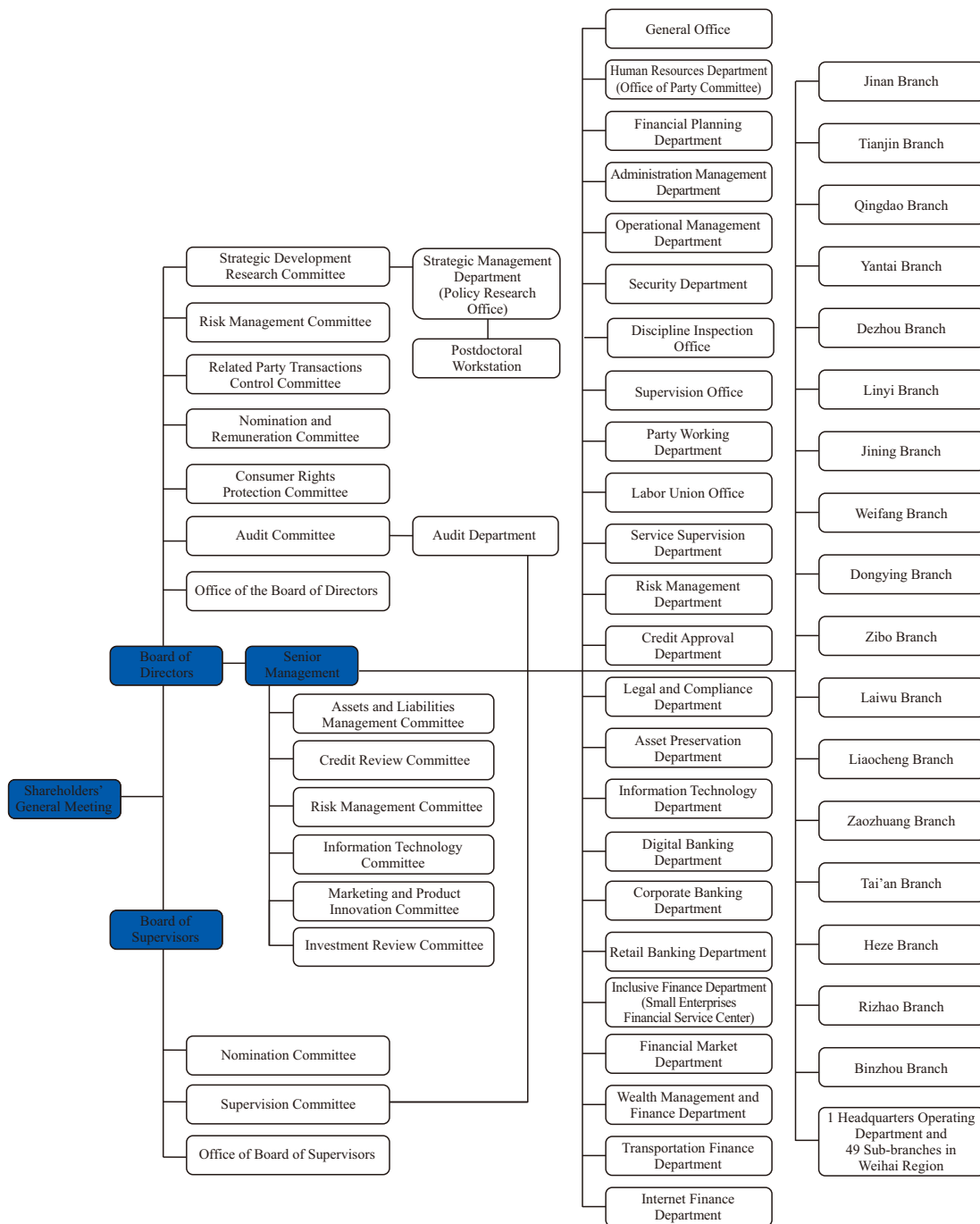
The Bank's management attaches great importance to talent cultivation. In 2021, in accordance with the principle of "service strategy, problem guidance and practical implementation", the Bank focused on two themes of "improving human resource efficiency" and "solving business development difficulties", deepened cooperation with excellent training institutions, further consolidated the training foundation and strengthened practical training. Firstly, the Bank organized leadership improvement training to further broaden the vision of cadres and improve management efficiency through training. Secondly, the Bank organized the training of "pursuing dreams" for new staff from schools, so as to lay a solid foundation of business skills and compliance concept for new employees to work. Thirdly, the Bank organized the "learning as a teacher" internal trainer competition to quickly improve personal ability and boost the construction of internal trainer team of our Bank through the competition. Fourthly, the Bank organized training throughout the Bank. The Bank carried out system execution construction activities, "morning and evening reading" activities, entry qualification examination and online live training throughout the Bank. By carrying out training of different professions, categories and levels, the Bank expected to improve the overall competitiveness of the team and provide talent guarantee for the rapid development of the Bank.

7.4 Share incentive plans

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

CHAPTER 8 CORPORATE GOVERNANCE REPORT

ORGANIZATIONAL STRUCTURE CHART



Chapter 8 Corporate Governance Report

I. GENERAL INFORMATION ON CORPORATE GOVERNANCE

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

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

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

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

II. SHAREHOLDERS' GENERAL MEETING

2.1 Duties of the Shareholders' general meeting

The Shareholders' general meeting is the highest authority of the Bank. Its main duties include deciding on the Bank's business strategies and material investment plans, electing and replacing directors and non-employee supervisors, deciding on their remuneration, considering and approving annual financial budget proposals, financial final accounts, profit distribution proposals, and loss recovery proposals, and resolutions on the merger, demerger, dissolution and liquidation of the Bank or change of form of the company, and amending the Articles of Association, etc.

2.2 Convening of the Shareholders' general meeting

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

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

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

III. THE BOARD AND ITS SPECIAL COMMITTEES

3.1 Duties of the Board

The Board is a decision-making body of the Bank and is accountable to the Shareholders' general meeting. Its main duties include convening the Shareholders' general meetings, reporting to the Shareholders' general meetings and executing the resolutions of the Shareholders' general meetings, deciding on the Bank's development strategies, business plans and investment plans, formulating annual financial budget proposals, financial final accounts, profit distribution proposals and loss recovery proposals, making proposals for the merger, demerger, dissolution and change of form of the Bank, formulating amendments to the Articles of Association and formulating the fundamental management system of the Bank.

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

3.2 Operation of the Board

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

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

3.3 Composition of the Board

As of the end of the Reporting Period, the Board of Directors of the Bank consisted of fifteen Directors, including five executive Directors, namely Mr. TAN Xianguo (譚先國), Mr. MENG Dongxiao (孟東曉) and Ms. TAO Zunjian (陶遵建), Mr. LU Jiliang (盧繼梁) and Mr. ZHANG Wenbin (張文斌); five non-executive Directors, namely Mr. SONG Bin (宋斌), Mr. YIN Lin (尹林), Mr. ZHAO Bing (趙冰), Mr. YI Jijun (伊繼軍) and Ms. ZHAO Yue (趙月); and five independent non-executive Directors, namely Mr. SUN Guomao (孫國茂), Mr. FAN Chi Chiu (范智超), Mr. LU Qing (路清), Mr. WANG Shaohong (王紹宏) and Ms. SUN Zuying (孫祖英). Directors shall be elected at the Shareholders' general meeting, and shall serve a term of office of three years commencing from the date on which their qualifications are verified by the CBIRC. A Director may serve consecutive terms if re-elected upon the expiry of his/her term of office, unless otherwise specified by laws, regulations, regulatory authorities and the Articles of Association of the Bank. The membership and composition of the Bank's Board of Directors are in compliance with applicable laws and regulations.

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

III. THE BOARD AND ITS SPECIAL COMMITTEES (CONT'D)

3.4 Changes in members of the Board during the Reporting Period

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

3.5 Directors’ responsibilities for preparing financial statement

The Directors are responsible for supervising the preparation of a financial report for each accounting year and ensuring that the financial report gives a true and fair view of the financial position, operating results and cash flow of the Group. In preparing the financial report for the year ended December 31, 2021, appropriate accounting policies have been selected and applied consistently, and prudent and reasonable judgment and estimation have been made. The Directors acknowledge their responsibilities for preparing the financial report, and the reporting responsibility statement issued by the auditors in relation to their report is set out in the Independent Auditor’s Report.

3.6 Meetings of the Board and the Directors’ attendance at the meetings

During the Reporting Period, the Bank held eight Board meetings in total, at which 77 resolutions were considered and passed on topics mainly including final accounts report, draft budget, profit distribution plan, amendments to the Articles of Association and re-election and appointment of the Directors/Supervisors. Apart from regular Board meetings, the Chairman also held one meeting with the independent non-executive Directors without the presence of other Directors during the year. Details of the Board meetings held during the Reporting Period are set out below:

Session	Date of Meeting	Form of Meeting
21st session of the 7th Board meeting	January 15, 2021	On-site
22nd session of the 7th Board meeting	February 9, 2021	On-site
23rd session of the 7th Board meeting	March 31, 2021	On-site
24th session of the 7th Board meeting	May 8, 2021	On-site
1st session of the 8th Board meeting	June 11, 2021	On-site
2nd session of the 8th Board meeting	August 27, 2021	On-site
3rd session of the 8th Board meeting	November 5, 2021	On-site
4th session of the 8th Board meeting	December 10, 2021	On-site

III. THE BOARD AND ITS SPECIAL COMMITTEES (CONT'D)

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

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

Members of the Board	Attendances Required at Board Meetings	Attendances in Person at Board Meetings	Attendances by Proxy at Board Meetings	Attendances in Person at Shareholders' General Meeting/ Shareholders' General Meeting Convened during the Tenure of Office
Current Directors				
Mr. TAN Xianguo (譚先國)	8	8	0	1/1
Mr. MENG Dongxiao (孟東曉)	8	8	0	1/1
Ms. TAO Zunjian (陶遵建)	8	8	0	1/1
Mr. LU Jiliang (盧繼梁)	4	4	0	/(1)
Mr. ZHANG Wenbin (張文斌)	4	4	0	/(1)
Mr. SONG Bin (宋斌)	4	3	1	/(1)
Mr. YIN Lin (尹林)	4	4	0	/(1)
Mr. ZHAO Bing (趙冰)	4	4	0	/(1)
Mr. YI Jijun (伊繼軍)	8	8	0	1/1
Ms. ZHAO Yue (趙月)	4	4	0	/(1)
Mr. SUN Guomao (孫國茂)	8	8	0	1/1
Mr. FAN Chi Chiu (范智超)	8	8	0	1/1
Mr. LU Qing (路清)	7	7	0	1/1
Mr. WANG Shaohong (王紹宏)	4	4	0	/(1)
Ms. SUN Zuying (孫祖英)	4	4	0	/(1)
Resigned Directors				
Mr. ZHANG Renzhao (張仁釗)	4	4	0	1/1
Mr. BI Qiubo (畢秋波)	4	4	0	1/1
Mr. LI Hang (李航)	4	4	0	0/1
Mr. WANG Song (王松)	4	4	0	1/1
Mr. SUN Chenglong (孫成龍)	4	4	0	0/1
Mr. WANG Qixiang (王啟祥)	4	4	0	0/1
Mr. LIU Xue (劉學)	4	4	0	1/1
Mr. ZHANG Guanghong (張廣鴻)	4	4	0	0/1

Note:

- (1) Mr. LU Jiliang, Mr. ZHANG Wenbin, Mr. SONG Bin, Mr. YIN Lin, Mr. ZHAO Bing, Ms. ZHAO Yue, Mr. WANG Shaohong and Ms. SUN Zuying have served as the Directors of the Bank since August 2, 2021.

III. THE BOARD AND ITS SPECIAL COMMITTEES (CONT'D)

3.7 Independent Non-executive Director

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

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

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

3.8 Special committees of the Board

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

1. Strategic Development Research Committee

The Bank has established the Strategic Development Research Committee with written rules of procedure. As of the end of the Reporting Period, the Strategic Development Research Committee consists of seven Directors, namely Mr. TAN Xianguo (譚先國), Mr. MENG Dongxiao (孟東曉), Mr. LU Jiliang (盧繼梁), Mr. ZHANG Wenbin (張文斌), Mr. SONG Bin (宋斌), Mr. ZHAO Bing (趙冰) and Mr. SUN Guomao (孫國茂). The chairman of the Strategic Development Research Committee is Mr. TAN Xianguo (譚先國). Mr. TAN Xianguo (譚先國), Mr. MENG Dongxiao (孟東曉), Mr. LU Jiliang (盧繼梁) and Mr. ZHANG Wenbin (張文斌) are executive Directors, Mr. SONG Bin (宋斌) and Mr. ZHAO Bing (趙冰) are non-executive Directors, and Mr. SUN Guomao (孫國茂) is an independent non-executive Director.

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

III. THE BOARD AND ITS SPECIAL COMMITTEES (CONT'D)

3.8 Special committees of the Board (cont'd)

1. Strategic Development Research Committee (cont'd)

During the Reporting Period, the Strategic Development Research Committee held 4 meetings in total, at which 15 resolutions were considered and approved on topics mainly including profit distribution, financial budget, capital planning, strategic evaluation and digital transformation planning solutions, etc.

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

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Current committee members			
Mr. TAN Xianguo (譚先國)	4	4	0
Mr. MENG Dongxiao (孟東曉)	4	4	0
Mr. LU Jiliang (盧繼梁)	2	2	0
Mr. ZHANG Wenbin (張文斌)	2	2	0
Mr. SONG Bin (宋斌)	2	2	0
Mr. ZHAO Bing (趙冰)	2	2	0
Mr. SUN Guomao (孫國茂)	2	2	0
Resigned committee members			
Mr. ZHANG Renzhao (張仁釗)	2	2	0
Mr. BI Qiubo (畢秋波)	2	2	0
Mr. LI Hang (李航)	2	2	0
Mr. WANG Song (王松)	2	2	0
Mr. LIU Xue (劉學)	2	2	0

2. Audit Committee

The Bank has established the Audit Committee with written terms of reference in accordance with the relevant requirements of the Listing Rules. As of the end of the Reporting Period, the Audit Committee consists of five Directors, namely Ms. Sun Zuying (孫祖英), Mr. WANG Shaohong (王紹宏), Mr. YI Jijun (伊繼軍), Mr. YIN Lin (尹林) and Mr. SUN Guomao (孫國茂). The chairman of the Audit Committee is Ms. Sun Zuying (孫祖英). Ms. Sun Zuying (孫祖英), Mr. WANG Shaohong (王紹宏) and Mr. SUN Guomao (孫國茂) are independent non-executive Directors. Mr. YI Jijun (伊繼軍) and Mr. YIN Lin (尹林) are non-executive Directors. The majority of the members of the Audit Committee of the Bank are independent non-executive Directors, and the chairman of the Audit Committee is an independent non-executive Director.

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

III. THE BOARD AND ITS SPECIAL COMMITTEES (CONT'D)

3.8 Special committees of the Board (cont'd)

2. Audit Committee (cont'd)

During the Reporting Period, the Audit Committee held 7 meetings in total, at which 17 resolutions were considered and passed on topics mainly including annual report, interim report, financial statements for listing, internal control evaluation and internal audit report.

The Audit Committee has reviewed the Group's 2021 interim report prepared in accordance with the PRC Accounting Standards for Business Enterprises and the 2021 annual report prepared in accordance with the PRC Accounting Standards for Business Enterprises and the International Financial Reporting Standards. During the audit period, the Audit Committee had several meetings and communications with the external auditors in the absence of the executive Directors and senior management. As at March 25, 2022, the Audit Committee had reviewed the audited consolidated financial statements as of the end of the Reporting Period. It also reviewed the effectiveness of the internal control system and the internal audit functions of the Bank by regularly listening to the audit department's report on internal audit.

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

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Current committee members			
Ms. SUN Zuying (孫祖英)	4	4	0
Mr. WANG Shaohong (王紹宏)	4	4	0
Mr. YI Jijun (伊繼軍)	7	7	0
Mr. YIN Lin (尹林)	4	4	0
Mr. SUN Guomao (孫國茂)	7	7	0
Resigned committee members			
Mr. SUN Chenglong (孫成龍)	3	3	0
Mr. LU Qing (路清)	3	3	0
Mr. ZHANG Guanghong (張廣鴻)	3	3	0

3. Related Party Transactions Control Committee

The Bank has established the Related Party Transactions Control Committee with written rules of procedure. As of the end of the Reporting Period, the Related Party Transactions Control Committee consists of five Directors, namely Mr. FAN Chi Chiu (范智超), Mr. LU Qing (路清), Ms. ZHAO Yue (趙月), Ms. SUN Zuying (孫祖英) and Mr. ZHANG Wenbin (張文斌). The chairman of the Related Party Transactions Control Committee is Mr. FAN Chi Chiu (范智超). Ms. ZHANG Wenbin (張文斌) is an executive Director. Ms. ZHAO Yue (趙月) is a non-executive Director. Mr. FAN Chi Chiu (范智超), Mr. LU Qing (路清) and Ms. SUN Zuying (孫祖英) are independent non-executive Directors.

III. THE BOARD AND ITS SPECIAL COMMITTEES (CONT'D)

3.8 Special committees of the Board (cont'd)

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

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

During the Reporting Period, the Related Party Transactions Control Committee held 4 meetings, at which 7 resolutions were considered and passed on topics mainly including the credit business for major related party transactions in 2021 and the report on the control of related party transactions.

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

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Current committee members			
Mr. FAN Chi Chiu (范智超)	4	4	0
Mr. LU Qing (路清)	4	4	0
Ms. ZHAO Yue (赵月)	2	2	0
Ms. SUN Zuying (孙祖英)	2	2	0
Mr. ZHAO Wenbin (张文斌)	2	2	0
Resigned committee members			
Ms. TAO Zunjian (陶遵建)	2	2	0
Mr. ZHANG Guanghong (张广鸿)	2	2	0
Mr. WANG Qixiang (王启祥)	2	2	0

4. Risk Management Committee

The Bank has established the Risk Management Committee with written rules of procedure. As of the end of the Reporting Period, the Risk Management Committee consists of five Directors, namely Mr. SONG Bin (宋斌), Mr. ZHAO Bing (赵冰), Ms. TAO Zunjian (陶遵建), Mr. YIN Lin (尹林) and Mr. LU Qing (路清). The chairman of the Risk Management Committee is Mr. SONG Bin (宋斌). Ms. TAO Zunjian (陶遵建) is an executive Director. Mr. SONG Bin (宋斌), Mr. YIN Lin (尹林) and Mr. ZHAO Bing (赵冰) are non-executive Directors. Mr. LU Qing (路清) is an independent non-executive Director.

III. THE BOARD AND ITS SPECIAL COMMITTEES (CONT'D)

3.8 Special committees of the Board (cont'd)

4. Risk Management Committee (cont'd)

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

During the Reporting Period, the Risk Management Committee held 4 meetings in total, at which 25 resolutions were considered and passed on topics mainly including risk profile, capital adequacy ratio assessment, annual risk appetite strategies, internal capital adequacy assessment and business continuity management assessment for 2020 and the first three quarters of 2021. The Risk Management Committee regularly reviews the Bank's risk management system covering various main types of risks such as credit risk, market risk, operational risk, information technology risk, reputational risk and strategic risk by regularly listening to senior management's report on the Bank's risk management on a quarterly basis, and proposes opinions and suggestions on improving the Bank's risk management work based on the economic development trend and changes in macroeconomic control policies and the actual business development of the Bank.

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

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Current committee members			
Mr. SONG Bin (宋斌)	2	2	0
Mr. ZHAO Bing (趙冰)	2	2	0
Ms. TAO Zunjian (陶遵建)	2	2	0
Mr. YIN Lin (尹林)	2	2	0
Mr. LU Qing (路清)	2	2	0
Resigned committee members			
Mr. LI Hang (李航)	2	2	0
Mr. ZHANG Renzhao (張仁釗)	2	2	0
Mr. WANG Song (王松)	2	2	0
Mr. YI Jijun (伊繼軍)	2	2	0
Mr. SUN Guomao (孫國茂)	2	2	0

III. THE BOARD AND ITS SPECIAL COMMITTEES (CONT'D)

3.8 Special committees of the Board (cont'd)

5. *Nomination and Remuneration Committee*

The Bank has established the Nomination and Remuneration Committee with written rules of procedure in accordance with the relevant requirements of the Listing Rules. As of the end of the Reporting Period, the Nomination and Remuneration Committee consists of five Directors, namely Mr. SUN Guomao (孫國茂), Mr. FAN Chi Chiu (范智超), Mr. YI Jijun (伊繼軍), Mr. WANG Shaohong (王紹宏) and Mr. LU Jiliang (盧繼梁). The chairman of the Nomination and Remuneration Committee is Mr. SUN Guomao (孫國茂). Mr. LU Jiliang (盧繼梁) is an executive Director. Mr. YI Jijun (伊繼軍) is a non – executive Director. Mr. SUN Guomao (孫國茂), Mr. FAN Chi Chiu (范智超) and Mr. WANG Shaohong (王紹宏) are independent non-executive Directors. The majority of the members of the Nomination and Remuneration Committee are independent non-executive Directors.

The primary duties of the Nomination and Remuneration Committee include:

Nomination Duties

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

Remuneration Duties

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

During the Reporting Period, the Nomination and Remuneration Committee held 7 meetings in total, at which 12 resolutions were considered and passed on topics mainly including the evaluation of the Directors and senior management in 2020, the nomination of candidates for the Directors of the eighth session of the Board of Directors, and the revision of the “Due Diligence Evaluation (Interim) Measures for the Directors and Senior Management”, etc.

III. THE BOARD AND ITS SPECIAL COMMITTEES (CONT'D)

3.8 Special committees of the Board (cont'd)

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

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

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Current committee members			
Mr. SUN Guomao (孫國茂)	7	7	0
Mr. FAN Chi Chiu (范智超)	7	7	0
Mr. Yi Jijun (伊繼軍)	3	3	0
Mr. WANG Shaohong (王紹宏)	3	3	0
Mr. LU Jiliang (盧繼梁)	3	3	0
Resigned committee members			
Mr. LIU Xue (劉學)	4	4	0
Mr. WANG Qixiang (王啟祥)	4	4	0
Mr. BI Qiubo (畢秋波)	4	4	0

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

The Board consists of fifteen members, including five executive Directors, five non-executive Directors and five independent non-executive Directors. Our Directors have a balanced mix of experiences, including banking, corporate management, economics, law, accounting, auditing and finance. In addition, the Board has a relatively wide range of age, ranging from 32 years old to 61 years old. The Bank has three female representatives to achieve appropriate gender diversity. The Bank believes that the current composition of the Board is in line with the principles of the board diversity policy.

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

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

III. THE BOARD AND ITS SPECIAL COMMITTEES (CONT'D)

3.8 Special committees of the Board (cont'd)

6. Consumer Rights Protection Committee

The Bank has established the Consumer Rights Protection Committee with written rules of procedure. As of the end of the Reporting Period, the Consumer Rights Protection Committee consists of five Directors, namely Mr. ZHAO Bing (趙冰), Mr. YI Jijun (伊繼軍), Mr. YIN Lin (尹林), Ms. ZHAO Yue (趙月) and Ms. TAO Zunjian (陶遵建). The chairman of the Consumer Rights Protection Committee is Mr. ZHAO Bing (趙冰). Ms. TAO Zunjian (陶遵建) is an executive Director. Mr. ZHAO Bing (趙冰), Mr. YI Jijun (伊繼軍), Mr. YIN Lin (尹林) and Ms. ZHAO Yue (趙月) are non-executive Directors.

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

During the Reporting Period, the Consumer Rights Protection Committee held 2 meetings in total, at which 5 resolutions were considered and passed on topics mainly including the 2020 Work Summary and 2021 Work Plan on the Consumer Rights Committee (《消費者權益委員會2020年度工作總結及2021年度工作計劃》), 2020 Environmental, Social and Governance Report (《2020年度環境、社會及管治報告》), etc.

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

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Current committee members			
Mr. ZHAO Bing (趙冰)	1	1	0
Mr. YI Jijun (伊繼軍)	2	2	0
Mr. YIN Lin (尹林)	1	1	0
Ms. ZHAO Yue (趙月)	1	1	0
Ms. TAO Zunjian (陶遵建)	2	2	0
Resigned committee members			
Mr. WANG Song (王松)	1	1	0
Mr. SUN Chenglong (孫成龍)	1	1	0
Mr. WANG Qixiang (王啟祥)	1	1	0

IV. BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES

4.1 Duties of the Board of Supervisors

The Board of Supervisors is the supervisory body of the Bank and is accountable to the Shareholders' general meeting. Its primary responsibilities include overseeing the financial operations of the Bank as well as the performance of the Board and senior management. The Board of Supervisors conducts special investigations and attends important meetings in specific areas to understand the Bank's operations and management and to provide supervisory advice.

4.2 Composition of the Board of Supervisors

As of the end of the Reporting Period, the Board of Supervisors consisted of nine Supervisors, including three employees' representative Supervisors, namely Mr. ZHANG Renzhao (張仁釗), Mr. WANG Xifeng (王希峰) and Mr. ZHANG Chuanzheng (張傳政); three Shareholders' representative Supervisors, namely Mr. ZHOU Hao (周浩), Ms. ZHAO Lijie (趙麗傑) and Mr. FENG Yongdong (馮永東); and three external Supervisors, being Mr. YANG Yunhong (楊雲紅), Mr. WANG Yong (王勇) and Ms. ZHU Yingwei (朱英偉). The membership and composition of the Board of Supervisors are in compliance with applicable laws and regulations. A Supervisor shall serve a term of three years and may serve consecutive terms if re-elected upon the expiry of his/her term of office, provided that the cumulative term shall not exceed six years, unless otherwise specified by laws, regulations, regulatory authorities and the Articles of Association of the Bank. Shareholders' representative Supervisors and external Supervisors shall be elected or replaced by the Shareholders' general meeting.

4.3 Changes in members of the Board of Supervisors during the Reporting Period

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

IV. BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES (CONT'D)

4.4 Meetings of the Board of Supervisors and Supervisors' attendance at the meetings

During the Reporting Period, the Bank held 5 meetings of the Board of Supervisors, considered 29 resolutions and heard 45 resolutions, which mainly involved topics including plans in terms of budget and final accounts, dividend distribution, re-election and appointment of the Directors, and listened to and considered relevant reports such as operation and management of the banks, financial activities, internal control of risks and related party transactions.

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

Members of the Board of Supervisors	Attendances Required	Attendances in person	Attendances by proxy
Current supervisors			
Mr. ZHANG Renzhao (張仁釗)	3	3	0
Mr. YANG Yunhong (楊雲紅)	3	3	0
Mr. WANG Yong (王勇)	3	3	0
Ms. ZHU Yingwei (朱英偉)	3	3	0
Ms. ZHAO Lijie (趙麗傑)	5	5	0
Mr. ZHOU Hao (周浩)	5	5	0
Mr. FENG Yongdong (馮永東)	5	5	0
Mr. WANG Xifeng (王希峰)	3	3	0
Mr. ZHANG Chuazheng (張傳政)	3	3	0
Resigned supervisors			
Mr. DENG Wei (鄧衛)	2	2	0
Mr. TAN Degui (譚德貴)	2	2	0
Ms. LI Yuanfen (李元芬)	2	2	0
Ms. TENG Bo (滕波)	2	2	0
Mr. LIU Changjie (劉昌傑)	2	2	0
Ms. ZHANG Xuening (張雪凝)	2	2	0

IV. BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES (CONT'D)

4.5 Committees under the Board of Supervisors

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

1. Supervision Committee

As of the end of the Reporting Period, the Supervision Committee consisted of four Supervisors, namely Mr. YANG Yunhong (楊雲紅), Ms. ZHU Yingwei (朱英偉), Ms. ZHAO Lijie (趙麗傑) and Mr. ZHANG Chuanzheng (張傳政). The chairman of the Supervision Committee is Mr. YANG Yunhong (楊雲紅).

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

During the Reporting Period, the Supervision Committee held 4 meetings in total, at which a total of 17 resolutions were considered, including the Supervision Opinions on Assets and Liabilities Ratio and Risk Management Matters (《資產負債比例和風險控制事項的監督意見》), the Supervision and Inspection Work Report (《監督檢查工作情況報告》), the Internal Audit Work Report (《內部審計工作情況報告》) and the Development Strategy Evaluation Report (《發展戰略的評估報告》).

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Current Supervisors			
Mr. YANG Yunhong (楊雲紅)	2	2	0
Ms. ZHU Yingwei (朱英偉)	2	2	0
Ms. ZHAO Lijie (趙麗傑)	4	4	0
Mr. ZHANG Chuanzheng (張傳政)	2	2	0
Resigned Supervisors			
Ms. TENG Bo (滕波)	2	2	0
Mr. LIU Changjie (劉昌傑)	2	2	0
Ms. LI Yuanfen (李元芬)	2	2	0

IV. BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES (CONT'D)

4.5 Committees under the Board of Supervisors (cont'd)

2. Nomination Committee

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

During the Reporting Period, the Nomination Committee held 3 meetings in total, at which 6 resolutions were considered, including the Report on Evaluation of the Performance of Duties by the Board of Directors, Senior Management and Its Members for 2020 (《2020年度董事會和高級管理層及其成員履職評價情況的報告》) and the Report on Evaluation of Supervisors for 2020 (《2020年度監事考核情況的報告》).

Committee members	Attendances Required	Attendances in person	Attendances by proxy
Current Supervisors			
Mr. WANG Yong (王勇)	2	2	0
Mr. ZHOU Hao (周浩)	3	3	0
Mr. FENG Yongdong (馮永東)	3	3	0
Mr. WANG Xifeng (王希峰)	2	2	0
Resigned Supervisors			
Mr. TAN Degui (譚德貴)	1	1	0
Ms. ZHANG Xuening (張雪凝)	1	1	0

4.6 Attendance at Shareholders' general meeting during the Reporting Period

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

4.7 Attendance at the Board meetings during the Reporting Period

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

V. TRAININGS FOR THE DIRECTORS AND THE SUPERVISORS DURING THE REPORTING PERIOD

In 2021, the Board of Directors paid significant attention to enhancing the Directors' expertise, with a special focus on arranging relevant trainings. All the Directors of the Bank have fully complied with the code provision C.1.4 of the Corporate Governance Code as well as PRC regulatory requirements, actively participating in training regarding Hong Kong laws and regulations such as the Listing Rules, the online training on corporate governance of bancassurance institutions, and the interpretation training on corporate governance supervision policies, including directors' responsibilities, supervisors' responsibilities, disclosure of interests, information disclosure, notifiable transactions, connected transactions, securities transactions, board meetings and shareholders' general meetings, as well as the latest regulatory policies.

During the Reporting Period, the Directors and the Supervisors of the Bank have strengthened the learning of professional knowledge, broadened the working concepts and horizons, and developed and refreshed their knowledge and skills by attending trainings and reading relevant materials.

VI. CHAIRMAN OF THE BOARD AND PRESIDENT

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

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

VII. SENIOR MANAGEMENT

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

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

VIII. COMPANY SECRETARIES

As of the end of the Reporting Period, Mr. LU Jiliang (盧繼梁) (replacing Mr. BI Qiubo (畢秋波) as the joint company secretary of the Bank since June 11, 2021) and Ms. TAM Pak Yu from SWCS Corporate Services Group (Hong Kong) Limited served as the joint company secretaries of the Bank. Each of the Director may discuss with the company secretaries for advice and information. Mr. LU Jiliang (盧繼梁) is the primary contact person of Ms. TAM Pak Yu, Vivien (譚柏如) in the Bank. Mr. LU Jiliang (盧繼梁) and Ms. TAM Pak Yu, Vivien (譚柏如) have confirmed that they have received no less than 15 hours of relevant professional training during the Reporting Period.

IX. RELATIONSHIP BETWEEN THE DIRECTORS, THE SUPERVISORS AND SENIOR MANAGEMENT

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

X. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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

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

XI. COMMUNICATIONS WITH THE SHAREHOLDERS

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

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

XII. SHAREHOLDERS' RIGHTS

12.1 Procedures for the Shareholders to convene an extraordinary general meeting

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

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

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

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

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

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

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

XII. SHAREHOLDERS' RIGHTS (CONT'D)

12.2 Procedures for making proposals at the Shareholders' general meetings

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

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

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

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

XIII. EXTERNAL AUDITORS AND THEIR REMUNERATION

We have engaged BDO China Shu Lun Pan Certified Public Accountants LLP and BDO Limited as our domestic and international auditors for 2021, respectively. As of the end of the Reporting Period, the total remuneration agreed to be paid by the Group to BDO China Shu Lun Pan Certified Public Accountants LLP and BDO Limited for the audit of annual financial statements was RMB2.40 million (not including non-audit fee).

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

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

XIV. REMUNERATION OF SENIOR MANAGEMENT

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

XV. SECURITIES TRANSACTIONS BY THE DIRECTORS, THE SUPERVISORS AND RELEVANT EMPLOYEES

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

XVI. RISK MANAGEMENT AND INTERNAL CONTROL

16.1 Risk Management

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

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

The Bank continuously invests in improving its technology capability in risk management work. For example, technology-based systems such as the credit rating system for retail business (零售評級系統), the credit rating system for non-retail business (非零售評級系統) and collateral and pledges management system have been developed. Through gradually exploring and improving the application of risk quantification tools in relation to fields such as business access, risk alert and differentiated risk management strategies, the Bank has managed to improve its capability of conducting detail-oriented risk management work. Specific risk management systems are also in place to address internal control, compliance and operational risks, liquidity risks, interest rate risk in the banking book risk measurement. By fully utilizing these systems and tools in risk identification, measurement and monitoring, it can effectively improve its overall risk management capability. During the Reporting Period, the Bank continued to innovate risk management tools, upgraded and optimized early warning risk system, and achieved timely and effective early warning of customer risk information by building an early warning risk model. The Bank is of the opinion that its risk management is adequate and effective.

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

16.2 Internal Control

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

The Bank continued to improve the management systems, timely tracked the changes in regulatory policies and revised and improved relevant management systems as and when appropriate according to the needs of the Bank’s operations and management. It established a comprehensive system covering all business segments of the Bank, covering all aspects of various businesses and important risk prevention measures. The comprehensiveness and enforceability of the systems were continuously enhanced, which effectively guaranteed the legal, compliance and stable operation of various businesses. During the Reporting Period, the Bank organized and carried out a series of internal control and management optimization activities, such as “Year of Constructing Internal Control Compliance Management” (內控合規管理建設年), “Year of Improving Industry Standardization Construction” (行業規範建設提升年), “Months of System Series” (制度系列月) and quarterly compliance inspections. These enhanced the knowledge tests on case prevention with at least two knowledge tests on case prevention and compliance each month to replace trainings, which strengthened the awareness of employees on case prevention and compliance, and continued to create an internal control compliance atmosphere of “behavior led by culture and priorities on strict internal control, acting by the system and strict institutional constraints, penetration of the system into the process and all-the-way compliance in a strict manner.”

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

During the Reporting Period, the Bank’s Audit Department formulated annual audit plans based regulatory requirements as well as operation, management and business profile, which were approved by the Board of Directors. The Bank’s Audit Department carried the annual audit plans strictly, conducted both on-site inspections and off-site monitoring during routine audits on the Bank’s operational and management activities, and conducted special audits on our exposures to various risks such as credit risk, market risk, operational risk and information technology risk. For the issues or deficiencies identified during audits, the Audit Department gave timely audit advises to the relevant operation units and departments at the headquarters and supervised rectification.

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

16.2 Internal Control (cont'd)

The Bank attaches great importance to information disclosure and inside information management. In order to strengthen the confidentiality of inside information, ensure the fairness of information disclosure and protect the legitimate rights and interests of investors, the Bank has formulated the Information Disclosure Management System (《信息披露管理制度》) in accordance with the laws, regulations and regulatory documents of mainland China and Hong Kong. The Bank shall make timely disclosure in accordance with the relevant laws and regulations and the rules governing the listing of securities of the stock exchanges where the stocks of the Bank are listed when there are “inside information” under Part XIVA of the SFO and other matters required to be disclosed in a timely manner by the relevant laws and regulations and the rules governing the listing of securities of the stock exchanges where the stocks of the Bank are listed, unless exempted under the relevant laws and regulations and the rules governing the listing of securities of the stock exchanges where the stocks of the Bank are listed.

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

For details of the Bank’s risk management and internal control, please refer to “Management Discussion and Analysis – Risk Management” of this report.

CHAPTER 9 REPORT OF THE BOARD OF DIRECTORS

I. PRINCIPAL ACTIVITIES

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

II. BUSINESS REVIEW

2.1. Business Review

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

2.2 Environmental Policies and Performance

In recent years, the Bank has actively assumed the social responsibilities related to environmental policies. In the course of business, the Bank actively advocated the concept of environmental protection, optimized online services, practiced green office, advocated green public welfare and developed green credit to promote green financial undertakings. The Bank formally adopted the “Equator Principle” (“赤道原則”) in 2021 and became the first “Equator Bank” (“赤道銀行”) in Shandong Province, making new breakthroughs in terms of green finance. For details of the Bank’s environmental policies and performance, please refer to the Environmental, Social and Governance Report to be published by the Bank with the annual report.

2.3 Compliance with Relevant Laws and Regulations

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

II. BUSINESS REVIEW (CONT'D)

2.4 Consumer Rights Protection

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

During the Reporting Period, the Bank attached great importance to the protection of the rights and interests of financial consumers, continuously strengthened its management in operational activities and businesses, strictly undertook the main obligation of protecting the rights and interests of financial consumers, established and improved the management and system of consumer rights protection, strengthened the review of pre-sales consumer protection, ensured that the Bank’s business operation was conducted under the regulatory framework in accordance with relevant laws, and protected the legitimate rights and interests of consumers from the source. The Bank promoted compliance sales management, treated consumers fairly, appropriately disclosed product information, and effectively reminded risks. The Bank improved the inspection and supervision mechanism, carried out internal inspection of service consumer protection, increased the training of consumer protection, and improved the level of consumer protection. During the Reporting Period, the Bank strengthened the management of customer complaints and improved the customer information protection system to improve service quality, and earnestly assumed the responsibility to educate consumers and innovated and continuously conducted the “primarily online and supported by offline” financial knowledge popularization and education activities to guide and cultivate the financial literacy and risk awareness of the public.

In terms of consumer rights protection, the Bank mainly carried out the following activities: 1. The Consumer Rights Protection Committee regularly convened meetings to consider relevant topics. 2. The Bank carried out a series of publicity activities such as “3•15 Consumer Rights Day (3•15消費者權益日)” and “Campaign to Spread Financial Knowledge (金融知識萬里行)”, which effectively enhanced the awareness of financial protection of consumers. 3. The complaint channels and complaint handling flow chart are announced in outlets and electronic channels, and the Bank carried out the reception day activity for the president on consumer complaint on the 16th of every month at all level. 4. Regular trainings on consumer rights protection were conducted to keep abreast of the new trend, new dynamics and new requirements of rights protection of the financial consumers.

2.5 Relationship with Employees

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

II. BUSINESS REVIEW (CONT'D)

2.6 Dividends

1. Dividends

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

The 2020 profit distribution plan was approved by the Shareholders of the Bank at the 2020 annual general meeting held on June 11, 2021. The Bank decided to distribute a cash dividend of RMB598 million (tax inclusive) for 2020, and to distribute a cash dividend of RMB10 (tax inclusive) per 100 shares to the ordinary Shareholders, the payment of which was completed in July 2021.

The Board of Directors proposed that the Bank shall distribute 2021 dividends in cash amounting to 598.0 million (tax inclusive), and distribute a cash dividend of RMB10 (tax inclusive) per 100 shares to the ordinary Shareholders whose names appear on the register of members of the Bank on the record date for equity distribution for 2022. The proposed final dividend is expected to be distributed to the Shareholders on or around July 5, 2022, and the profit distribution plan will be submitted to the 2021 annual general meeting for approval. The Bank will make further announcement on the book closure date and record date in relation to the proposed final dividend.

2. Tax relief

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

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

II. BUSINESS REVIEW (CONT'D)

2.6 Dividends (cont'd)

2. Tax relief (cont'd)

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

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

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

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

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

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

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

II. BUSINESS REVIEW (CONT'D)

2.6 Dividends (cont'd)

2. Tax relief (cont'd)

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

2.7 Events after the Reporting Period

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

III. ISSUED SHARE CAPITAL

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

For details of the Bank's share capital, please refer to the chapter headed "Changes in Share Capital and Information on Shareholders" of this annual report.

IV. DEBT SECURITIES ISSUED

During the Reporting Period, the Bank issued certificates of interbank deposit with an aggregate principal amount of RMB52.66 billion, with no financial bonds issued.

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

V. DIRECTORS AND SUPERVISORS

5.1 Biographies of Directors, Supervisors and Senior Management

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

5.2 Service Contracts of Directors and Supervisors

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

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

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

Name of Director/ Supervisor/ chief executive	Class of shares	Capacity	Number of Domestic Shares directly or indirectly held	Percentage of total issued shares ⁽⁴⁾ (%)	Percentage of total class shares ⁽⁴⁾ (%)	Long position/ short position
Mr. TAN Xianguo (譚先國)	Domestic Shares	Beneficial owner	491,426	0.0082	0.0099	Long position
Mr. BI Qiubo (畢秋波) ⁽¹⁾	Domestic Shares	Beneficial owner	498,985	0.0083	0.0100	Long position
Ms. TAO Zunjian (陶遵建)	Domestic Shares	Beneficial owner	143,804	0.0024	0.0029	Long position
Mr. ZHANG Wenbin (張文斌) ⁽²⁾	Domestic Shares	Beneficial owner	70,266	0.0012	0.0014	Long position
Ms. SUN Zuying (孫祖英) ⁽²⁾	Domestic Shares	Beneficial owner	21,756	0.0004	0.0004	Long position
Mr. ZHANG Renzhao (張仁釗) ⁽³⁾	Domestic Shares	Beneficial owner	495,656	0.0083	0.0100	Long position
Mr. WANG Xifeng (王希峰)	Domestic Shares	Beneficial owner	295,011	0.0049	0.0059	Long position
Mr. ZHANG Chuanzheng (張傳政)	Domestic Shares	Beneficial owner	424,847	0.0071	0.0085	Long position
		Interest of spouse	113,752	0.0019	0.0023	Long position

V. DIRECTORS AND SUPERVISORS (CONT'D)

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

Notes:

- (1) Mr. BI Qiubo retired as executive Director on August 2, 2021.
- (2) Mr. ZHANG Wenbin and Ms. SUN Zuying were respectively approved as executive Director and independent non-executive Director of the Bank on August 2, 2021.
- (3) By virtue of the SFO, Mr. ZHANG Renzhao is deemed to be interested in the 113,752 Domestic Shares held by his spouse, Ms. QU Wenwei (曲文微).
- (4) The percentages above are calculated based on the total number of issued shares of 5,980,058,344 shares and the total number of Domestic Shares of 4,971,197,344 shares of the Bank as of the end of the Reporting Period.

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

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

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

5.5 Directors' and Supervisors' Interests in Competing Business

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

5.6 Arrangements for Directors and Supervisors to Acquire Shares or Debentures

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

V. DIRECTORS AND SUPERVISORS (CONT'D)

5.7 Remuneration of Directors and Supervisors

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

5.8 Permitted Indemnity Provision and Directors' Insurance

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

VI. MANAGEMENT CONTRACTS

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

VII. MAJOR CUSTOMERS

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

VIII. DONATIONS

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

IX. RESERVES

Details of the changes in the reserves of the Bank during the Reporting Period are set out in the consolidated statement of changes in equity in the financial statements of this annual report. As of the end of the Reporting Period, the distributable reserves of the Group amounted to RMB4.151 billion.

X. CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

During the reporting period, the Bank complied with the reporting, annual review, announcement and/or independent directors' approval requirements for non-exempt continuing connected transactions under Chapter 14A of the Listing Rules, which are set out below.

10.1 Provision of Deposit Services and the Other Financial Services to Qilu Expressway Group

On August 31, 2021, the Bank entered into the 2021-2023 Financial Services Framework Agreement ("Financial Services Framework Agreement") with Qilu Expressway, pursuant to which, the Bank agreed to provide deposit services and the Other Financial Services to the Qilu Expressway Group. The Financial Services Framework Agreement is effective until December 31, 2023, unless terminated earlier in accordance with the agreement.

The Bank provides Qilu Expressway Group with the following services in the ordinary and usual course of business: (i) deposit services; (ii) bank acceptance notes, discounting of commercial bills, domestic letters of guarantees, letters of credit, online remittance, foreign exchange remittance and other financial services approved by CBIRC (collectively the "Other Financial Services"). Further specific contracts will be entered into between the parties on the basis of the Financial Services Framework Agreement for each of the deposit services and the Other Financial Services actually provided. These deposit services and the Other Financial Services and the related proposed annual caps were entered into in the ordinary and usual course of business of the Bank on normal commercial terms.

Continuing Connected Transactions	2021 Annual Caps	Actual Transaction Amount for 2021
The Bank provides Qilu Expressway Group with deposit services in the ordinary and usual course of business	The daily maximum deposit balance (including accrued interest) of Qilu Expressway Group for each of the three years ending December 31, 2023 was set to be RMB500 million, RMB1,000 million and RMB1,000 million respectively	30 million
The Bank provides Qilu Expressway Group with the Other Financial Services in the ordinary and usual course of business	The annual caps for the total amount payable to the Bank for each of the three years ending December 31, 2023 was set to be RMB10 million	0

X. CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (CONT'D)

10.1 Provision of Deposit Services and the Other Financial Services to Qilu Expressway Group (cont'd)

Hong Kong Listing Rules Implications:

Shandong Hi-Speed Group and its controlled subsidiary, Shandong Hi-Speed, hold approximately 37.06% and 11.60% of the issued shares of the Bank respectively, and Shandong Hi-Speed Group is a Controlling Shareholder of the Bank. Pursuant to Rule 14A.07 of the Listing Rules, Shandong Hi-Speed Group is a connected person of the Bank.

Shandong Hi-Speed Group and its direct wholly-owned subsidiary, Shandong Hi-Speed Investment, hold approximately 38.93% and 5.19% of the issued shares of Qilu Expressway respectively. Therefore, pursuant to Rule 14A.13 of the Listing Rules, Qilu Expressway is an associate of Shandong Hi-Speed Group and thus also a connected person of the Bank under the Listing Rules. As such, the transactions contemplated under the Financial Services Framework Agreement constitute a continuing connected transaction under Chapter 14A of the Listing Rules.

For the deposit services to be provided by the Bank to the Qilu Expressway Group, the transactions in respect of the deposit services will constitute financial assistance received by us from connected persons in the form of deposits on normal commercial terms and not secured by the assets of the Group, the deposit services are fully exempted from reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For the Other Financial Services to be provided by the Bank to the Qilu Expressway Group, as the highest applicable percentage ratio in respect of the Other Financial Services is more than 0.1% but less than 5%, the Other Financial Services are subject to the reporting, annual review and announcement requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

10.2 Confirmation by the Independent Non-executive Directors

The independent non-executive Directors have reviewed each of the above continuing connected transactions and confirm that they:

- a. were entered into in the ordinary and usual course of the Bank's business;
- b. were on normal commercial terms or better; and
- c. were entered into in accordance with the terms of the agreements governing the transactions and that the terms of the transactions were fair and reasonable and in the interests of the Shareholders as a whole.

X. CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (CONT'D)

10.3 Confirmation by Auditors

Pursuant to Rule 14A.56 of the Hong Kong Listing Rules, the Board engaged the Bank's external auditors, BDO Limited to provide a limited assurance in respect of the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules". The Board confirms that the auditors have reported to the Board the results of their procedures, which state that:

- a. nothing had come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Board of the Bank;
- b. in respect of transactions involving the provision of services by the Bank, nothing had come to the auditor's attention which caused the auditor to believe that the transactions had not been conducted in accordance with the Bank's pricing policy in all material respects;
- c. nothing had come to the auditor's attention that causes the auditor to believe that the transactions have not been conducted, in all material respects, in accordance with the relevant agreements governing those transactions; and
- d. in respect of the aggregate amount of each of the continuing connected transactions, nothing had come to the auditor's attention that causes the auditor to believe that the amount of each of the continuing connected transactions exceeds the aggregate annual cap for the continuing connected transactions for 2021 applied for by the Bank.

Details of related party transactions entered into by the Bank in the ordinary course of business during the reporting period are set out in note 40 to the financial statements. The definition of related parties in Chapter 14A of the Hong Kong Listing Rules differs from the definition of related parties in IAS 24 "Related Party Disclosures" and its interpretation by the International Accounting Standards Board. Certain transactions in the related party transactions set out in note 40 to the financial statements may also constitute connected transactions for the Bank under Chapter 14A of the Hong Kong Listing Rules. Except as disclosed in this annual report, all connected transactions of the Bank during the Reporting Period were in the ordinary course of the Bank's business and on normal commercial terms, and the connected transactions that occurred were in compliance with the disclosure waiver requirements under the Hong Kong Listing Rules.

The Bank confirms that it has complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

XI. COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

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

XII. SUFFICIENCY OF PUBLIC FLOAT

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

XIII. RETIREMENT BENEFITS

The Bank offers defined contribution pension schemes to employees, including social pension schemes, annuity plan, housing fund and other social insurance. The Bank may not use forfeited contributions to reduce the current level of contributions.

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

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

XV. EQUITY-LINKED AGREEMENTS

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

XVI. PRE-EMPTIVE RIGHTS

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

XVII. AUDITORS

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

On behalf of the Board of Directors

TAN Xianguo
Chairman

Weihai, China

CHAPTER 10 REPORT OF THE BOARD OF SUPERVISORS

I. MAJOR WORK IN 2021

(I) Reinforce the Basis of Corporate Governance and Standardize the Operation of the Board of Supervisors

1. The Board of Supervisors successfully finished electing a new session. During the Reporting Period, through standard and strict nomination, review and election procedures, the Board of Supervisors successfully finished electing its eighth session, elected its chairman, had stable work transition, further clarified its rights and responsibilities, and improved and refined the corporate governance structure.
2. The Board of Supervisors further refined its monitoring system. During the Reporting Period, it refined its performance evaluation practices on the Directors, Supervisors and senior management members, supplemented and refined the list of performance indicators; revised and refined the rules of procedure of the Board of Supervisors, the work implementation rules of the Board of Supervisors and respective special committees, and standardized work procedures and performance requirements to further improve the institutional mechanisms of the Board of Supervisors in its supervision work.
3. The Board of Supervisors standardized its rules of procedures. During the Reporting Period, the Board of Supervisors convened 5 meetings, at which 29 proposals were considered and 45 proposals were heard. The Board of Supervisors attended one Shareholders' general meeting and was present at seven meetings of the Board of Directors, to timely learn the performance of each governance department, receive the information in decision-making, finance and risk control and effectively exercise the supervisory function.

(II) Efficiently Perform the Supervisory Responsibilities and Safeguard the Company in Solid Development

1. The Board of Supervisors reinforced performance supervision and improve the effectiveness in performance evaluation. During the Reporting Period, the Board of Supervisors supervised and evaluated the Board of Directors, the Board of Supervisors, senior management and its members regarding their respective performance of the obligations of faith and diligence, professionalism and independence, ethics and compliance, and completed the annual performance evaluation of the Directors, Supervisors and senior management.
2. The Board of Supervisors strengthened its supervision over decision-making and accurately grasped the direction of operation. During the Reporting Period, the Board of Supervisors supervised the compliance of convening general meetings and Board meetings, their voting procedures and the opinions and voting by the Directors that attended the meetings, assessed the strategic planning and implementation, and supervised the decision-making in major affairs such as financial budgets, profit distribution, material investments, connected transactions and risks, to ensure each decision on the right track and maintain the direction of healthy development.

Chapter 10 Report of the Board of Supervisors

3. The Board of Supervisors enhanced financial oversight and effectively protect the interests of Shareholders. Firstly, the Bank supervised its material decision-making on financial matters. Secondly, the Bank reviewed the audits and annual audit reports and periodical reports by its external auditors, and expressed independent opinions. Thirdly, the Board of Supervisors supervised its financial matters and the implementation of accounting policies. Fourth, the Board of Supervisors supervised the implementation of the remuneration management system and whether the remuneration package of senior management was scientific and reasonable.
4. The Board of Supervisors strengthened its supervision on internal risk control to ensure sound business operation. Firstly, it reviewed the annual internal control evaluation report to carry out overall supervision on the internal control and governance system and operation of the Bank. Secondly, the Board of Supervisors reviewed the internal audit report to understand the execution of internal audits and material findings on audit, to timely find the existing management issues and supervise their rectification. Thirdly, the Board of Supervisors attended prudent supervision meetings, paid attention to and promoted rectification of the issues. Fourthly, the Board of Supervisors regularly reviewed the reports of inspections, related party transactions and risks, and proposed supervisory advice on the Bank's operational decision-making and risk management mechanism. Fifthly, the Board of Supervisors regularly listened to the specific risk control measures by the management department and promoted the effective implementation of the Bank's risk control mechanism.

(III) Continuously Work on Self-development and Improve Performance Capabilities

Firstly, the Board of Supervisors strengthened business learning and training. During the Reporting Period, the Group organized training on the listing business, performance evaluation measures for the Directors and Supervisors, corporate governance guidelines and hands-on training for the Supervisors. Secondly, the Board of Supervisors prepared a performance list, with extensive study for members to familiarize themselves with its content so as to carry out annual performance evaluation in a solid way. Thirdly, the Board of Supervisors studied external supervision experience. It reported to and communicated with regulatory authorities smoothly, strengthened the exchange and learning with peers, carried out "compete, learn, overtake, help and surpass" activities with intensive efforts, and improved performance capabilities effectively.

II. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON MATTERS OF CONCERN TO THE BANK IN 2021

- (I) **Operation in compliance with laws and regulations.** During the Reporting Period, the Bank operated its business in accordance with laws and regulations, continuously improved its internal control system, and its decision-making procedures complied with the relevant requirements of laws, regulations and the Articles of Association. The Directors and senior management acted with honesty, integrity and due diligence, with no violation of laws and regulations or any act detrimental to the interests of the Bank and the Shareholders.

Chapter 10 Report of the Board of Supervisors

- (II) **Authenticity of the financial report.** The annual financial report of the Bank has been audited by BDO China Shu Lun Pan Certified Public Accountants LLP and BDO Limited, with a standard unqualified audit report issued. The financial report gives a true, accurate and complete view of the financial position and operating results of the Bank in all material aspects.
- (III) **Acquisition and disposal of assets.** During the Reporting Period, the Bank had no other material acquisitions or asset disposals.
- (IV) **Related party transactions.** During the Reporting Period, the Bank's related party transactions were fair, reasonable and in compliance with the relevant requirements of national laws and regulations and the Articles of Association, with the relevance indicators in line with regulatory standards and without acts that violated the fairness principle or impaired the interests of the Bank and the Shareholders.
- (V) **Internal control.** During the Reporting Period, the Bank continued to strengthen and improve its internal control, promoted the development of its internal management system, steadily improved internal control and ensured the effectiveness of internal control in all material aspects. No material defects were found in the internal control mechanism or implementation.
- (VI) **Implementation of resolutions of the Shareholders' general meetings.** The Board of Supervisors had no objection to the reports and proposals submitted by the Board of Directors of the Bank to the Shareholders' general meetings for consideration during the year, supervised the implementation of the resolutions of such meetings, and considered that the Board had seriously implemented the relevant resolutions of such meetings without acts detrimental to the interests of the Shareholders.
- (VII) **Information disclosure.** During the Reporting Period, the Bank refined its information disclosure mechanism, fulfilled its information disclosure obligations as a listed company, continuously enhanced the transparency of corporate governance, operation and management, and improved the accuracy and completeness of information disclosure, so as to ensure that all Shareholders had fair access to the Company's significant information.

III. PERFORMANCE OF EXTERNAL SUPERVISORS

The Board of Supervisors of the Bank has three external Supervisors, who chair the Nomination Committee and the Supervision Committee under the Board of Supervisors. During the Reporting Period, the external Supervisors independently performed their supervisory duties in accordance with their fiduciary and diligent duties to the Bank and all the Shareholders, attended the meetings of the Board of Supervisors and relevant committees as scheduled, actively attended the meetings of the Board of Directors and the Shareholders' general meetings, and discussed and expressed objective and fair independent opinions on the matters discussed at the Shareholders' general meetings and the meetings of the Board of Directors and the Board of Supervisors of the Bank, thus playing their effective role as external Supervisors.

CHAPTER 11 IMPORTANT EVENTS

USE OF PROCEEDS RAISED

Upon approval of the PBOC and the CBIRC Shandong Office, on November 29, 2021, the Bank issued perpetual bonds with face values of RMB1.100 billion in the national interbank bond market to replenish other tier-1 capital of the Bank, with a coupon rate of 4.80% for the first five years which will be adjusted every five year, and granting issuers conditional redemption rights on each interest payment date from the fifth year onwards.

MATERIAL LITIGATION OR ARBITRATION

As of the end of the Reporting Period, the Bank was the plaintiff in 10 outstanding litigations with a principal balance of over RMB30 million, involving an amount of RMB828 million. The Bank was not the defendant in any outstanding litigations or arbitrations with a principal balance of over RMB10 million. The above outstanding litigations and arbitrations are all loan disputes arising from banking business of the Bank, and as of the end of the Reporting Period, the Bank did not expect that such litigation and arbitration (individually or jointly) would have a material adverse effect on the Bank's business, financial position and results of operations. Save as disclosed above, as of the date of this annual report, the Bank had no other material litigation, arbitration and major case, or other material contingent liabilities.

PENALTIES AND RECTIFICATION

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

FULFILLMENT OF UNDERTAKINGS

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

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

Chapter 11 Important Events

MATERIAL CONTRACTS, MATERIAL GUARANTEES AND SIGNIFICANT INVESTMENTS

Material Contracts

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

Material Guarantees

As of the end of the Reporting Period, the balances of letters of guarantees and letters of credit of the Bank amounted to RMB609 million and RMB4.501 billion, respectively. The guarantee business is in the ordinary course of business of the Bank, and the above businesses are financial guarantee business within the scope of business approved by the CBIRC during the Reporting Period.

Significant Investments

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

Disposal of Assets and Mergers

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

SIGNIFICANT EVENTS OF SUBSIDIARIES

During the Reporting Period, Tongda Financial Leasing increased its capital contribution, upon completion of which its registered capital would amount to RMB1.650 billion. The Bank will see its equity interest in Tongda Financial Leasing reduced from 59.09% to 54.55%. Currently, the increased capital has been received, change of industrial and commercial registration underway. For details, please refer to note 46 to the financial statements in this annual report.

RELATED PARTY TRANSACTIONS

Related Party Transactions Related to Daily Operations

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

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

In accordance with the requirements of the CBIRC, during the Reporting Period, there were two resolutions on material related party transactions, namely Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司) and Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司). The material related party transactions were related party transactions with 17 related companies of Shandong Hi-Speed Group Co., Ltd. and Shandong Tongda Financial Leasing Co., Ltd. As of the end of the Reporting Period, the Bank's credit exposure to material related party transactions was RMB4.219 billion, and the balance of the exposure to normal related party transactions was RMB2.011 billion.

Chapter 11 Important Events

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

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

Related Party Transactions in Relation to Joint External Investment

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

Related Party Credit and Debt Transactions

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

INDEPENDENT AUDITOR'S REPORT



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

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

OPINION

We have audited the consolidated financial statements of Weihai City Commercial Bank Co., Ltd. (the "**Bank**") and its subsidiary (together the "**Group**") set out on pages 152 to 280, which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 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 Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with HKICPA's "Code of Ethics for Professional Accountants" (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Independent Auditor's Report

KEY AUDIT MATTERS (CONT'D)

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

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

The Key Audit Matter

The Group's loans and advances to customers and financial investments measured at amortised cost as at December 31, 2021 amounted to RMB208,694 million, with loss allowances amounted to RMB4,760 million as at December 31, 2021.

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

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

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

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

Independent Auditor's Report

KEY AUDIT MATTERS (CONT'D)

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

The Key Audit Matter (Cont'd)

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

How the matter was addressed in our audit

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

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

Independent Auditor's Report

KEY AUDIT MATTERS (CONT'D)

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

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

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

Independent Auditor's Report

KEY AUDIT MATTERS (CONT'D)

Assessment of fair value of financial instruments

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

The Key Audit Matter

The Group mainly holds level 2 and level 3 financial instruments measured at fair value. As at December 31, 2021, fair value of level 2 and level 3 financial instruments amounted to RMB44,164 million.

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

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

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

How the matter was addressed in our audit

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

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

Independent Auditor's Report

KEY AUDIT MATTERS (CONT'D)

Consolidation of structured entities

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

The Key Audit Matter

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

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

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

How the matter was addressed in our audit

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

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

Independent Auditor's Report

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

Independent Auditor's Report

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited

Certified Public Accountants

Chan Wing Fai

Practising Certificate no. P05443

Hong Kong, March 30, 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2021	2020
Interest income		13,123,113	11,090,500
Interest expense		(7,075,580)	(6,432,187)
Net interest income	3	6,047,533	4,658,313
Fee and commission income		668,376	533,432
Fee and commission expense		(76,287)	(69,714)
Net fee and commission income	4	592,089	463,718
Net trading (losses)/gains	5	(40,266)	(159,041)
Net gains arising from investment securities	6	739,129	1,056,752
Other operating income	7	38,927	14,222
Operating income		7,377,412	6,033,964
Operating expenses	8	(1,592,887)	(1,577,661)
Impairment losses on assets	11	(3,569,605)	(2,505,035)
Profit before tax		2,214,920	1,951,268
Income tax expense	12	(323,208)	(303,027)
Net profit for the year		1,891,712	1,648,241
Net profit for the year attributable to:			
Equity shareholders of the Bank		1,745,448	1,509,547
Non-controlling interests		146,264	138,694
		1,891,712	1,648,241

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2021	2020
Other comprehensive income for the year:			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income:			
– net movement in the fair value reserve, net of tax	34(d)	246,776	(211,789)
– net movement in the impairment reserve, net of tax	34(e)	13,934	2,267
Items that will not be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income:			
– net movement in the fair value reserve, net of tax	34(d)	4,523	15,976
Other comprehensive income, net of tax		265,233	(193,546)
Total comprehensive income for the year		2,156,945	1,454,695
Total comprehensive income for the year attributable to:			
Equity shareholders of the Bank		2,010,681	1,316,001
Non-controlling interests		146,264	138,694
		2,156,945	1,454,695
Basic and diluted earnings per share (in RMB)	13	0.26	0.26

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2021	2020
Assets			
Cash and deposits with the central bank	14	24,356,627	23,500,280
Deposits with banks and other financial institutions	15	4,312,845	4,875,347
Placements with banks	16	2,052,037	241,446
Financial assets held under resale agreements	17	200,158	605,131
Loans and advances to customers	18	140,367,279	117,749,061
Financial investments:	19		
Financial investments measured at fair value through profit or loss		12,167,202	14,896,962
Financial investments measured at fair value through other comprehensive income		23,369,515	18,272,189
Financial investments measured at amortised cost		77,122,234	68,052,213
Property and equipment	21	1,019,315	702,157
Right-of-use assets	22	394,674	453,977
Deferred tax assets	23	1,746,391	1,372,687
Other assets	24	17,412,539	16,880,198
Total assets		304,520,816	267,601,648
Liabilities and Equity			
Liabilities			
Borrowing from the central bank		11,281,745	7,240,711
Deposits from banks	26	4,031,721	3,085,763
Placements from banks and other financial institutions	27	15,066,239	15,234,638
Financial assets sold under repurchase agreements	28	7,004,003	6,545,672
Deposits from customers	29	206,841,962	179,588,530
Income tax payable		429,323	345,375
Debt securities issued	31	32,698,317	30,872,662
Lease liabilities	30	374,230	423,602
Deferred tax liabilities	23	48,032	309
Other liabilities	32	2,575,036	2,590,643
Total liabilities		280,350,608	245,927,905

Consolidated Statement of Financial Position

As at December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2021	2020
Equity			
Share capital	33	5,980,058	5,980,058
Capital reserve	34(a)	4,947,553	4,947,553
Surplus reserve	34(b)	1,379,190	1,225,715
General reserve	34(c)	2,648,092	2,293,035
Fair value reserve	34(d)	25,041	(225,644)
Impairment reserve	34(e)	25,356	11,422
Retained earnings	35	4,151,373	3,673,849
Total equity attributable to equity shareholders of the Bank		19,156,663	17,905,988
Perpetual bonds	34(f)	4,099,201	2,999,675
Non-controlling interests		914,344	768,080
Total equity		24,170,208	21,673,743
Total liabilities and equity		304,520,816	267,601,648

Approved and authorised for issue by the board of directors on March 30, 2022 and signed on its behalf by

Tan Xianguo
Chairman

Meng Dongxiao
President

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

Notes	Attributable to equity shareholders of the Bank								Perpetual bonds	Non-controlling interests	Total
	Share Capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Retained earnings	Subtotal			
Balance at January 1, 2021	5,980,058	4,947,553	1,225,715	2,293,035	(225,644)	11,422	3,673,849	17,905,988	2,999,675	768,080	21,673,743
Changes in equity for the year:											
Net profit for the year	-	-	-	-	-	-	1,745,448	1,745,448	-	146,264	1,891,712
Other comprehensive income	-	-	-	-	251,299	13,934	-	265,233	-	-	265,233
Total comprehensive income	-	-	-	-	251,299	13,934	1,745,448	2,010,681	-	146,264	2,156,945
Issuance of perpetual bonds 34(f)	-	-	-	-	-	-	-	-	1,099,526	-	1,099,526
Disposal of financial investments measured at fair value through other comprehensive income	-	-	-	-	(614)	-	614	-	-	-	-
Appropriation of profit:											
- Appropriation to surplus reserve 34(b)	-	-	153,475	-	-	-	(153,475)	-	-	-	-
- Appropriation to general reserve 34(c)	-	-	-	355,057	-	-	(355,057)	-	-	-	-
- Appropriation to shareholders 35	-	-	-	-	-	-	(598,006)	(598,006)	-	-	(598,006)
- Appropriation to perpetual bondholders	-	-	-	-	-	-	(162,000)	(162,000)	162,000	-	-
- Distribution paid to perpetual bondholders 34(f)	-	-	-	-	-	-	-	-	(162,000)	-	(162,000)
Balance at December 31, 2021	5,980,058	4,947,553	1,379,190	2,648,092	25,041	25,356	4,151,373	19,156,663	4,099,201	914,344	24,170,208

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2021	2020
Cash flows from operating activities			
Profit before income tax		2,214,920	1,951,268
<i>Adjustments for:</i>			
Impairment losses on assets	11	3,569,605	2,505,035
Depreciation and amortisation	8	212,542	204,588
Unrealised foreign exchange losses, net	5	37,096	51,668
Net losses on disposal of property and equipment	7	529	453
Net trading losses	5	3,170	107,373
Net gains on disposal of investment securities	6	(739,129)	(1,056,752)
Interest expenses on debt securities issued	3	1,012,256	1,055,295
Interest expenses on lease liabilities	8	18,501	20,324
Interest income from financial investments	3	(3,928,562)	(3,854,396)
		2,400,928	984,856
<i>Changes in operating assets</i>			
Net increase in deposits with the central bank		(206,161)	(2,180,570)
Net increase in loans and advances to customers		(25,106,681)	(27,841,814)
Net increase in finance lease receivables		(512,449)	(2,867,835)
Net increase in other operating assets		(781,335)	(963,507)
		(26,606,626)	(33,853,726)
<i>Changes in operating liabilities</i>			
Net increase in borrowing from the central bank		4,039,487	2,509,976
Net increase/(decrease) in deposits from banks		949,236	(1,907,902)
Net (decrease)/increase in placements from banks and other financial institutions		(172,904)	4,784,540
Net increase/(decrease) in financial assets sold under repurchase agreements		455,067	(3,398,708)
Net increase in deposits from customers		26,352,422	35,279,723
Net increase in other operating liabilities		46,492	1,146,440
Income tax paid		(653,653)	(691,962)
		31,016,147	37,722,107
Net cash flows generated from operating activities		6,810,449	4,853,237

Consolidated Statement of Cash Flows

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2021	2020
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		121,875,811	318,808,813
Return on investments		4,667,691	4,911,147
Payments on acquisition of investments		(142,011,214)	(338,178,238)
Payments on acquisition of property and equipment, intangible assets and other assets		(132,898)	(46,525)
Proceeds from disposal of property and equipment and other assets		102	48,381
Net cash flows used in investing activities		(15,600,508)	(14,456,422)
Cash flows from financing activities			
Proceeds from issue of shares upon share offer		–	2,844,092
Proceeds from capital contribution by non-controlling interests		–	132,300
Advance from third parties	32(e)	477,000	–
Proceeds from issuance of debt securities	39(c)	52,600,154	41,281,663
Repayment of debt securities	39(c)	(50,690,000)	(40,030,000)
Interest paid on debt securities	39(c)	(1,096,755)	(1,059,078)
Capital element of lease liabilities paid		(103,744)	(113,460)
Interest element of lease liabilities paid		(18,501)	(20,324)
Dividends paid		(596,638)	(545,404)
Net proceeds from issuance of perpetual bonds		1,099,496	–
Interest paid on perpetual bonds		(162,000)	(148,721)
Net cash flows generated from financing activities		1,509,012	2,341,068
Effect of foreign exchange rate changes on cash and cash equivalents		(86,886)	(84,389)
Net decreased in cash and cash equivalents		(7,367,933)	(7,346,506)
Cash and cash equivalents as at January 1		27,895,102	35,241,608
Cash and cash equivalents as at December 31		20,527,169	27,895,102
Interest received		13,857,979	13,649,509
Interest paid (excluding interest expense on debt securities issued)		(4,754,414)	(4,801,272)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

1. GENERAL

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

The Bank has been approved by the former China Banking Regulatory Commission (the “**CBRC**”, currently the China Banking and Insurance Regulatory Commission, the “**CBIRC**”) (Shandong Branch) to hold financial business permit (No. D10014650043). By December 31, 2021, the paid-in registered capital of the Bank was RMB5,980,058,344, with its registered office located at No. 9 Baoquan Road Weihai, Shandong Province.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (the “**IFRSs**”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the “**IASB**”) and the disclosure requirements of Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(2) Basis of preparation

The financial statements for the year ended December 31, 2021 comprise the company and its subsidiary (together referred to as the “**Group**”).

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

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

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

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

Judgments made by management in the application of IFRSs that have a significant effect on the consolidated financial information and major sources of estimation uncertainty are discussed in Note 2(27).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(3) Changes in accounting policies

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

- Amendments to IFRS 16, Covid-19 – Related Rent Concessions
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, Interest Rate Benchmark Reform – Phase 2

The Group has adopted all the new or amended IFRSs which are effective for the Group's accounting periods beginning on or after January 1, 2021 throughout the years ended December 31, 2021. None of these new or revised IFRSs has a material impact on the Group's result and financial position of the current period.

(4) Issued but not yet effective International Financial Reporting Standards

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the financial statements, the Group has adopted all applicable new and revised IFRSs to the reporting period, except for any new standards or interpretations that are not yet effective for the year ended December 31, 2021.

The revised and new accounting standards and interpretations issued but not yet effective for the year ended December 31, 2021 or before, are set out below:

IFRS 17	Insurance Contracts and the related Amendments ³
Amendments to IFRS 3	Reference to the Conceptual Framework ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendment to IFRS 16	Covid-19 – Related Rent Concessions beyond 30 June 2021 ¹
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current ³
Amendments to IAS 1	Disclosure of Accounting Policies ³
Amendments to IAS 8	Definition of Accounting Estimates ³
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use ²
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Annual Improvements to IFRSs 2018-2020 cycle	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16 and IAS 41 ²

¹ Effective for annual periods beginning on or after April 1, 2021.

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

³ Effective for annual periods beginning on or after January 1, 2023.

⁴ Effective for annual periods beginning on or after a date to be determined.

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(5) Subsidiary and non-controlling interests

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(6) Translation of foreign currencies

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

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

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

(7) Cash and cash equivalents

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

(8) Financial instruments

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(8) Financial instruments (Cont'd)

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

Classification of financial assets

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(8) Financial instruments (Cont'd)

(ii) *Classification and subsequent measurement of financial assets (Cont'd)*

Classification of financial assets (Cont'd)

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

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

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

Subsequent measurement of financial assets

– *Financial assets measured at FVTPL*

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

– *Financial assets measured at amortised cost*

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(8) Financial instruments (Cont'd)

(ii) *Classification and subsequent measurement of financial assets (Cont'd)*

Subsequent measurement of financial assets (Cont'd)

– *Debt investments measured at FVOCI*

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

– *Equity investments measured at FVOCI*

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

(iii) *Classification and subsequent measurement of financial liabilities*

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

– Financial liabilities measured at FVTPL

A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

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

– Financial guarantee liabilities

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

– A financial guarantee contract issued by the Group is recognised initially at its fair value and subsequently carries at the higher of:

The amount of the loss allowance determined in accordance with impairment policies of financial instruments (see Note 2(8)(iv)); and

The amount initially recognised less the cumulative amount of income.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(8) Financial instruments (Cont'd)

(iii) Classification and subsequent measurement of financial liabilities (Cont'd)

- Financial liabilities at amortised cost
Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

(iv) Impairment

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

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- credit commitment.

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

Measurement of ECL

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

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

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

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

ECL on these financial assets are estimated based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

See Note 42(a) for the measurement of ECL of the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(8) Financial instruments (Cont'd)

(iv) *Impairment (Cont'd)*

Presentation of allowance for ECL

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

Write-off

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

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

(v) *Fair value measurement principles*

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(8) Financial instruments (Cont'd)

(v) Fair value measurement principles (Cont'd)

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

The Group obtains market data from the same market where the financial instrument was originated or purchased.

(vi) Derecognition of financial assets and financial liabilities

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

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

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

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

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

(vii) Offsetting

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(9) Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the consolidated statement of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the consolidated statement of financial position and measured in accordance with the accounting policy applicable to that asset. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

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

(10) Perpetual bonds

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

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

(11) Investment in a subsidiary

In the Group's consolidated financial statements, investments in a subsidiary is accounted for in accordance with the principles described in Note 2(5).

In the Bank's financial statements, investment in a subsidiary are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognised at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (see Note 2(17)) in the statement of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid-in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(12) Property and equipment

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

Property and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment loss (see Note 2(17)).

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

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

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

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

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

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	40	5	2.38%
Leasehold improvement	Over the shorter of the lease terms and estimated useful lives		
Motor vehicles	7	5	13.57%
Office equipment	5	5	19.00%

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(13) Investment property

Investment property is a property held either for earning rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment loss (Note 2(17)). Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	40	5	2.38%
Land use rights		Over the lease terms	

(14) Leases

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

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the lessee has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;
- the lessee has the right to direct the use of the asset. The lessee has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the lessee has the right to direct the use of the asset if either:
 - the lessee has the right to operate the asset; or
 - the lessee designed the asset in a way that predetermines how and for what purpose it will be used.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(14) Leases (Cont'd)

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(i) As a lessee

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(14) Leases (Cont'd)

(i) *As a lessee (Cont'd)*

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

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

The Group presents right-of-use assets that do not meet the definition of investment property in right-of-use of assets and land use right separately and lease liabilities as separate line items in the consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of equipment that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) *As a lessor*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies IFRS 15 to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(15) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortisation and impairment loss (see Note 2(17)). The cost of intangible assets less residual value and impairment loss is amortised on the straight-line method over the estimated useful lives.

The respective amortisation periods for intangible assets are as follows:

Computer software and system development	5 years
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(16) Repossessed assets

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

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

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

- property and equipment
- investment property measured using a cost model
- intangible assets
- investment in a subsidiary
- right-of-use assets

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(17) Provision for impairment losses on non-financial assets (Cont'd)

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

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

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

(18) Employee benefits

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

The defined contribution retirement plans of the Group include the social pension schemes, annuity plan, housing fund and other social insurances. No forfeited contributions have been applied by the Bank to reduce its existing level of contributions for the year ended December 31, 2021 and 2020 respectively.

Social pension schemes

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

Annuity plan

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' total salaries and bonuses, which are charged to profit or loss when the contributions are made.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(18) Employee benefits (Cont'd)

Housing fund and other social insurances

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

(19) Income tax

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(19) Income tax (Cont'd)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

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

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

(20) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

In terms of off-balance sheet credit commitment, the Group applies expected credit loss model to measure the loss caused by particular debtors incapable of paying due debts, which is present in provisions. See Note 2(8)(iv) for the description of expected credit loss model.

(ii) Other provisions and contingent liabilities

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(20) Financial guarantees, provisions and contingent liabilities (Cont'd)

(ii) *Other provisions and contingent liabilities (Cont'd)*

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

(21) Fiduciary activities

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

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

(22) Income recognition

Income is the gross inflow of economic benefit in the periods arising in the course of the Group's ordinary activities when the inflows result in an increase in shareholder's equity, other than an increase relating to contributions from shareholders.

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

The following is the description of accounting policies regarding income from the Group's principal activities.

(i) *Interest income*

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(22) Income recognition (Cont'd)

(i) *Interest income (Cont'd)*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the reporting period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(ii) *Fee and commission income*

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

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

- The customer simultaneously receives and consumes the economic benefits provided by the Group's performance as the Group performs;
- The customer controls the service provided by the Group in the course of performance;
- The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date; or
- In other cases, the Group recognises revenue at a point in time at which a customer obtains control of the promised services.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(22) Income recognition (Cont'd)

(iii) *Government grants*

Government grants are recognised in the statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and consequently are effectively recognised in profit or loss over the useful life of the asset by way of other income.

(iv) *Other income*

Other income is recognised on an accrual basis.

(23) Expenses recognition

(i) *Interest expenses*

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

(ii) *Other expenses*

Other expenses are recognised on an accrual basis.

(24) Dividends

Dividends or distribution of profits proposed in the profit appropriation plan which will be authorised and declared after the end of each of the reporting period are not recognised as a liability at the end of each of the reporting period but disclosed separately in the notes to the consolidated financial statements.

(25) Related parties

- a. A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(25) Related parties (Cont'd)

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

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

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

(26) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(26) Segment reporting (Cont'd)

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

(27) Significant accounting estimates and judgments

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

(a) *Measurement of expected credit loss*

The measurement of the expected credit loss allowance for the investment in financial assets and debt instruments measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). For off-balance sheet credit commitments and revolving credit facilities, judgments are also needed to determine the time period applicable for the exposure at default. Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in Note 42(a).

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

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

Detailed information about the judgments and estimates made by the Group in the above areas is set out in Note 42(a) credit risk.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(27) Significant accounting estimates and judgments (Cont'd)

(b) *Fair value of financial instruments*

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

(c) *Income taxes*

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(d) *Impairment of non-financial assets*

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

The recoverable amount is determined based on value-in-use calculation or FVLCD. The calculations of value-in-use require the use of judgment and estimates of the future cash flows expected to arise from the assets, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value. In the process of estimating expected future cash flows management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Calculation of FVLCD involves the selection of valuation model, adoption of key assumption, and input data, which are subject to management judgment.

(e) *Depreciation and amortisation*

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(27) Significant accounting estimates and judgments (Cont'd)

(f) *Determination of control over investees*

Management applies its judgment to determine whether the control indicators indicate that the Group controls a non-principal guaranteed wealth management product and an asset management plan.

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

For further disclosure in respect of unconsolidated non-principal guaranteed wealth management products and asset management plans in which the Group has an interest or for which it is a sponsor, see Note 36.

(g) *Determination of the incremental borrowing rate used to measure lease liabilities*

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

3. NET INTEREST INCOME

	2021	2020
Interest income arising from		
Deposits with the central bank	269,857	245,844
Deposits with banks and other financial institutions	5,737	1,838
Placements with banks	88,445	69,243
Loans and advances to customers		
– Corporate loans and advances	5,128,067	3,925,091
– Personal loans and advances	2,193,821	1,590,508
– Discounted bills	281,611	328,611
Financial assets held under resale agreements	39,221	63,216
Financial investments	3,928,562	3,854,396
Finance leases	1,187,792	1,011,753
Sub-total	13,123,113	11,090,500
Interest expenses arising from		
Borrowing from the central bank	(204,775)	(164,452)
Deposits from banks and other financial institutions	(102,370)	(110,877)
Placements from banks and other financial institutions	(687,939)	(555,724)
Deposits from customers	(4,891,597)	(4,398,970)
Financial assets sold under repurchase agreements	(159,933)	(114,277)
Debt securities issued	(1,012,256)	(1,055,295)
Discounted bills	(16,710)	(32,592)
Sub-total	(7,075,580)	(6,432,187)
Net interest income	6,047,533	4,658,313

Total interest income arising from financial assets that are not at FVTPL for the years ended December 31, 2021 amounted to RMB13,123 million (2020: RMB11,091 million).

Total interest expense arising from financial liabilities that are not at FVTPL for the years ended December 31, 2021 amounted to RMB7,076 million (2020: RMB6,432 million).

Interest income arising from impaired loan for the year ended December 31, 2021 amounted to RMB56 million (2020: RMB41 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

4. NET FEE AND COMMISSION INCOME

(a) Income and expense streams:

	2021	2020
Fee and commission income		
Acceptance and guarantee services fees	62,395	42,277
Agency services fees	237,262	166,483
Bank card services fees	33,985	36,220
Consultancy services fees	190,427	98,503
Finance leases services fees	67,108	99,859
Settlement and clearing fees	62,318	71,194
Others	14,881	18,896
Sub-total	668,376	533,432
Fee and commission expense		
Bank card services fees	(16,961)	(14,929)
Settlement and clearing fees	(50,198)	(46,170)
Others	(9,128)	(8,615)
Sub-total	(76,287)	(69,714)
Net fee and commission income	592,089	463,718
Fee and commission income		
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVTPL	19,761	21,134
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	9,830	17,800
Fee and commission expense		
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVTPL	7,291	8,670

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

4. NET FEE AND COMMISSION INCOME (CONT'D)

(b) Disaggregation of income:

	2021		2020	
	At a point in time	Over time	At a point in time	Over time
Acceptance and guarantee services fees	–	62,395	–	42,277
Agency services fees	–	237,262	–	166,483
Bank card services fees	33,985	–	36,220	–
Consultancy services fees	–	190,427	–	98,503
Finance leases services fees	–	67,108	–	99,859
Settlement and clearing fees	62,318	–	71,194	–
Others	14,881	–	18,896	–
Total	111,184	557,192	126,310	407,122

5. NET TRADING (LOSSES)/GAINS

	2021	2020
Net gains/(losses) from debt securities	57,525	(134,083)
Net gains from funds	31,634	17,139
Net (losses)/gains from investment management products	(102,823)	12,907
Net gains/(losses) from derivatives	10,494	(3,336)
Exchange losses	(37,096)	(51,668)
Total	(40,266)	(159,041)

6. NET GAINS ARISING FROM INVESTMENT SECURITIES

	2021	2020
Net gains of financial investments measured at fair value through profit or loss	610,230	842,551
Net gains of financial investments measured at fair value through other comprehensive income	89,978	164,815
Net gains of financial investments at amortised cost	35,516	–
Dividend income	2,080	1,440
Net gains of investment on derivatives	1,325	47,946
Total	739,129	1,056,752

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

7. OTHER OPERATING INCOME

Other operating income streams:

	2021	2020
Penalty income	711	645
Long-term unwithdrawn items income	1,856	74
Rental income	1,029	1,208
Government grants	32,451	7,546
Net losses on disposal of property and equipment	(529)	(453)
Others	3,409	5,202
Total	38,927	14,222

8. OPERATING EXPENSES

	2021	2020
Staff costs		
– Salaries, bonuses and allowances	613,947	725,150
– Social insurance	86,913	33,953
– Housing allowances	42,202	39,688
– Staff welfares	12,799	10,532
– Employee education expenses and labour union expenses	21,571	25,598
– Supplementary retirement benefits	22,441	20,861
Sub-total	799,873	855,782
Rental and property management expenses	17,466	17,870
Depreciation and amortisation	98,866	93,334
Depreciation charge for the right-of-use assets	113,676	111,254
Interest expense on lease liabilities	18,501	20,324
Taxes and surcharges	80,871	64,095
Auditors' remuneration	2,850	2,264
Office expenses	347,723	292,184
Other general and administrative expenses	113,061	120,554
Total	1,592,887	1,577,661

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Notes	Year ended December 31, 2021						Total
	Fees	Salaries	Discretionary bonus	Sub-total	Contributions to social pension schemes	Other welfares	
Executive directors							
Tan Xianguo (譚先國)	-	702	1,475	2,177	53	39	2,269
Meng Dongxiao (孟東曉)	-	702	1,475	2,177	92	55	2,324
Zhang Renzhao (張仁釗) (a)	-	281	516	797	26	19	842
Bi Qiubo (畢秋波) (a)	-	328	602	930	31	22	983
Tao Zunjian (陶遵建)	-	562	1,033	1,595	78	44	1,717
Lu Jiliang (盧繼梁) (b)	-	515	947	1,462	48	36	1,546
Zhang Wenbin (張文斌) (b)	-	281	516	797	27	26	850
Non-executive directors							
Li Hang (李航) (a)	-	-	-	-	-	-	-
Wang Song (王松) (a)	-	-	-	-	-	-	-
Sun Chenglong (孫成龍) (a)	-	-	-	-	-	-	-
Yi Jijun (伊繼軍)	-	-	-	-	-	-	-
Wang Qixiang (王啟祥) (a)	-	-	-	-	-	-	-
Song Bin (宋斌) (b)	-	-	-	-	-	-	-
Yin Lin (尹林) (b)	-	-	-	-	-	-	-
Zhao Bing (趙冰) (b)	-	-	-	-	-	-	-
Zhao Yue (趙月) (b)	-	-	-	-	-	-	-
Independent non-executive directors							
Liu Xue (劉學) (a)	100	-	-	100	-	-	100
Sun Guomao (孫國茂)	200	-	-	200	-	-	200
Fan Chi Chiu (范智超)	200	-	-	200	-	-	200
Lu Qing (路清)	200	-	-	200	-	-	200
Zhang Guanghong (張廣鴻) (a)	100	-	-	100	-	-	100
Wang Shaohong (王紹宏) (b)	100	-	-	100	-	-	100
Sun Zuying (孫祖英) (b)	100	-	-	100	-	-	100
Employee representative Supervisor							
Zhang Renzhao (張仁釗) (b)	-	351	738	1,089	26	20	1,135
Wang Xifeng (王希峰) (b)	-	243	243	486	31	27	544
Zhang Chuanzheng (張傳政) (b)	-	83	249	332	26	20	378
Deng Wei (鄧衛) (a)	-	351	738	1,089	26	19	1,134
Liu Changjie (劉昌傑) (a)	-	562	1,033	1,595	53	39	1,687
Zhang Xuening (張雪凝) (a)	-	83	249	332	26	19	377
External supervisors							
Wang Yong (王勇) (b)	100	-	-	100	-	-	100
Zhu Yingwei (朱英偉) (b)	100	-	-	100	-	-	100
Yang Yunhong (楊雲紅) (b)	100	-	-	100	-	-	100
Tan Degui (譚德貴) (a)	100	-	-	100	-	-	100
Teng Bo (滕波) (a)	100	-	-	100	-	-	100
Li Yuanfen (李元芬) (a)	-	-	-	-	-	-	-
Shareholder representative Supervisor							
Zhao Lijie (趙麗傑)	200	-	-	200	-	-	200
Zhou Hao (周浩)	200	-	-	200	-	-	200
Feng Yongdong (馮永東)	200	-	-	200	-	-	200
Total	2,100	5,044	9,814	16,958	543	385	17,886

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONT'D)

	Notes	Fees	Salaries	Discretionary bonus	Year ended December 31, 2020			Total
					Sub-total	Contributions to social pension schemes	Other welfares	
Executive directors								
Tan Xianguo (譚先國)		–	702	1,517	2,219	17	40	2,276
Meng Dongxiao (孟東曉)		–	702	1,517	2,219	30	53	2,302
Zhang Renzhao (張仁釗)		–	562	1,062	1,624	17	40	1,681
Bi Qiubo (畢秋波)		–	562	1,062	1,624	17	40	1,681
Tao Zunjian (陶遵建)		–	562	1,062	1,624	17	40	1,681
Non-executive directors								
Li Hang (李航)		–	–	–	–	–	–	–
Wang Song (王松)		–	–	–	–	–	–	–
Sun Chenglong (孫成龍)		–	–	–	–	–	–	–
Yi Jijun (伊繼軍)		–	–	–	–	–	–	–
Wang Shouhua (王壽華)	(c)	38	–	–	38	–	–	38
Wang Qixiang (王啟祥)	(d)	–	–	–	–	–	–	–
Independent non-executive directors								
Liu Xue (劉學)		192	–	–	192	–	–	192
Lu Qing (路清)		192	–	–	192	–	–	192
Ma Ya (馬亞)	(c)	38	–	–	38	–	–	38
Sun Guomao (孫國茂)		192	–	–	192	–	–	192
Zhang Guanghong (張廣鴻)		192	–	–	192	–	–	192
Fan Chi Chiu (范智超)	(d)	167	–	–	167	–	–	167
Employee representative supervisor								
Deng Wei (鄧衛)		–	702	1,517	2,219	17	40	2,276
Liu Changjie (劉昌傑)		–	562	1,062	1,624	17	40	1,681
Zhang Xuening (張雪凝)		–	165	315	480	17	40	537
External supervisors								
Tan Degui (譚德貴)		192	–	–	192	–	–	192
Teng Bo (滕波)		192	–	–	192	–	–	192
Li Yuanfen (李元芬)		–	–	–	–	–	–	–
Shareholder representative Supervisor								
Zhao Lijie (趙麗傑)		192	–	–	192	–	–	192
Zhou Hao (周浩)		192	–	–	192	–	–	192
Feng Yongdong (馮永東)		192	–	–	192	–	–	192
Total		1,971	4,519	9,114	15,604	149	333	16,086

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONT'D)

Notes:

- (a) On June 11, 2021, Zhang Renzhao and Bi Qiubo resigned as executive directors; Li Hang, Wang Song, Sun Chenglong and Wang Qixiong resigned as non-executive directors; Liu Xue and Zhang Guanghong resigned as independent non-executive directors; Deng Wei, Liu Changjie, Zhang Xuening, Tan Degui, Teng Bo and Li Yuanfen resigned as supervisors.
- (b) In the general meeting held on June 11, 2021, Lu Jiliang and Zhang Wenbin were elected as executive directors; Song Bin, Yi Lin, Zhao Bing and Zhao Yue were elected as non-executive directors; Wang Shaohong and Sun Zuying were elected as independent non-executive directors; Zhang Renchao, Wang Xifeng, Zhang Chuanzheng, Wang Yong, Zhu Yingwei and Yang Yunhong were elected as supervisors.
- (c) On February 29, 2020, Wang Shouhua resigned as non-executive director, Ma Ya resigned as independent non-executive director.
- (d) In the general meeting held on February 29, 2020, Wang Qixiang was elected as independent non-executive director; Fan Zhichao was elected as independent non-executive director.

There was no amount paid during the year to the directors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join the Group. There was no other arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended December 31, 2021, the five individuals with highest emoluments include 3 directors and 1 supervisor (2020: 2 directors and 1 supervisor) of the Bank. Their emoluments are disclosed in Note 9. The emoluments for the five highest paid individuals for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Salaries and other emoluments	3,159	3,229
Discretionary bonuses	6,270	6,676
Contributions to pension schemes	328	136
Others	226	229
Total	9,983	10,270

The number of these individuals whose emoluments are within the following bands is set out below:

	2021	2020
Nil-Hong Kong Dollars ("HKD") 500,000	—	—
HKD500,001-HKD1,000,000	—	—
HKD1,000,001-HKD1,500,000	—	—
HKD1,500,001-HKD2,000,000	—	—
HKD2,000,001-HKD2,500,000	3	2
HKD2,500,001-HKD3,000,000	2	3

None of these individuals received any inducement to join or upon joining the Group or compensation for loss of office, or waived any emoluments during the year ended December 31, 2021 (2020: Nil).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

11. IMPAIRMENT LOSSES ON ASSETS

	2021	2020
Financial assets held under resale agreements	(398)	(3,161)
Loans and advances to customers	2,706,461	1,934,741
Financial investments	536,886	409,882
Finance lease receivables	241,083	113,989
Credit commitments	17,657	15,815
Placements with banks	2,252	–
Others	65,664	33,769
Total	3,569,605	2,505,035

12. INCOME TAX EXPENSE

(a) Income tax expense:

	Note	2021	2020
Current tax		737,395	658,306
Deferred tax	23(b), 34(e)	(414,187)	(355,279)
Total		323,208	303,027

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

	Note	2021	2020
Profit before tax		2,214,920	1,951,268
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		553,730	487,817
Non-deductible expenses		8,033	16,672
Non-taxable income	(i)	(238,555)	(201,462)
Income tax expense		323,208	303,027

- (i) The non-taxable income mainly represents the interest income arising from the PRC government bonds and dividends from domestic enterprises.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

13. BASIC AND DILUTED EARNINGS PER SHARE

	<i>Note</i>	2021	2020
Net profit attributable to equity shareholders of the Bank		1,745,448	1,509,547
Less: Distribution to perpetual bondholders		(162,000)	(148,721)
Adjusted net profit attributable to equity shareholders of the Bank		1,583,448	1,360,826
Weighted average number of ordinary shares (in thousands)	<i>(a)</i>	5,980,058	5,181,287
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.26	0.26

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

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

	2021	2020
Number of ordinary shares at the beginning of the year	5,980,058	4,971,197
Weighted average number of ordinary shares issued during the year	–	210,090
Weighted average number of ordinary shares	5,980,058	5,181,287

On October 12, 2020, the Bank issued 877 million H-shares with a par value of RMB1 at an offering price of HKD3.35 per share. On November 10, 2020, the Bank exercised the over-allotment option and issued 131 million H-shares with a par value of RMB1 at HKD3.35 per share.

Basic earnings per share have been computed by taking into account of the aforesaid shares subscribed by the investors for the year ended December 31, 2020.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

14. CASH AND DEPOSITS WITH THE CENTRAL BANK

	Notes	2021	2020
Cash on hand		215,682	218,265
Deposits with the central bank			
– Statutory deposit reserves	(a)	15,670,303	15,419,165
– Surplus deposit reserves	(b)	8,470,443	7,817,674
– Fiscal deposits		199	45,176
Sub-total		24,140,945	23,282,015
Total		24,356,627	23,500,280

Notes:

- (a) The Group places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of each of the reporting period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	2021	2020
Reserve ratio for RMB deposits	8.0%	9.0%
Reserve ratio for foreign currency deposits	9.0%	5.0%

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

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

15. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	2021	2020
Deposits in mainland China		
– Banks	1,390,534	3,110,834
– Other financial institutions	88,249	7
Sub-total	1,478,783	3,110,841
Deposits outside mainland China		
– Banks	2,834,014	1,764,437
Sub-total	2,834,014	1,764,437
Interests accrued	48	69
Less: Provision for impairment losses	–	–
Total	4,312,845	4,875,347

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

16. PLACEMENTS WITH BANKS

Analysed by type and location of counterparty

	2021	2020
Placements in mainland China – Banks	2,052,975	241,421
Sub-total	2,052,975	241,421
Interests accrued	1,315	26
Less: Provision for impairment losses	(2,253)	(1)
Total	2,052,037	241,446

17. FINANCIAL ASSETS HELD UNDER RE SALE AGREEMENTS

(a) Analysed by type and location of counterparty

	2021	2020
In mainland China – Banks	200,000	605,050
Sub-total	200,000	605,050
Interests accrued	158	479
Less: Provision for impairment losses	–	(398)
Total	200,158	605,131

(b) Analysed by type of collateral held

	2021	2020
Securities – Government – Policy banks	47,619 152,381	100,800 504,250
Sub-total	200,000	605,050
Interests accrued	158	479
Less: Provision for impairment losses	–	(398)
Total	200,158	605,131

As at December 31, 2021 and 2020, certain financial assets held under resale agreements were pledged for repurchase agreements (Note 25(a)).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	2021	2020
Loans and advances to customers measured at amortised cost:		
Corporate loans and advances	94,366,070	79,233,264
Personal loans		
– Residential mortgage loans	16,319,912	13,913,613
– Personal consumption loans	3,680,141	3,173,655
– Personal business loans	18,803,360	15,704,617
– Credit cards	1,327,301	741,489
Sub-total	40,130,714	33,533,374
Interests accrued	668,503	522,713
Less: Provision for loans and advances to customers measured at amortised cost	(3,593,924)	(3,067,076)
Sub-total	131,571,363	110,222,275
Loans and advances to customers measured at fair value through other comprehensive income:		
Discounted bills	8,795,916	7,526,786
Net loans and advances to customers	140,367,279	117,749,061

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

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

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

	2021		Loans and advances secured by collaterals
	Amount	Percentage	
Leasing and business services	20,457,917	14.28%	7,739,848
Water conservancy, environment and public facilities management	18,810,830	13.13%	7,110,138
Manufacturing	17,104,306	11.94%	5,634,699
Construction	10,462,071	7.30%	3,425,178
Real estate	7,362,496	5.14%	7,335,360
Wholesale and retail	6,745,969	4.71%	3,546,130
Transportation, warehousing and postal services	2,489,924	1.74%	1,030,100
Agriculture, forestry, animal husbandry and fishery	2,481,017	1.73%	1,634,077
Electricity, heat, gas and water production and supply	2,290,344	1.60%	362,700
Education	1,875,265	1.31%	737,800
Hygiene and social welfare	889,420	0.62%	374,600
Information transmission, software and information technology services	211,384	0.15%	171,384
Culture, sports and entertainment	199,219	0.14%	84,600
Others	2,985,908	2.08%	872,058
Sub-total of corporate loans and advances	94,366,070	65.87%	40,058,672
Personal loans	40,130,714	28.01%	25,745,135
Discounted bills	8,795,916	6.12%	8,795,916
Gross loans and advances to customers	143,292,700	100.00%	74,599,723

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

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

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

	2020		Loans and advances secured by collaterals
	Amount	Percentage	
Manufacturing	18,149,300	15.09%	5,396,734
Leasing and business services	14,657,989	12.19%	5,384,099
Water conservancy, environment and public facilities management	11,370,432	9.45%	4,282,950
Construction	7,801,575	6.49%	3,378,320
Real estate	7,654,667	6.36%	7,580,635
Wholesale and retail	6,365,017	5.29%	3,015,488
Agriculture, forestry, animal husbandry and fishery	3,031,614	2.52%	1,561,954
Electricity, heat, gas and water production and supply	2,357,250	1.96%	409,600
Education	1,989,943	1.65%	821,800
Transportation, warehousing and postal services	1,849,218	1.54%	416,339
Hygiene and social welfare	895,050	0.74%	295,700
Culture, sports and entertainment	325,850	0.27%	154,480
Information transmission, software and information technology services	207,850	0.17%	166,950
Others	2,577,509	2.14%	398,909
Sub-total of corporate loans and advances	79,233,264	65.86%	33,263,958
Personal loans	33,533,374	27.88%	23,083,422
Discounted bills	7,526,786	6.26%	7,526,786
Gross loans and advances to customers	120,293,424	100.00%	63,874,166

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

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

(c) Analysed by type of collateral

	2021	2020
Unsecured loans	13,536,951	10,072,870
Guaranteed loans	55,156,026	46,346,388
Collateralised loans	56,926,142	50,123,066
Pledged loans	8,877,665	6,224,314
Discounted bills	8,795,916	7,526,786
Sub-total	143,292,700	120,293,424
Interests accrued	668,503	522,713
Gross loans and advances to customers	143,961,203	120,816,137
Less: Provision for loans and advances to customers measured at amortised cost	(3,593,924)	(3,067,076)
Net loans and advances to customers	140,367,279	117,749,061

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

	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	2021 Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	63,903	67,561	21,462	616	153,542
Guaranteed loans	807,785	379,745	508,257	21,614	1,717,401
Collateralised loans	603,233	254,159	202,284	6,264	1,065,940
Pledged loans	-	6,490	2,200	-	8,690
Total	1,474,921	707,955	734,203	28,494	2,945,573
As a percentage of gross loans and advances to customers	1.03%	0.49%	0.51%	0.02%	2.05%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

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

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

	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	2020 Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	11,920	22,737	5,587	136	40,380
Guaranteed loans	1,863,959	668,767	353,483	19,008	2,905,217
Collateralised loans	333,282	305,759	50,104	11,486	700,631
Pledged loans	4,990	7,364	2,200	–	14,554
Total	2,214,151	1,004,627	411,374	30,630	3,660,782
As a percentage of gross loans and advances to customers	1.84%	0.84%	0.34%	0.03%	3.04%

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

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

	Loans and advances that are assessed for expected credit losses over the next 12 months	2021 Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss (Note(i))	Total
Total loans and advances to customers measured at amortised cost	127,320,122	5,714,296	2,130,869	135,165,287
Less: Provision for impairment losses	(1,479,329)	(1,060,203)	(1,054,392)	(3,593,924)
Carrying amount of loans and advances to customers measured at amortised cost	125,840,793	4,654,093	1,076,477	131,571,363
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	8,795,916	–	–	8,795,916
Total carrying amount of loans and advances to customers	134,636,709	4,654,093	1,076,477	140,367,279

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

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

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

	Loans and advances that are assessed for expected credit losses over the next 12 months	2020		Total
		Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss (Note(i))	
Total loans and advances to customers measured at amortised cost	104,385,018	7,125,683	1,778,650	113,289,351
Less: Provision for impairment losses	(1,253,271)	(960,840)	(852,965)	(3,067,076)
Carrying amount of loans and advances to customers measured at amortised cost	103,131,747	6,164,843	925,685	110,222,275
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	7,526,786	–	–	7,526,786
Total carrying amount of loans and advances to customers	110,658,533	6,164,843	925,685	117,749,061

Note:

- i. The loans and advances are “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the loans and advances have occurred. Evidence that loans and advances are credit-impaired includes the following observable data: significant financial difficulty of the borrower or issuer; a breach of contract by the borrower, such as a default or delinquency in interest or principal payments; for economic or contractual reasons relating to the borrower’s financial difficulty, the Group having granted to the borrower a concession that otherwise would not be considered; it is probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or debts overdue more than 90 days.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

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

(f) Movements of provision for impairment losses

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

	2021			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	1,253,271	960,840	852,965	3,067,076
Transferred:				
– to expected credit losses over the next 12 months	42,380	(42,331)	(49)	–
– to lifetime expected credit losses: not credit-impaired loans	(60,026)	60,224	(198)	–
– to lifetime expected credit losses: credit-impaired loans	(9,632)	(358,342)	367,974	–
Charge for the year	253,336	439,812	1,997,200	2,690,348
Recoveries	–	–	17,990	17,990
Write-offs and others	–	–	(2,181,490)	(2,181,490)
As at December 31	1,479,329	1,060,203	1,054,392	3,593,924

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

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

(f) Movements of provision for impairment losses (Cont'd)

(i) *Movements of provision for impairment losses of loans and advances to customers measured at amortised cost: (Cont'd)*

	2020			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	915,219	849,422	988,716	2,753,357
Transferred:				
– to expected credit losses over the next 12 months	10,633	(10,450)	(183)	–
– to lifetime expected credit losses: not credit-impaired loans	(42,658)	43,054	(396)	–
– to lifetime expected credit losses: credit-impaired loans	(18,070)	(541,303)	559,373	–
Charge for the year	388,147	620,117	925,762	1,934,026
Recoveries	–	–	17,420	17,420
Write-offs and others	–	–	(1,637,727)	(1,637,727)
As at December 31	1,253,271	960,840	852,965	3,067,076

As at December 31, 2021, the Group adjusted the customer rating of loans and advance to customers. The loan principal transferred from stage 1 to stage 2 and stage 3 was RMB3,190.3 million, and corresponding impairment provision increased by RMB551.1 million. The loan principal transferred from stage 2 to stage 3 was RMB776.7 million, and the impairment provision increased by RMB281.3 million. The loan principal transferred from stage 2 to stage 1 was RMB258.4 million, and the impairment provision decreased by RMB39.8 million. The loan principal transferred from stage 3 to stage 1 and stage 2 was not significant.

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

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

(f) Movements of provision for impairment losses (Cont'd)

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

	2021			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	8,341	–	–	8,341
Charge for the year	16,114	–	–	16,114
As at December 31	24,455	–	–	24,455

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

Provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of loans and advances to customers presented in the consolidated statements of financial position, and impairment loss or gain is recognised in the profit or loss.

(g) Disposal of loans and advances to customers

During the year ended December 31, 2021, the Group transferred (i) loans and advances with principal amount of RMB230.0 million (2020: RMB163.3 million); (ii) relevant interests of RMB8.5 million, (2020: RMB16.9 million), to independent third parties and the transfer price was RMB31.0 million (2020: RMB98.4 million).

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19. FINANCIAL INVESTMENTS

	Notes	2021	2020
Financial investments measured at fair value through profit or loss	(a)	12,167,202	14,896,962
Financial investments measured at fair value through other comprehensive income	(b)	23,369,515	18,272,189
Financial investments measured at amortised cost	(c)	77,122,234	68,052,213
Total		112,658,951	101,221,364

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

	2021	2020
Debt securities issued by the following institutions in mainland China		
– Government	–	–
– Policy banks	923,890	1,156,408
– Banks and other financial institutions	615,354	593,769
– Corporate	1,178,507	1,900,986
Sub-total	2,717,751	3,651,163
Unlisted Asset-backed securities		
– Unlisted	413,111	418,590
Investment funds		
– Unlisted	3,996,331	714,700
Wealth management products		
– Unlisted	–	–
Investment management products		
– Unlisted	5,040,009	10,112,509
Total	12,167,202	14,896,962

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

19. FINANCIAL INVESTMENTS (CONT'D)

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

	2021	2020
Debt securities issued by the following institutions in mainland China		
– Government	2,435,995	19,448
– Policy banks	11,992,224	10,648,726
– Banks and other financial institutions	221,118	130,472
– Corporate	6,172,516	6,105,653
Sub-total	20,821,853	16,904,299
Interests accrued	457,091	408,517
– Unlisted	21,278,944	17,312,816
Interbank deposits		
– Unlisted	1,561,448	615,818
Asset backed securities	80,289	79,807
Interest accrued	5,222	5,255
– Unlisted	85,511	85,062
Equity investments		
– Unlisted	443,612	258,493
Total	23,369,515	18,272,189

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

19. FINANCIAL INVESTMENTS (CONT'D)

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

Notes:

- (i) As at the end of each of the reporting period, there were no investments subject to material restrictions in the realisation.
- (ii) The Group designates part of non-trading equity investments as financial investments measured at fair value through other comprehensive income.
- (iii) For the year ended December 31, 2021 and 2020, there were no cash dividends received from equity investments measured at fair value through other comprehensive income.
- (iv) Movements of provision for impairment losses of financial investments measured at fair value through other comprehensive income during the year is as follows:

	2021			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	6,888	–	–	6,888
Charge for the year	2,465	–	–	2,465
Balance at December 31	9,353	–	–	9,353

	2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	4,581	–	–	4,581
Charge for the year	2,307	–	–	2,307
Balance at December 31	6,888	–	–	6,888

Provision for impairment losses on financial investments measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of financial investments presented in the consolidated statement of financial position, and impairment loss or gain is recognised in the profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

19. FINANCIAL INVESTMENTS (CONT'D)

(c) Financial investments measured at amortised cost

	Notes	2021	2020
Debt securities issued by the following institutions in mainland China	(i)		
– Government		26,215,100	18,020,703
– Policy banks		15,025,148	15,171,785
– Banks and other financial institutions		1,020,000	760,000
– Corporate		22,427,286	19,006,796
Interests accrued		1,268,932	1,182,753
Sub-total		65,956,466	54,142,037
Investment management products		11,250,335	13,793,613
Interests accrued		137,541	238,975
– Unlisted		11,387,876	14,032,588
Asset backed securities		923,603	492,868
Interests accrued		20,518	16,528
– Unlisted		944,121	509,396
Less: Provision for impairment losses	(ii)	(1,166,229)	(631,808)
Total		77,122,234	68,052,213

Notes:

(i) As at the end of each of the reporting period, certain debt securities were pledged for repurchase agreements (note 25(a)).

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

	2021			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	149,090	32,870	449,848	631,808
Transfers:				
– to expected credit losses over the next 12 months	4,940	–	(4,940)	–
– to lifetime expected credit losses not credit-impaired	(12,299)	12,299	–	–
– to lifetime expected credit losses credit-impaired	(2,737)	(59,758)	62,495	–
Charge for the year	13,695	75,845	444,881	534,421
Balance at December 31	152,689	61,256	952,284	1,166,229

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

19. FINANCIAL INVESTMENTS (CONT'D)

(c) Financial investments measured at amortised cost (Cont'd)

Notes: (Cont'd)

(ii) Movements of provision for impairment losses of financial investments measured at amortised cost are as follows: (Cont'd)

	2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	180,346	110,000	10,184	300,530
Transfers:				
– to expected credit losses over the next 12 months	7,421	–	(7,421)	–
– to lifetime expected credit losses not credit-impaired	(3,660)	3,660	–	–
– to lifetime expected credit losses credit-impaired	(14,794)	(110,000)	124,794	–
(Reversal)/charge for the year	(20,223)	29,210	398,588	407,575
Write-off	–	–	(76,297)	(76,297)
Balance at December 31	149,090	32,870	449,848	631,808

20. INVESTMENTS IN SUBSIDIARY

	2021	2020
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	650,000	650,000

Shandong Tongda Financial Leasing Co., Ltd. ("Tongda"), a limited liability company which was incorporated on June 6, 2016 at Shandong Province, the PRC with registered capital of RMB1,000 million. As at December 31, 2021, the registered capital of Tongda is RMB1,100 million. The principal activities of Tongda are the provision of financial leasing services in the PRC. As at December 31, 2021, the Bank held 59.1% of equity interest (2020: 59.1%).

On March 27, 2020, an independent third party made a capital injection of RMB132.3 million in Tongda. The Group recorded an increase in non-controlling interests of approximately RMB139.9 million and a decrease in capital reserve of approximately RMB7.6 million. As at December 31, 2020, the consideration of RMB132.3 million was fully settled.

On August 7, 2021, the Bank has entered into an agreement with two independent third parties, pursuant to which the Bank and two independent third parties agreed to make a capital injection in total of RMB874.5 million into Tongda. Please refer to note 46 to the notes to the consolidated financial statements for details.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

21. PROPERTY AND EQUIPMENT

	Premises	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost					
As at January 1, 2020	609,983	238,616	400,933	18,023	1,267,555
Additions	–	11,118	17,983	651	29,752
Transfer from investment properties	61,982	–	–	–	61,982
Disposals	–	–	(11,432)	(250)	(11,682)
As at December 31, 2020	671,965	249,734	407,484	18,424	1,347,607
As at January 1, 2021	671,965	249,734	407,484	18,424	1,347,607
Additions	288,967	15,546	72,699	1,095	378,307
Transfer from investment properties	36,801	–	–	–	36,801
Disposals	–	–	(11,543)	(244)	(11,787)
As at December 31, 2021	997,733	265,280	468,640	19,275	1,750,928
Accumulated depreciation					
As at January 1, 2020	109,649	135,829	302,055	14,517	562,050
Charge for the year	15,757	22,800	31,831	858	71,246
Transfer from investment properties	17,585	–	–	–	17,585
Disposals	–	–	(10,874)	(237)	(11,111)
As at December 31, 2020	142,991	158,629	323,012	15,138	639,770
As at January 1, 2021	142,991	158,629	323,012	15,138	639,770
Charge for the year	21,896	23,558	29,931	919	76,304
Transfer from investment properties	21,056	–	–	–	21,056
Disposals	–	–	(10,965)	(232)	(11,197)
As at December 31, 2021	185,943	182,187	341,978	15,825	725,933
Impairment loss					
As at January 1, 2020	–	–	–	–	–
Transfer from investment properties	5,680	–	–	–	5,680
As at December 31, 2020, January 1, 2021 and December 31, 2021	5,680	–	–	–	5,680
Net book value					
As at December 31, 2021	806,110	83,093	126,662	3,450	1,019,315
As at December 31, 2020	523,294	91,105	84,472	3,286	702,157

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

21. PROPERTY AND EQUIPMENT (CONT'D)

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

	2021	2020
Held in mainland China		
– Medium-term leases (10-50 years)	774,731	498,359
– Long-term leases (over 50 years)	31,379	24,935
	806,110	523,294

22. RIGHT-OF-USE ASSETS

	Motor vehicles	Properties	Total
Net book value			
Balance at January 1, 2020	324	476,527	476,851
Additions	–	88,380	88,380
Depreciation charge for the year	(230)	(111,024)	(111,254)
Balance at December 31, 2020	94	453,883	453,977
Balance at January 1, 2021	94	453,883	453,977
Additions	347	54,026	54,373
Depreciation charge for the year	(156)	(113,520)	(113,676)
Balance at December 31, 2021	285	394,389	394,674

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

23. DEFERRED TAX

(a) Analysed by nature

	2021		2020	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
– Allowance for impairment losses	6,246,047	1,561,512	4,731,651	1,182,913
– Fair value changes of financial assets	248,611	62,153	388,794	97,199
– Accrued staff costs	472,907	118,227	357,885	89,472
– Others	17,996	4,499	12,412	3,103
	6,985,561	1,746,391	5,490,742	1,372,687
Deferred income tax liability				
– Fair value changes of financial assets	(192,128)	(48,032)	(1,236)	(309)
	(192,128)	(48,032)	(1,236)	(309)
Net balances	6,793,433	1,698,359	5,489,506	1,372,378

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

23. DEFERRED TAX (CONT'D)

(b) Movements of deferred tax

	Allowance for impairment losses <i>Note(i)</i>	Accrued staff costs	Change in fair value <i>Note(ii)</i>	Others	Net balance of deferred tax assets
As January 1, 2020	882,236	62,263	4,776	3,308	952,583
Recognised in profit or loss	300,677	27,209	26,843	(205)	354,524
Recognised in other comprehensive income	–	–	65,271	–	65,271
As at December 31, 2020 and January 1, 2021	1,182,913	89,472	96,890	3,103	1,372,378
Recognised in profit or loss	378,599	28,755	792	1,396	409,542
Recognised in other comprehensive income	–	–	(83,561)	–	(83,561)
As at December 31, 2021	1,561,512	118,227	14,121	4,499	1,698,359

Notes:

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the reporting period. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the reporting period, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realised.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

24. OTHER ASSETS

	Notes	2021	2020
Interest receivable	(a)	631,593	322,557
Prepaid expenses		79,961	351,391
Intangible assets	(b)	47,846	40,026
Long-term deferred expenses		3,397	4,354
Repossessed assets	(c)	19,683	19,683
Land use rights	(d)	10,681	10,951
Investment properties	(e)	13,924	30,590
Finance lease receivables	(f)	16,863,863	16,413,465
Others		454,612	235,252
Subtotal		18,125,560	17,428,269
Less: Provision for impairment loss		(713,021)	(548,071)
Total		17,412,539	16,880,198

(a) Interest receivable

	2021	2020
Interest receivable arising from:		
Financial investments	555,061	201,663
Loans and advances to customers	63,608	120,894
Others	12,924	–
Sub-total	631,593	322,557
Less: Provision for impairment losses	(115,501)	(56,529)
Total	516,092	266,028

As at the end of each reporting period, interest receivable only include interests that have been due for the relevant financial instruments but not yet received at the reporting date. Interests on financial instruments based on the effective interest method have been reflected in the balance of corresponding financial instruments.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

24. OTHER ASSETS (CONT'D)

(b) Intangible assets

	Computer software and system development
Cost	
As at January 1, 2020	142,863
Additions	16,773
As at December 31, 2020 and January 1, 2021	159,636
Additions	26,110
As at December 31, 2021	185,746
Accumulated amortisation	
As at January 1, 2020	102,550
Charge for the year	17,060
As at December 31, 2020 and January 1, 2021	119,610
Charge for the year	18,290
As at December 31, 2021	137,900
Net book value	
As at December 31, 2021	47,846
As at December 31, 2020	40,026

(c) Repossessed assets

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

24. OTHER ASSETS (CONT'D)

(d) Land use right

	2021	2020
Located in mainland China: 10-50 years	10,681	10,951

(e) Investment properties

	Investment properties
Cost	
As at January 1, 2020	121,539
Transfer to property and equipment	(61,982)
As at December 31, 2020 and January 1, 2021	59,557
Transfer to property and equipment	(36,801)
As at December 31, 2021	22,756
Accumulated depreciation and impairment	
As at January 1, 2020	44,943
Charge for the year	1,609
Transfer to property and equipment	(17,585)
As at December 31, 2020 and January 1, 2021	28,967
Charge for the year	921
Transfer to property and equipment	(21,056)
As at December 31, 2021	8,832
Impairment loss	
As at January 1, 2020	5,680
Transfer to property and equipment	(5,680)
As at December 31, 2020, January 1, 2021 and December 31, 2021	–
Net book value	
As at December 31, 2021	13,924
As at December 31, 2020	30,590

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

24. OTHER ASSETS (CONT'D)

(f) Finance lease receivables

At the end of each of the reporting period, the total future minimum lease receivables under finance leases and their present values were as follows:

	2021	2020
Total minimum finance lease receivables		
Within 1 year (inclusive)	9,577,263	7,934,080
1 year to 5 years	8,992,995	9,860,962
Over 5 years	150,434	142,088
Gross amount of finance lease receivables	18,720,692	17,937,130
Less: Unearned finance income	(1,918,431)	(1,553,650)
Less: Unrealised VAT	(246,178)	(213,232)
Net amount of finance lease receivables	16,556,083	16,170,248
Interests accrued	307,780	243,217
Less: Provision for impairment loss	(584,221)	(479,391)
Carrying amount of finance lease receivables	16,279,642	15,934,074
Present value of minimum lease receivables		
Within 1 year (inclusive)	8,403,272	7,150,152
1 year to 5 years	7,750,629	8,659,151
Over 5 years	125,741	124,771
Total	16,279,642	15,934,074

The Group applies general approach on measure ECL on finance lease receivables based on the ECL measurement stated in accounting policy note 2(8)(iv). The Group's credit policy and exposure to credit risk on finance lease receivables are disclosed in note 42(a).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

24. OTHER ASSETS (CONT'D)

(f) Finance lease receivables (cont'd)

Analysis of finance lease receivables and provision for impairment losses

	2021			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
Total finance lease receivables measured at amortised cost	15,495,456	917,927	450,480	16,863,863
Less: Provision for impairment losses	(301,807)	(124,265)	(158,149)	(584,221)
Total carrying amount of finance lease receivables	15,193,649	793,662	292,331	16,279,642

	2020			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
Total finance lease receivables measured at amortised cost	15,731,682	555,169	126,614	16,413,465
Less: Provision for impairment losses	(340,030)	(82,385)	(56,976)	(479,391)
Total carrying amount of finance lease receivables	15,391,652	472,784	69,638	15,934,074

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

24. OTHER ASSETS (CONT'D)

(f) Finance lease receivables (cont'd)

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

	2021			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
As at January 1	340,030	82,385	56,976	479,391
Transferred:				
– to lifetime expected credit losses: not credit-impaired	(10,627)	10,627	–	–
– to lifetime expected credit losses: credit-impaired	–	(18,189)	18,189	–
(Reversal)/charge for the year	(27,596)	49,442	219,237	241,083
Written off and others	–	–	(136,253)	(136,253)
As at December 31	301,807	124,265	158,149	584,221

	2020			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
As at January 1	333,748	31,654	–	365,402
Transferred:				
– to lifetime expected credit losses: not credit-impaired	(13,179)	13,179	–	–
– to lifetime expected credit losses: credit-impaired	–	(31,654)	31,654	–
Charge for the year	19,461	69,206	25,322	113,989
As at December 31	340,030	82,385	56,976	479,391

Notes to the Consolidated Financial Statements

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25. PLEDGED ASSETS

(a) Assets pledged as collateral

	2021	2020
For borrowing from the central bank		
– Financial investments measured at amortised costs	9,263,120	6,178,794
– Financial investments measured at other comprehensive income	–	272,997
For repurchase agreements:		
– Financial investments measured at amortised costs	7,542,418	5,684,802
– Discounted bills	199,648	1,441,132
Total	17,005,186	13,577,725

Financial assets pledged by the Group as collateral for liabilities are mainly debt securities for repurchase agreements.

(b) Pledged assets received

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. See Note 17 for the Group's balance of the financial assets held under resale agreements. The fair value of such collateral accepted by the Group was RMB224 million as at December 31, 2021 (December 31, 2020: RMB642 million). These transactions were conducted under standard terms in the normal course of business.

26. DEPOSITS FROM BANKS

Analysed by type and location of counterparty

	2021	2020
Deposits in mainland China		
– Banks	4,026,095	3,076,859
Sub-total	4,026,095	3,076,859
Interests accrued	5,626	8,904
Total	4,031,721	3,085,763

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

27. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	2021	2020
Placements in mainland China		
– Banks	14,700,446	14,923,350
– Other financial institutions	200,000	150,000
Sub-total	14,900,446	15,073,350
Interests accrued	165,793	161,288
Total	15,066,239	15,234,638

28. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	2021	2020
In mainland China		
– Banks	7,000,458	6,545,391
Sub-total	7,000,458	6,545,391
Interests accrued	3,545	281
Total	7,004,003	6,545,672

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

28. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (CONT'D)

(b) Analysed by type of collateral held

	2021	2020
Debt securities	6,800,700	5,098,200
Bank acceptance	199,758	1,447,191
Sub-total	7,000,458	6,545,391
Interests accrued	3,545	281
Total	7,004,003	6,545,672

29. DEPOSITS FROM CUSTOMERS

	2021	2020
Demand deposits		
– Corporate customers	55,204,320	56,744,565
– Individual customers	9,573,450	9,270,807
Sub-total	64,777,770	66,015,372
Time deposits		
– Corporate customers	62,543,820	47,525,968
– Individual customers	76,449,958	63,882,187
Sub-total	138,993,778	111,408,155
Inward and outward remittances	62,000	57,599
Interests accrued	3,008,414	2,107,404
Total	206,841,962	179,588,530

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

30. LEASE LIABILITIES

Nature of leasing activities (in the capacity as lessee)

The Group leases certain properties and motor vehicles in the PRC. Properties and motor vehicles leases comprise only fixed payments over the lease terms.

Right-of-use Assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	2021	2020
Properties leased for own use, carried at depreciated cost	394,389	453,883
Motor vehicles, carried at depreciated cost	285	94

Lease liabilities

	Properties	Motor vehicles	Total
Balance as at January 1, 2020	448,525	157	448,682
Additions	88,380	–	88,380
Interest expense	20,315	9	20,324
Lease payments	(133,618)	(166)	(133,784)
Balance as at December 31, 2020 and January 1, 2021	423,602	–	423,602
Additions	54,026	346	54,372
Interest expense	18,493	8	18,501
Lease payments	(122,110)	(135)	(122,245)
Balance as at December 31, 2021	374,011	219	374,230

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

30. LEASE LIABILITIES (CONT'D)

Nature of leasing activities (in the capacity as lessee) (cont'd)

Lease liabilities (cont'd)

Future lease payments due are as follows:

	2021		
	Minimum lease payments	Interest	Present value
Within 1 year	118,671	(14,911)	103,760
1 year to 2 years	92,998	(10,603)	82,395
2 years to 5 years	133,361	(17,105)	116,256
More than 5 years	77,571	(5,752)	71,819
	422,601	(48,371)	374,230

	2020		
	Minimum lease payments	Interest	Present value
Within 1 year	114,759	(17,292)	97,467
1 year to 2 years	105,100	(12,839)	92,261
2 years to 5 years	170,395	(20,034)	150,361
More than 5 years	91,419	(7,906)	83,513
	481,673	(58,071)	423,602

During the year ended December 31, 2021, lease payments related to short term leases was amounted to RMB5 million (2020: RMB8 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

31. DEBT SECURITIES ISSUED

	Notes	2021	2020
Interbank deposits issued	(a)	27,615,708	23,706,222
Tier-two capital debts issued	(b)	4,997,584	4,997,198
Financial bonds issued	(c)	–	1,999,718
Sub-total		32,613,292	30,703,138
Interests accrued		85,025	169,524
Total		32,698,317	30,872,662

Notes:

(a) Interbank deposit issued

- i. In 2020, the Bank issued a number of certificates of interbank deposit with total nominal amount RMB38,190 million and duration between 1 to 12 months. The coupon interest rates ranged from 1.38% to 3.52% per annum.
- ii. In 2021, the Bank issued a number of certificates of interbank deposit with total nominal amount RMB52,660 million and duration between 1 to 12 months. The coupon interest rates ranged from 2.00% to 3.27% per annum.
- iii. As at December 31, 2021, the fair value of interbank deposits issued was RMB27,629 million (2020: RMB23,717 million).

(b) Tier-two capital debts issued

- i. The Bank issued 10-year fixed interest rate tier-two capital debts with face value of RMB2,000 million on July 11, 2017. The coupon interest rate per annum is 5.00%.
- ii. The Bank issued 10-year fixed interest rate tier-two capital debts with face value of RMB3,000 million on September 10, 2020. The coupon interest rate per annum is 4.20%.
- iii. As at December 31, 2021, the fair value of the tier-two capital debts issued was RMB4,983 million (2020: RMB4,833 million).

(c) Financial bonds issued

- i. On March 21, 2018, the Bank issued 3-year financial bonds with face value of RMB2,000 million. The coupon interest rate per annum is 5.43%.
- ii. As at December 31, 2021, there was no outstanding balance of financial bonds issued (2020: RMB2,012 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

32. OTHER LIABILITIES

	Notes	2021	2020
Interest payable	(a)	5,288	11,395
Agency business liabilities		227,273	231,564
Accrued staff costs	(b)	580,662	545,370
Dividend payable		3,890	1,627
Settlement and clearing accounts		189,156	570,379
Output VAT payable		73,986	79,561
Contract liabilities	(c)	92,184	132,434
Provisions	(d)	94,731	77,074
Deposits received		230,128	396,808
Advance from third parties	(e)	477,000	–
Others		600,738	544,431
Total		2,575,036	2,590,643

(a) Interest payable

	2021	2020
Interest payable arising from:		
Deposits from customers	5,288	11,395
Total	5,288	11,395

As at the end of each of the reporting period, interests on financial instruments based on the effective interest method have been reflected in the balance of corresponding financial instruments.

(b) Accrued staff costs

	2021	2020
Salaries, bonuses and allowances payable	523,153	491,959
Pension insurance and annuity payable	1,626	1,626
Others	55,883	51,785
Total	580,662	545,370

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

32. OTHER LIABILITIES (CONT'D)

(c) Contract liabilities

As at December 31, 2021, the aggregated amounts of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB92 million (2020: RMB132 million). Such amounts represent income expected to be recognised in the future from finance lease services. The Group will recognise the expected income in future as the services are provided. The expected timing of recognising revenue ranges from one to five years.

(d) Provisions

	2021	2020
Provisions for credit commitments	94,731	77,074

Movements of provisions for credit commitments are as follows:

	2021			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	77,074	–	–	77,074
Charge for the year	17,657	–	–	17,657
Balance at December 31	94,731	–	–	94,731

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

(e) Advance from third parties

As at December 31, 2021, the balance is represented the cash contribution received in advance from investors in respect of Tongda under the agreement as disclosed in note 46.

Notes to the Consolidated Financial Statements

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33. SHARE CAPITAL

Authorised and issued share capital

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

Notes:

- (a) On October 12, 2020, the Bank issued 877 million H-shares with a par value of RMB1 at an offering price of HKD3.35 per share. On November 5, 2020, the Bank exercised the over-allotment option and issued 131 million H-shares with a par value of RMB1 at HKD3.35 per share. The capital contribution was verified by BDO China Shu Lun Pan Certified Public Accountants LLP.
- (b) In March 2020, Weihai Foreign Exchange Business Training Center (威海外匯業務培訓中心) (“**Weihai Foreign Exchange**”) and Shandong Bodelong Group Co., Ltd. (山東波德隆集團有限公司) (“**Shandong Bodelong**”) entered into a share transfer agreement upon which Weihai Foreign Exchange transferred 5,298,517 shares of the Bank to Shandong Bodelong with consideration RMB15,895,551. The share transfer was registered in Qilu Equity Exchange (齊魯股權交易所) on March 6, 2020.

Notes to the Consolidated Financial Statements

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34. RESERVES

(a) Capital reserve

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

As stated in note 33, on October 12, 2020, the Bank issue 877 million H-shares with a par value of RMB1 at an offering price of HKD3.35 per share. On November 5, 2020, the Bank exercised the over-allotment option and issued 132 million H-shares with a par value of RMB1 at HKD3.35 per share. The premium arising from the issuance of new shares amounting to RMB1,835 million was recorded in capital reserve.

(b) Surplus reserve

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

Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the People's Republic of China Generally Accepted Accounting Principles (PRC GAAP) after making good prior year's accumulated loss, to statutory surplus reserve until the balance reaches 50% of its registered capital.

The Bank appropriated an amount of RMB153 million to the surplus reserve for year ended December 31, 2021 (2020: RMB137 million).

The Bank may also appropriate discretionary surplus reserve in accordance with the resolution of the shareholders.

(c) General reserve

Pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin 2012 No. 20)" issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The balance of the general reserve of the Bank amounted to RMB2,487 million as at December 31, 2021 (2020: RMB2,157 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

34. RESERVES (CONT'D)

(d) Fair value reserve

	2021	2020
As at January 1	(225,644)	(29,831)
Changes in fair value recognised in other comprehensive income	334,860	(261,084)
Disposal of financial investments measured at FVOCI	(614)	–
Less: deferred tax	(83,561)	65,271
As at December 31	25,041	(225,644)

(e) Impairment reserve

	2021	2020
As at January 1	11,422	9,155
Impairment losses recognised in other comprehensive income	18,579	3,022
Less: deferred tax	(4,645)	(755)
As at December 31	25,356	11,422

(f) Other equity instrument

On November 28, 2019, the Group issued a perpetual bond of RMB3,000.0 million with no fixed maturity date, resulting in credits to perpetual bonds of RMB2,999.7 million, after deducting the direct issuance cost of RMB0.3 million. In addition, the payment of interest can be indefinitely deferred at the Group's option and is not cumulative.

On November 29, 2021, the Group issued a perpetual bond of RMB1,100.0 million with no fixed maturity date, resulting in credits to perpetual bonds of RMB1,099.5 million, after deducting the direct issuance cost of RMB0.5 million. In addition, the payment of interest can be indefinitely deferred at the Group's option and is not cumulative.

Therefore, the perpetual bond is classified as an equity instrument due to it does not include any contractual obligation:

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

During the year ended December 31, 2021, the Group did not cancel the payment of distribution and the corresponding interest of RMB162.0 million was paid to perpetual bond holders accordingly (2020: RMB148.7 million).

Notes to the Consolidated Financial Statements

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35. RETAINED EARNINGS

(a) Appropriation of profits

In accordance with the resolution at the Bank's Board of Directors Meeting on March 31, 2021, the proposed profit distribution plan for the year ended December 31, 2020 is as follows:

- Appropriation of statutory surplus reserve based on 10% of the net profit;
- Pursuant to the Administrative Measures for the Provision of Reserves of Financial Enterprises (No. 20 2012 of the Ministry Finance), appropriation of general reserve amounted to approximately RMB330.8 million; and
- Declaration of cash dividend in an aggregation amount of approximately RMB598.0 million to all existing shareholders.

In accordance with the resolution at the Bank's Board of Directors Meeting on March 30, 2022, the proposed profit distribution plan for the year ended December 31, 2021 is as follows:

- Appropriation of statutory surplus reserve based on 10% of the net profit;
- Pursuant to the Administrative Measures for the Provision of Reserves of Financial Enterprises (No. 20 2012 of the Ministry Finance), appropriation of general reserve amounted to approximately RMB572.5 million; and
- Declaration of cash dividend in an aggregation amount of approximately RMB598.0 million to all existing shareholders.

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

As at December 31, 2021, no appropriation of surplus reserve made by subsidiary of the Bank was included in the consolidated retained earnings attributable to equity shareholders of the Bank (2020: nil).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

35. RETAINED EARNINGS (CONT'D)

(b) Movements in components of equity

Details of the changes in the Bank's individual components of equity for the reporting period are set out below:

	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value Reserve	Impairment reserve	Perpetual bonds	Retained earnings	Total
Balance at January 1 2021	5,980,058	4,955,195	1,225,715	2,156,540	(225,644)	11,422	2,999,675	3,343,294	20,446,255
Changes in equity for the year:									
Net profit for the year	-	-	-	-	-	-	-	1,534,136	1,534,136
Other comprehensive income	-	-	-	-	251,299	13,934	-	-	265,233
Total comprehensive income	-	-	-	-	251,299	13,934	-	1,534,136	1,799,369
Issue of perpetual bonds	-	-	-	-	-	-	1,099,526	-	1,099,526
Disposal of investment at FVOCI	-	-	-	-	(614)	-	-	614	-
Appropriation of profits									
- Appropriation to surplus reserve	-	-	153,475	-	-	-	-	(153,475)	-
- Appropriation to general reserve	-	-	-	330,843	-	-	-	(330,843)	-
- Appropriation to shareholders	-	-	-	-	-	-	-	(598,006)	(598,006)
- Appropriation to perpetual bondholders	-	-	-	-	-	-	162,000	(162,000)	-
- Distribution paid to perpetual bondholders	-	-	-	-	-	-	(162,000)	-	(162,000)
Balance at December 31, 2021	5,980,058	4,955,195	1,379,190	2,487,383	25,041	25,356	4,099,201	3,633,720	22,585,144

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

35. RETAINED EARNINGS (CONT'D)

(b) Movements in components of equity (cont'd)

Details of the changes in the Bank's individual components of equity for the reporting period are set out below:
(cont'd)

	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Perpetual bonds	Retained earnings	Total
Balance at January 1 2020	4,971,197	3,119,964	1,089,080	1,954,904	(29,831)	9,155	2,999,675	2,961,055	17,075,199
Changes in equity for the year:									
Net profit for the year	-	-	-	-	-	-	-	1,366,352	1,366,352
Other comprehensive income	-	-	-	-	(195,813)	2,267	-	-	(193,546)
Total comprehensive income	-	-	-	-	(195,813)	2,267	-	1,366,352	1,172,806
Issue of H-shares	1,008,861	1,835,231	-	-	-	-	-	-	2,844,092
Appropriation of profits									
- Appropriation to surplus reserve	-	-	136,635	-	-	-	-	(136,635)	-
- Appropriation to general reserve	-	-	-	201,636	-	-	-	(201,636)	-
- Appropriation to shareholders	-	-	-	-	-	-	-	(497,121)	(497,121)
- Appropriation to perpetual bondholders	-	-	-	-	-	-	148,721	(148,721)	-
- Distribution paid to perpetual bondholders	-	-	-	-	-	-	(148,721)	-	(148,721)
Balance at December 31, 2020	5,980,058	4,955,195	1,225,715	2,156,540	(225,644)	11,422	2,999,675	3,343,294	20,446,255

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

36. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities mainly include wealth management products issued by financial institutions and investment management products managed by securities firms and under trust schemes. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities, as well as an analysis of the line items in the consolidated statement of financial position in which relevant assets are recognised as at December 31, 2021 and 2020:

	2021		2020	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	9,036,340	9,036,340	10,827,209	10,827,209
Financial investments at amortised cost	10,356,692	10,356,692	13,787,471	13,787,471
Total	19,393,032	19,393,032	24,614,680	24,614,680

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

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group mainly include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. The Group does not control these structured entities and therefore, these structured entities are not consolidated. These structured entities are financed through the issue of units to investors. The Group earns commission fee by providing management services to the investors of these structured entities. As at December 31, 2021 and 2020, the management fee receivables being recognised are not material in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

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

(b) **Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in: (cont'd)**

For the year ended December 31, 2021, the amount of fee and commission income received from the abovementioned structured entities by the Group are RMB202 million (2020: RMB131 million).

As at December 31, 2021, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products sponsored by the Group is RMB42,937 million (December 31, 2020: RMB33,648 million).

(c) **Unconsolidated structure entities sponsored by the Group during the year which the Group does not have an interest in as at December 31, 2021:**

For the year ended December 31, 2021, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before December 31 amounted to RMB32,495 million (2020: RMB31,252 million).

37. STATEMENT OF FINANCIAL POSITION OF THE BANK

	Note	2021	2020
Assets			
Cash and deposits with the central bank		24,356,627	23,500,280
Deposits with banks and other financial institutions		3,959,578	4,705,234
Placements with banks		2,052,037	241,446
Financial assets held under resale agreements		200,158	605,131
Loans and advances to customers		142,777,360	119,300,526
Financial investments:			
Financial investments measured at fair value through profit or loss		12,167,202	14,896,962
Financial investments measured at fair value through other comprehensive income		23,369,515	18,272,189
Financial investments measured at amortised cost		77,122,234	68,052,213
Investment in a subsidiary	20	650,000	650,000
Property and equipment		984,194	696,233
Right-of-use assets		376,865	429,948
Deferred tax assets		1,639,996	1,290,436
Other assets		978,829	859,018
Total assets		290,634,595	253,499,616

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

37. STATEMENT OF FINANCIAL POSITION OF THE BANK (CONT'D)

	Notes	2021	2020
Liabilities and Equity			
Liabilities			
Borrowing from the central bank		11,281,745	7,240,711
Deposits from banks		4,031,721	3,085,763
Placements from banks and other financial institutions		3,543,263	3,002,588
Financial assets sold under repurchase agreements		7,004,003	6,545,672
Deposits from customers		207,106,927	179,658,799
Income tax payable		362,930	302,018
Debt securities issued		32,698,317	30,872,662
Lease liabilities		356,527	399,067
Deferred tax liabilities		48,032	309
Other liabilities		1,615,986	1,945,772
Total liabilities		268,049,451	233,053,361
Equity			
Share capital	33	5,980,058	5,980,058
Capital reserve	34(a)	4,955,195	4,955,195
Surplus reserve	34(b)	1,379,190	1,225,715
General reserve	34(c)	2,487,383	2,156,540
Fair value reserve	34(d)	25,041	(225,644)
Impairment reserve	34(e)	25,356	11,422
Perpetual bonds	34(f)	4,099,201	2,999,675
Retained earnings	35	3,633,720	3,343,294
Total equity		22,585,144	20,446,255
Total liabilities and equity		290,634,595	253,499,616

Approved and authorised for issue by the board of directors on March 30, 2022 and signed on its behalf by

Tan Xianguo
Chairman

Meng Dongxiao
President

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

38. CAPITAL MANAGEMENT

The Group's capital management includes capital adequacy ratio management and capital financing management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the former CBRC. The capital of the Group is divided into core tier-one capital, other core tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

The Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the former CBRC.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non – systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

38. CAPITAL MANAGEMENT (CONT'D)

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

	2021	2020
Total core tier-one capital		
– Share capital	5,980,058	5,980,058
– Qualifying portion of capital reserve	4,947,553	4,947,553
– Surplus reserve	1,379,190	1,225,715
– General reserve	2,648,092	2,293,035
– Other comprehensive income	50,397	(214,222)
– Retained earnings	4,151,373	3,673,849
– Qualifying portions of non-controlling interests	553,000	525,159
Core tier-one capital	19,709,663	18,431,147
Core tier-one capital deductions	(47,846)	(39,017)
Net core tier-one capital	19,661,817	18,392,130
Other tier-one capital	4,173,227	3,069,696
Net tier-one capital	23,835,044	21,461,826
Tier-two capital		
– Instruments issued and share premium	5,000,000	5,000,000
– Surplus provision for loan impairment	1,704,896	1,646,750
– Qualifying portions of non-controlling interests	147,467	140,042
Net tier-two capital	6,852,363	6,786,792
Net capital base	30,687,407	28,248,618
Total risk weighted assets	210,293,598	186,125,052
Core tier-one capital adequacy ratio	9.35%	9.88%
Tier-one capital adequacy ratio	11.33%	11.53%
Capital adequacy ratio	14.59%	15.18%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Net decrease in cash and cash equivalents

	2021	2020
Cash and cash equivalents as at December 31	20,527,169	27,895,102
Less: Cash and cash equivalents as at January 1	(27,895,102)	(35,241,608)
Net decrease in cash and cash equivalents	(7,367,933)	(7,346,506)

(b) Cash and cash equivalents

	2021	2020
Cash on hand	215,682	218,265
Deposits with central bank other than restricted deposits	8,470,443	7,817,674
Deposits with banks and other financial institutions	4,312,797	4,875,278
Placements with banks	1,179,505	241,421
Debt investments with maturity of three months or less	6,348,742	14,742,464
Total	20,527,169	27,895,102

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (CONT'D)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flow as cash flows from financing activities.

	Debt securities issued (Note 31)	Interest accrued arising from debt securities issued (Note 31)	Lease liabilities (Note 30)	Advance from third parties included in other liabilities (Note 32(e))	Total
As at January 1, 2020	29,451,475	173,307	448,682	–	30,073,464
Changes from financing cash flows					
Net proceeds from new debt securities issued	41,281,663	–	–	–	41,281,663
Repayment of debt securities issued	(40,030,000)	–	–	–	(40,030,000)
Interest paid on debt securities issued	–	(1,059,078)	–	–	(1,059,078)
Capital element of lease liabilities paid	–	–	(113,460)	–	(113,460)
Interest element of lease liabilities paid	–	–	(20,324)	–	(20,324)
Total changes from financing cash flows	1,251,663	(1,059,078)	(133,784)	–	58,801
Interest expense	–	1,055,295	20,324	–	1,075,619
New lease entered during the year	–	–	88,380	–	88,380
Total other changes	–	1,055,295	108,704	–	1,163,999
As at December 31, 2020 and January 1, 2021	30,703,138	169,524	423,602	–	31,296,264
Changes from financing cash flows					
Net proceeds from new debt securities issued	52,600,154	–	–	–	52,600,154
Repayment of debt securities issued	(50,690,000)	–	–	–	(50,690,000)
Interest paid on debt securities issued	–	(1,096,755)	–	–	(1,096,755)
Capital element of lease liabilities paid	–	–	(103,744)	–	(103,744)
Interest element of lease liabilities paid	–	–	(18,501)	–	(18,501)
Advance from third parties	–	–	–	477,000	477,000
Total changes from financing cash flows	1,910,154	(1,096,755)	(122,245)	477,000	1,168,154
Interest expense	–	1,012,256	18,501	–	1,030,757
New lease entered during the year	–	–	54,372	–	54,372
Total other changes	–	1,012,256	72,873	–	1,085,129
As at December 31, 2021	32,613,292	85,025	374,230	477,000	33,549,547

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

40. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties of the Group

i. Major shareholders

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

Shareholdings in the Bank:

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

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

ii. Subsidiary of the Bank

The detailed information of the Bank's subsidiary is set out in Note 20.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

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

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

iii. Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 40(a) or their controlling shareholders.

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

i. Transactions between the Bank and major shareholders:

	2021	2020
Transactions during the year		
Interest income	7,169	8
Interest expense	146,207	159,946
Fee and commission income	963	32
Rental expenses	2,920	2,920

	2021	2020
Balances at end of the year		
Deposits from customers	3,440,834	3,781,264
Financial investments	205,789	–

ii. Transactions between the Bank and its subsidiary:

	2021	2020
Transactions during the year		
Interest income	87,634	9,116
Interest expense	6,294	61,497
Rental income	2,200	524

	2021	2020
Balances at end of the year		
Loans and advances to customers	2,410,082	1,551,465
Deposits from customers	264,964	70,268

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

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

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

iii. Transactions between the Bank and other related parties:

	2021	2020
Transactions during the year		
Interest income	159,756	127,411
Interest expense	42,391	33,838
Fee and commission income	613	2,937
Rental expenses	2,233	2,233
Balances at end of the year		
Loans and advances to customers	2,453,221	2,225,448
Deposits from customers	3,800,220	3,328,901
Financial investments	479,328	–
Bank acceptances	332,038	91,220
Letters of guarantees	107,943	116,648
Letters of credit	264,719	53,045

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and senior management.

i. Transactions between the Bank and key management personnel

	2021	2020
Transactions during the year		
Interest income	43	207
Interest expense	702	3,885
Balances at end of the year		
Loans and advances to customers	860	3,005
Deposits from customers	11,336	58,599

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

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

(c) Key management personnel (cont'd)

ii. Key management personnel compensation

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

	2021	2020
Key management personnel compensation	21,547	21,177

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

	2021	2020
Aggregate amount of relevant loans outstanding at the end of the year	859	550
Maximum aggregate amount of relevant loans outstanding during the year	4,363	1,803

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

41. SEGMENT REPORTING

The Group manages its business by business lines. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing, deposit taking activities, agency services, wealth management services, consulting and advisory services, remittance and settlement services, guarantee services and finance leasing services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, personal wealth management services and remittance services.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

41. SEGMENT REPORTING (CONT'D)

Financial market business

This segment covers the Group's Financial market business operations. The Financial market business enters into inter-bank money market transactions, repurchases transactions, and investments. It also trades in debt securities. The Financial market business segment also covers management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses, which are not directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

41. SEGMENT REPORTING (CONT'D)

	Corporate banking	Retail banking	2021 Financial market business	Others	Total
Operating income					
External net interest income/(expense)	3,494,692	(439,470)	2,992,311	–	6,047,533
Internal net interest income/(expense)	653,939	1,869,156	(2,523,095)	–	–
Net interest income	4,148,631	1,429,686	469,216	–	6,047,533
Net fee and commission income	340,156	113,327	140,807	(2,201)	592,089
Net trading losses	(72,008)	–	31,742	–	(40,266)
Net gains arising from investment securities	–	–	739,129	–	739,129
Other operating income	9,124	–	–	29,803	38,927
Operating income	4,425,903	1,543,013	1,380,894	27,602	7,377,412
Operating expenses	(940,215)	(397,821)	(239,166)	(15,685)	(1,592,887)
Impairment losses on assets	(2,425,823)	(524,564)	(613,825)	(5,393)	(3,569,605)
Profit before tax	1,059,865	620,628	527,903	6,524	2,214,920
Segment assets	122,972,464	50,301,107	128,739,997	760,857	302,774,425
Deferred tax assets	–	–	–	1,746,391	1,746,391
Total assets	122,972,464	50,301,107	128,739,997	2,507,248	304,520,816
Segment liabilities	142,163,203	87,929,093	47,883,059	2,375,253	280,350,608
Total liabilities	142,163,203	87,929,093	47,883,059	2,375,253	280,350,608
Other segment information					
– Depreciation and amortisation	126,214	53,195	32,213	920	212,542
– Capital expenditure	241,199	101,657	61,561	–	404,417

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

41. SEGMENT REPORTING (CONT'D)

	Corporate banking	Retail banking	2020 Financial market business	Others	Total
Operating income					
External net interest income/(expense)	2,108,674	(500,653)	3,050,292	–	4,658,313
Internal net interest income/(expense)	1,247,356	1,662,003	(2,909,359)	–	–
Net interest income	3,356,030	1,161,350	140,933	–	4,658,313
Net fee and commission income	235,331	111,204	118,264	(1,081)	463,718
Net trading losses	(73,907)	–	(85,134)	–	(159,041)
Net gains arising from investment securities	–	–	1,056,752	–	1,056,752
Other operating income	3,532	–	–	10,690	14,222
Operating income	3,520,986	1,272,554	1,230,815	9,609	6,033,964
Operating expenses	(862,064)	(510,471)	(193,465)	(11,661)	(1,577,661)
Impairment losses on assets	(1,761,088)	(310,684)	(428,060)	(5,203)	(2,505,035)
Profit/(loss) before tax	897,834	451,399	609,290	(7,255)	1,951,268
Segment assets	107,537,261	42,990,726	114,730,588	970,386	266,228,961
Deferred tax assets	–	–	–	1,372,687	1,372,687
Total assets	107,537,261	42,990,726	114,730,588	2,343,073	267,601,648
Segment liabilities	127,137,565	74,417,385	41,718,275	2,654,680	245,927,905
Total liabilities	127,137,565	74,417,385	41,718,275	2,654,680	245,927,905
Other segment information					
– Depreciation and amortisation	111,639	66,660	24,680	1,609	204,588
– Capital expenditure	25,588	15,279	5,658	–	46,525

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

Risk management system

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control procedures for monitoring risks level. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board of Directors is responsible for establishing and maintaining a robust and effective risk management system and determining general risk preference and risk tolerance of the Group. Based on the general strategy of the Group, the Risk Management Committee under the Board reviews the Group's risk management system and basic principles, risk management strategies and internal control system framework; supervises and evaluates the establishment, organization, processes and effectiveness of risk management departments; supervises and evaluates risk control by the management in aspects such as credit risk, market risk and operational risk; and conducts identification, monitoring, control and regular assessment of the Group's risk management and risk tolerance. Senior management led by the president will be responsible for the control of credit risk, market risk, operational risk and approval of related policies and procedures; Chief Risk Officer will be led by the president of the Bank. In addition, the Group set up departments such as the Department of Risk Management, Department of Credit Approval, Financial Planning Department, Department of Law and Compliance and Audit Department based on the requirements of general risk management to perform respective functions in risk management, strengthen risk-covering portfolio management capabilities and conduct inspection on compliance with risk management policy of internal control system on regular or irregular basis.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

To identify, assess, monitor and manage credit risks, the Group has designed effective system frameworks, credit policies and processes for credit risk management and implemented systematic control procedures. The responsible departments for credit risk management mainly include the Risk Management Department and Credit Approval Department. The Risk Management Department is responsible for implementing the Group's overall risk management system, risk monitoring and control and formulating risk management policies. The Credit Approval Department is independent from customer relationship and product management departments to ensure the independence of credit approval. Front office departments including Corporate Business Department and Personal Finance Department carry out credit businesses according to the Group's risk management policies and procedures.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Credit business (Cont'd)

The Group continuously improves the internal control mechanism and strengthens the management of all processes of the credit business. Based on effective checks and balances, the Group has established comprehensive assessment and accountability mechanisms, assigning responsibilities of credit management to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-, region-, product- and client-specific limits for credit approval. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments or personnel for approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardised loan recovery procedures.

Stages of risks in financial instrument

Stage 1

Financial assets have not experienced a significant increase in credit risk since origination and impairment is recognised on the basis of 12 months expected credit losses.

Stage 2

Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3

Financial assets that are in default and considered credit-impaired.

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Significant increase in credit risk

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial assets has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

- the credit spread increases significantly;
- significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status;
- application of a grace period or debt-restructuring;
- significant changes with an adverse effect in the borrower's business conditions;
- less value of the collaterals (for the collateral loans and pledged loans only);
- early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans; or
- principal or interest of the instrument is more than 30 days past due.

The Group uses watch lists to monitor credit risk of financial assets related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

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

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Definition of "default" and "credit-impaired assets"

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

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- the disappearance of an active market for the financial assets because of financial difficulties of the issuer; or
- principal or interest of instrument is more than 90 days past due.

The above criteria apply to all financial assets of the Group and they are consistent with the definition of "default" adopted by the internal management of credit risk.

Measurement of ECL

The Group adopts ECL model to measure provision for loss of financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default ("**PD**"), exposure at default ("**EAD**") and loss given default ("**LGD**"). The definitions of these terms are as follows:

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;
- EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;
- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

The Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future years. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default in an earlier period). By adopting this approach, the Group can calculate the ECL for the future months. The results of calculation for each month are then discounted to the reporting date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the pattern of default of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

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

- In respect of the financial assets with instalment repayments and bullet repayment, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of overlimit repayment and prepayments/refinancing made by the borrower.
- As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the reporting date by the credit conversion factor (CCF).
- The Group determines the 12-month and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.
- As to financial assets classified as security, the Group determines the LGD according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.
- As to credit-based financial assets, the Group usually determines LGD in the product level due to the limited differences in recoverable amounts from different borrowers.

Forward-looking economic information should be considered when determining the 12-month and lifetime PD, EAD and LGD.

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42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

The Group quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

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

Forward-looking information included in the expected credit loss model is as follows:

- Both the assessment of significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting the future economic indicators.
- When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of the scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under the different scenarios by the weight of the corresponding scenarios.
- Similar to other economic forecasts, there is high inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.
- Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the expected credit losses were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

i. Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of each of the reporting period.

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

	2021				
	Loans and Advances to customers	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments (Note i)	Others (Note ii)
Balance of financial assets that are assessed for ECLs over the next 12 months					
– Overdue but not credit-impaired	477,553	–	–	–	13,150
– Neither overdue nor credit-impaired	135,102,130	6,365,772	200,000	95,101,899	15,559,818
Sub-total	135,579,683	6,365,772	200,000	95,101,899	15,572,968
Balance of financial assets that are not credit-impaired and assessed for lifetime ECLs					
– Overdue but not credit-impaired	3,979,877	–	–	500,000	–
– Neither overdue nor credit-impaired	1,623,528	–	–	69,153	987,527
Sub-total	5,603,405	–	–	569,153	987,527
Balance of credit-impaired financial assets that are assessed for lifetime ECLs					
– Overdue and credit-impaired	1,806,265	–	–	3,597,622	903,010
– Credit-impaired but not overdue	303,347	–	–	500,000	–
Sub-total	2,109,612	–	–	4,097,622	903,010
Interests accrued	668,503	1,363	158	1,889,304	309,620
Less: Provision for impairment losses	(3,593,924)	(2,253)	–	(1,166,229)	(702,083)
Net value	140,367,279	6,364,882	200,158	100,491,749	17,071,042

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42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

ii. Financial assets analysed by credit quality are summarised as follows: (Cont'd)

	2020				
	Loans and Advances to customers	Deposits/placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments (Note i)	Others (Note ii)
Balance of financial assets that are assessed for ECLs over the next 12 months					
– Overdue but not credit-impaired	385,702	–	–	–	–
– Neither overdue nor credit-impaired	111,141,480	5,116,699	605,050	82,368,373	15,740,211
Sub-total	111,527,182	5,116,699	605,050	82,368,373	15,740,211
Balance of financial assets that are not credit-impaired and assessed for lifetime ECLs					
– Overdue but not credit-impaired	4,965,299	–	–	–	–
– Neither overdue nor credit-impaired	2,027,278	–	–	692,935	618,678
Sub-total	6,992,577	–	–	692,935	618,678
Balance of credit-impaired financial assets that are assessed for lifetime ECLs					
– Overdue and credit-impaired	1,580,160	–	–	1,615,175	338,077
– Credit-impaired but not overdue	193,505	–	–	427,699	–
Sub-total	1,773,665	–	–	2,042,874	338,077
Interests accrued	522,713	95	479	1,852,028	243,217
Less: Provision for impairment losses	(3,067,076)	(1)	(398)	(631,808)	(536,623)
Net value	117,749,061	5,116,793	605,131	86,324,402	16,403,560

Notes:

- i. Financial investments include financial investments measured at fair value through other comprehensive income and financial investments measured at amortised cost.
- ii. Others comprise interest receivable, finance lease receivables and other receivables in other assets.
- iii. As at December 31, 2021, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB2,390 million (December 31, 2020: RMB4,405 million). The fair value of collaterals held against loans and advances that are credit-impaired and assessed for lifetime expected credit losses amounted to RMB1,814 million (December 31, 2020: RMB798 million). The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

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42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

ii. Financial assets analysed by credit quality are summarised as follows: (Cont'd)

Financial assets (exclusive interests accrued) analysed by credit quality

	Balance			Total	2021 Provision for impairment losses				ECL rate Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	Total	
Financial assets measured at amortised cost:									
Cash and deposits with the central bank	24,356,627	-	-	24,356,627	-	-	-	-	N/A
Deposits with banks and other financial institutions	4,312,797	-	-	4,312,797	-	-	-	-	N/A
Placements with banks	2,052,975	-	-	2,052,975	(2,253)	-	-	(2,253)	0.11%
Financial assets held under resale agreements	200,000	-	-	200,000	-	-	-	-	N/A
Loans and advances to customers	126,783,767	5,603,405	2,109,612	134,496,784	(1,479,329)	(1,060,203)	(1,054,392)	(3,593,924)	2.67%
Financial investments	72,194,697	569,153	4,097,622	76,861,472	(148,882)	(61,212)	(944,112)	(1,154,206)	1.50%
Other assets	15,572,968	987,527	903,010	17,463,505	(304,168)	(127,326)	(270,589)	(702,083)	4.02%
Total	245,473,831	7,160,085	7,110,244	259,744,160	(1,934,632)	(1,248,741)	(2,269,093)	(5,452,466)	2.10%
Financial assets at fair value through other comprehensive income:									
Loans and advances to customers	8,795,916	-	-	8,795,916	(24,455)	-	-	(24,455)	0.28%
Financial investments	22,907,202	-	-	22,907,202	(9,353)	-	-	(9,353)	0.04%
Total	31,703,118	-	-	31,703,118	(33,808)	-	-	(33,808)	0.11%
Credit commitments	49,945,642	-	-	49,945,642	(94,731)	-	-	(94,731)	0.19%

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42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

ii. Financial assets analysed by credit quality are summarised as follows: (Cont'd)

Financial assets (exclusive interests accrued) analysed by credit quality (Cont'd)

	Balance				2020 Provision for impairment losses				ECL rate Total
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Financial assets measured at amortised cost:									
Cash and deposits with the central bank	23,500,280	-	-	23,500,280	-	-	-	-	N/A
Deposits with banks and other financial institutions	4,875,278	-	-	4,875,278	-	-	-	-	N/A
Placements with banks	241,421	-	-	241,421	(1)	-	-	(1)	0.00% ^(note)
Financial assets held under resale agreements	605,050	-	-	605,050	(398)	-	-	(398)	0.07%
Loans and advances to customers	104,000,396	6,992,577	1,773,665	112,766,638	(1,248,046)	(951,008)	(852,859)	(3,051,913)	2.71%
Financial investments	64,509,956	692,935	2,042,874	67,245,765	(391,368)	(33,683)	(131,572)	(556,623)	0.83%
Other assets	15,740,211	618,678	338,077	16,696,966	(342,553)	(101,489)	(92,581)	(536,623)	3.21%
Total	213,472,592	8,304,190	4,154,616	225,931,398	(1,982,366)	(1,086,180)	(1,077,012)	(4,145,558)	1.83%
Financial assets at fair value through other comprehensive income:									
Loans and advances to customers	7,526,786	-	-	7,526,786	(8,341)	-	-	(8,341)	0.11%
Financial investments	17,858,417	-	-	17,858,417	(6,888)	-	-	(6,888)	0.04%
Total	25,385,203	-	-	25,385,203	(15,229)	-	-	(15,229)	0.06%
Credit commitments	37,113,772	-	-	37,113,772	(77,074)	-	-	(77,074)	0.21%

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

ii. Financial assets analysed by credit quality are summarised as follows: (Cont'd)

The overall ECL rate for financial assets and credit commitments analysed by credit quality

	2021			Total
	Stage 1	Stage 2	Stage 3	
Financial assets measured at amortised cost	0.79%	17.44%	31.91%	2.10%
Financial assets measured at fair value through other comprehensive income	0.11%	N/A	N/A	0.11%
Credit commitments	0.19%	N/A	N/A	0.19%

	2020			Total
	Stage 1	Stage 2	Stage 3	
Financial assets measured at amortised cost	0.93%	13.08%	25.92%	1.83%
Financial assets measured at fair value through other comprehensive income	0.06%	N/A	N/A	0.06%
Credit commitments	0.21%	N/A	N/A	0.21%

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

iii. Rescheduled loans and advances to customers

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

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

iv. Credit rating

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments (exclusive interests accrued) analysed by the rating agency designations as at the end of the reporting period are as follows:

	2021	2020
Neither overdue nor impaired		
Ratings		
– AAA	25,010,195	17,809,324
– AA- to AA+	22,221,415	20,312,968
– below AA-	2,780,124	1,270,469
Sub-total	50,011,734	39,392,761
Unrated	37,818,407	33,735,623
Total	87,830,141	73,128,384

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The Group has especially built up a market risk management structure and team. The Department of Risk Management takes the major responsibility for the exposure of market risk and preparation of relevant market risk management policies to submit to the Committee of Risk Management. According to established standards and current management capabilities, the Group measures market risk with the major adoption of sensitivity analysis. Before the new products or new business are launched, their market risks will be identified according to regulations.

The major source of market risk of the Group is the asset and liability businesses involved in market operation and the risks in interest rate and exchange rate of products.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of bank assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

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42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury business' investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

(i) The following tables indicate the assets and liabilities as at the end of each of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	2021					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	24,356,627	215,682	24,140,945	-	-	-
Deposits with banks and other financial institutions	4,312,845	48	4,312,763	34	-	-
Placements with banks	2,052,037	1,315	1,638,555	412,167	-	-
Financial assets held under resale agreements	200,158	158	200,000	-	-	-
Loans and advances to customers (Note (i))	140,367,279	668,504	17,488,986	35,982,854	49,421,551	36,805,384
Financial investments (Note (ii))	112,658,951	2,514,696	10,986,226	8,253,202	54,141,969	36,762,858
Other assets	20,572,919	4,212,685	1,311,327	7,007,906	7,966,958	74,043
Total assets	304,520,816	7,613,088	60,078,802	51,656,163	111,530,478	73,642,285
Liabilities						
Borrowing from the central bank	11,281,745	5,044	3,488,488	7,788,213	-	-
Deposits from banks	4,031,721	-	1,781,692	2,250,029	-	-
Placements from banks and other financial institutions	15,066,239	165,793	4,068,470	10,831,976	-	-
Financial assets sold under repurchase agreements	7,004,003	3,545	7,000,458	-	-	-
Deposits from customers	206,841,962	3,008,413	86,485,117	41,454,840	73,035,623	2,857,969
Debt securities issued	32,698,317	85,026	8,657,063	18,958,644	-	4,997,584
Others liabilities	3,426,621	3,052,390	40,837	62,924	198,651	71,819
Total liabilities	280,350,608	6,320,211	111,522,125	81,346,626	73,234,274	7,927,372
Asset-liability gap	24,170,208	1,292,877	(51,443,323)	(29,690,463)	38,296,204	65,714,913

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Trading interest rate risk (Cont'd)

(i) The following tables indicate the assets and liabilities as at the end of each of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier: (Cont'd)

	Total	2020				
		Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	23,500,280	263,441	23,236,839	-	-	-
Deposits with banks and other financial institutions	4,875,347	69	4,875,278	-	-	-
Placements with banks	241,446	26	241,420	-	-	-
Financial assets held under resale agreements	605,131	479	604,652	-	-	-
Loans and advances to customers (Note (i))	117,749,061	507,550	14,223,769	37,616,785	35,448,221	29,952,736
Financial investments (Note (ii))	101,221,364	3,886,542	3,136,797	9,136,622	48,788,685	36,272,718
Other assets	19,409,019	3,771,791	1,591,758	5,261,548	8,659,151	124,771
Total assets	267,601,648	8,429,898	47,910,513	52,014,955	92,896,057	66,350,225
Liabilities						
Borrowing from the central bank	7,240,711	3,496	1,924,148	5,313,067	-	-
Deposits from banks	3,085,763	14,564	1,411,199	1,660,000	-	-
Placements from banks and other financial institutions	15,234,638	161,288	2,761,910	12,311,440	-	-
Financial assets sold under repurchase agreements	6,545,672	281	6,545,391	-	-	-
Deposits from customers	179,588,530	2,165,002	83,589,730	37,339,424	56,117,518	376,856
Debt securities issued	30,872,662	169,525	12,964,461	12,741,479	-	4,997,197
Others liabilities	3,359,929	2,936,326	34,411	63,056	242,623	83,513
Total liabilities	245,927,905	5,450,482	109,231,250	69,428,466	56,360,141	5,457,566
Asset-liability gap	21,673,743	2,979,416	(61,320,737)	(17,413,511)	36,535,916	60,892,659

Notes:

- i. As at December 31, 2021, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB2,044.5 million (2020: RMB1,417.2 million).
- ii. Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Trading interest rate risk (Cont'd)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. The following table sets forth the results of the Group's interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant.

	2021	2020
Change in net profit		
Up 100 bps parallel shift in yield curves	74,109	167,199
Down 100 bps parallel shift in yield curves	(74,109)	(167,199)

	2021	2020
Change in equity		
Up 100 bps parallel shift in yield curves	49,604	302,302
Down 100 bps parallel shift in yield curves	(49,604)	(302,302)

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of each of the reporting period apply to non-derivative financial instruments of the Group;
- At the end of each of the reporting period, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;

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42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Trading interest rate risk (Cont'd)

(ii) Interest rate sensitivity analysis (Cont'd)

- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

Foreign currency risk

The majority of the business of the Group is related to Renminbi, as well as a small amount of business related to US dollar and other foreign currencies.

The changes in exchange rates will affect the financial position and cash flow of the Group. Due to the small amount of foreign currency business of the Group, the effect of foreign currency risk on the Group would be immaterial. The major principle of the Group's control on foreign currency risk is to achieve matching of assets and liabilities in each currency and to conduct daily monitoring on currency exposure.

The Group adopts sensitivity analysis to measure the possible effects of changes in exchange rates on net gains and losses and interests of the Group. As the foreign currency assets and liabilities account for an immaterial part of the total assets and total liabilities of the Group, the effect of changes in exchange rates on net gains and losses and interests of the Group would be immaterial.

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42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Foreign currency risk (Cont'd)

The currency exposures as at the end of each of the reporting period are as follows:

	2021			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	24,101,803	254,824	–	24,356,627
Deposits with banks and other financial institutions	645,209	1,037,272	2,630,364	4,312,845
Placements with banks	–	2,052,037	–	2,052,037
Financial assets held under resale agreements	200,158	–	–	200,158
Loans and advances to customers	139,579,279	788,000	–	140,367,279
Financial investments (Note (i))	111,616,623	1,042,328	–	112,658,951
Other assets	20,572,919	–	–	20,572,919
Total assets	296,715,991	5,174,461	2,630,364	304,520,816
Liabilities				
Borrowing from the central bank	11,281,745	–	–	11,281,745
Deposits from banks and other financial institutions	4,031,721	–	–	4,031,721
Placements from banks and other financial institutions	14,425,626	640,613	–	15,066,239
Financial assets sold under repurchase agreements	7,004,003	–	–	7,004,003
Deposits from customers	202,394,973	4,442,058	4,931	206,841,962
Debt securities issued	32,698,317	–	–	32,698,317
Other liabilities	3,290,510	136,076	35	3,426,621
Total liabilities	275,126,895	5,218,747	4,966	280,350,608
Net position	21,589,096	(44,286)	2,625,398	24,170,208
Off-balance sheet credit commitments	49,017,493	925,231	2,918	49,945,642

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42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Foreign currency risk (Cont'd)

	2020			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	23,424,565	75,715	–	23,500,280
Deposits with banks and other financial institutions	364,487	1,686,262	2,824,598	4,875,347
Placements with banks	–	241,446	–	241,446
Financial assets held under resale agreements	605,131	–	–	605,131
Loans and advances to customers	117,715,273	29,743	4,045	117,749,061
Financial investments (Note (i))	101,221,364	–	–	101,221,364
Other assets	19,409,019	–	–	19,409,019
Total assets	262,739,839	2,033,166	2,828,643	267,601,648
Liabilities				
Borrowing from the central bank	7,240,711	–	–	7,240,711
Deposits from banks and other financial institutions	3,085,763	–	–	3,085,763
Placements from banks and other financial institutions	15,234,638	–	–	15,234,638
Financial assets sold under repurchase agreements	6,545,672	–	–	6,545,672
Deposits from customers	177,664,898	1,917,922	5,710	179,588,530
Debt securities issued	30,872,662	–	–	30,872,662
Other liabilities	3,200,648	132,472	26,809	3,359,929
Total liabilities	243,844,992	2,050,394	32,519	245,927,905
Net position	18,894,847	(17,228)	2,796,124	21,673,743
Off-balance sheet credit commitments	36,549,368	526,489	37,915	37,113,772

Note:

- (i) Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income, financial investments measured at amortised cost.

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42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(c) *Liquidity risk*

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations.

The Group plays an active part in managing liquidity risks and improves related management system in terms of organisation, institution, system, management and mechanism. The organisational structure of the Group's liquidity risk management consists of the Board of Directors, senior management and its Risk Management Committee and Asset and Liability Management Committee, Risk Management Department, Financial Planning Department, Corporate Banking Department, Retail Banking Department, Department of Credit Approval, Department of Financial Market, Information Technology and Audit Department, responsible for formulating liquidity risk management strategy and establishing internal control mechanism to support the implementation and supervision of liquidity risk management strategy.

The measurement of liquidity risk of the Group adopts liquidity indicator and cash flow gap calculation. By stress testing, the Group sets up mild, moderate and severe scenarios to examine the capacity to withstand liquidity or liquidity crises and improve liquidity contingency measures. In terms of response to liquidity risks, the Group: strengthens management and monitoring of liquidity limits; establishes related liquidity emergency leading groups, early-warning indicators for internal and external liquidity risks and indicators that could trigger contingency plans and monitors these indicators; builds up quality liquidity assets reserve and financing capability management; erects liquidity risk reporting mechanism, in which the Financial Planning Department reports to the Asset and Liability Management Committee, senior management and the Board of Directors on issues related to the status, stress testing and contingency plans of liquidity risks on a regular basis.

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(c) Liquidity risk (Cont'd)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of each of the reporting period:

	Indefinite <i>Note (i)</i>	Repayable on demand	Within one month	2021				Total
				Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	15,670,502	8,686,125	-	-	-	-	-	24,356,627
Deposits with banks and other financial institutions	-	4,312,797	-	48	-	-	-	4,312,845
Placements with banks	-	-	1,066,057	573,813	412,167	-	-	2,052,037
Financial assets held under resale agreements	-	-	200,158	-	-	-	-	200,158
Loans and advances to customers	1,868,057	1,129,480	8,341,865	7,068,789	35,842,910	49,411,462	36,704,716	140,367,279
Financial investments	4,552,288	-	5,688,041	2,538,456	9,171,611	53,945,697	36,762,858	112,658,951
Others	2,133,505	2,079,179	195,013	1,116,315	7,007,906	7,966,958	74,043	20,572,919
Total assets	24,224,352	16,207,581	15,491,134	11,297,421	52,434,594	111,324,117	73,541,617	304,520,816
Liabilities								
Borrowing from the central bank	-	-	1,290,369	2,203,163	7,788,213	-	-	11,281,745
Deposits from banks	-	280,604	1,501,088	-	2,250,029	-	-	4,031,721
Placements from banks and other financial institutions	-	-	1,549,864	2,578,665	10,937,710	-	-	15,066,239
Financial assets sold under repurchase agreements	-	-	7,004,003	-	-	-	-	7,004,003
Deposit from customers	-	64,813,836	7,957,059	13,734,780	41,646,195	75,716,736	2,973,356	206,841,962
Debt securities issued	-	85,025	3,384,974	5,272,090	18,958,644	-	4,997,584	32,698,317
Others	-	2,822,263	49,779	5,991	172,774	283,625	92,189	3,426,621
Total liabilities	-	68,001,728	22,737,136	23,794,689	81,753,565	76,000,361	8,063,129	280,350,608
Net position	24,224,352	(51,794,147)	(7,246,002)	(12,497,268)	(29,318,971)	35,323,756	65,478,488	24,170,208

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42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(c) Liquidity risk (Cont'd)

	Indefinite Note (i)	Repayable on demand	Within one month	2020			More than five years	Total
				Between one month and three months	Between three months and one year	Between one year and five years		
Assets								
Cash and deposits with the central bank	15,464,341	8,035,939	-	-	-	-	-	23,500,280
Deposits with banks and other financial institutions	-	4,775,347	100,000	-	-	-	-	4,875,347
Placements with banks	-	-	241,446	-	-	-	-	241,446
Financial assets held under resale agreements	-	-	605,131	-	-	-	-	605,131
Loans and advances to customers	3,219,803	2,136,016	5,079,031	6,393,007	35,873,330	35,314,979	29,732,895	117,749,061
Financial investments	4,170,302	-	1,075,554	7,015,941	13,931,699	39,981,981	35,045,887	101,221,364
Others	1,491,407	2,037,168	520,497	1,096,019	5,343,385	8,793,832	126,711	19,409,019
Total assets	24,345,853	16,984,470	7,621,659	14,504,967	55,148,414	84,090,792	64,905,493	267,601,648
Liabilities								
Borrowing from the central bank	-	-	194,888	1,732,756	5,313,067	-	-	7,240,711
Deposits from banks	-	792,496	571,111	56,773	1,665,383	-	-	3,085,763
Placements from banks and other financial institutions	-	-	328,540	2,594,658	12,311,440	-	-	15,234,638
Financial assets sold under repurchase agreements	-	-	6,346,897	198,775	-	-	-	6,545,672
Deposit from customers	-	66,856,603	6,141,194	11,641,985	37,783,098	56,784,316	381,334	179,588,530
Debt securities issued	-	169,525	2,317,841	10,646,620	12,741,479	-	4,997,197	30,872,662
Others	-	2,539,518	35,286	493	82,106	619,013	83,513	3,359,929
Total liabilities	-	70,358,142	15,935,757	26,872,060	69,896,573	57,403,329	5,462,044	245,927,905
Net position	24,345,853	(53,373,672)	(8,314,098)	(12,367,093)	(14,748,159)	26,687,463	59,443,449	21,673,743

Note:

- (i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of financial investments represents impaired financial investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

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42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(c) Liquidity risk (Cont'd)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities of the Group at the end of the reporting period:

	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	2021				
				Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	11,281,745	11,385,283	-	1,291,578	2,204,781	7,888,924	-	-
Deposits from banks	4,031,721	4,131,154	279,143	1,533,660	113,787	2,204,564	-	-
Placements from banks and other financial institutions	15,066,239	15,474,939	-	1,535,516	2,284,434	11,654,989	-	-
Financial assets sold under repurchase agreements	7,004,003	7,005,659	-	7,005,659	-	-	-	-
Deposits from customers	206,841,962	216,573,126	65,102,910	8,231,785	14,389,316	44,811,529	82,836,411	1,201,175
Debt securities issued	32,698,317	35,241,474	-	3,459,099	5,358,593	19,915,782	904,000	5,604,000
Other financial liabilities	2,251,913	2,391,588	1,620,660	51,116	8,651	136,762	425,010	149,389
Total non-derivative financial liabilities	279,175,900	292,203,223	67,002,713	23,108,413	24,359,562	86,612,550	84,165,421	6,954,564

	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	2020				
				Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	7,240,711	7,332,045	-	198,944	1,755,651	5,377,450	-	-
Deposits from banks	3,085,763	3,233,461	888,781	573,569	56,845	1,714,266	-	-
Placements from banks and other financial institutions	15,234,638	15,364,446	-	1,659,543	2,816,517	10,888,386	-	-
Financial assets sold under repurchase agreements	6,545,672	6,549,491	-	6,349,491	200,000	-	-	-
Deposits from customers	179,588,530	183,999,967	66,543,517	5,687,264	11,808,616	40,924,229	58,989,630	46,711
Debt securities issued	30,872,662	33,274,636	-	2,752,374	10,518,823	13,272,643	903,507	5,827,289
Other financial liabilities	1,929,933	1,988,004	1,109,523	37,053	3,322	94,801	651,886	91,419
Total non-derivative financial liabilities	244,497,909	251,742,050	68,541,821	17,258,238	27,159,774	72,271,775	60,545,023	5,965,419

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

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42. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group has specified issues of operational risks, including its manifestation, management mode, reporting procedure, reporting cycle and statistics of loss and improved comprehensive risk management system, with major initiatives as follows:

- Establishment of operational risk management system in a crisscrossing manner. On the one hand, the Group establishes an operational risk management framework that is compatible with its nature, scale, complexity and risk characteristics, including the operational risk management mechanism that involves its board of directors, board of supervisors, senior management, head office and branches. On the other hand, a three-tier risk prevention system for the front office, middle office and back office has been established for every major risk faced by the Group.
- Formation of business philosophy of compliance and robustness. The Group fosters favourable control environment, including constant advances and promotion in operational risk culture by the board of directors and senior management.
- Preference to low operational risk under the framework of 'robust' risk preference. By conducting controls on operational risk including identification, measurement, resolution, monitoring and reporting, the Group establishes mechanisms for risk avoidance, loss prediction, prevention, control, reduction, financing to control operational risk within the carrying capacity of the Group and maximise its profits.
- Prevention of operational risks based on the means of inspection and supervision. All departments and branches of the head office actively perform their duties of supervision and management, conduct routine and special inspections on operational risks in major businesses, establish ledger of all problems identified for rectification and check-off. Based on the inspection by departments, the internal audit department fully uses the off-site audit system, business risk early-warning system and remote monitoring system to detect violations and pay constant attention to risk-prone problems to prevent operational risks. In the meantime, inspections and investigations are exercised on key businesses, key institutions and key personnel to prevent operational risks.
- Combination of punishment and incentives to encourage compliance and standard operations. Integral management will be implemented on personnel violating operational standards for strict ascertainment of responsibility; employees are encouraged to spontaneously disclose and actively report operational risks; internal management, compliance operation, inspection and supervision and swindle prevention and control of the head office and branches shall be quantitatively assessed for penalty points; innovative implementation of compliance and internal control management of institutions shall be assessed for bonus points.
- Substantive achievements in carrying out system training and improving staff operation skills have been effective in preventing operational risks for the Group.

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43. FAIR VALUE

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks, financial assets held under resale agreements, loans and advances to customers, and investments.

Deposits with the central bank, deposits with banks and other financial institutions, placements with banks and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial investments measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss are stated at fair value. Financial investments measured at amortised cost are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

(ii) Financial liabilities

The Group's financial liabilities mainly include borrowing from the central bank, deposits from banks, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

The book value and fair value of debt securities issued is presented in Note 31. The carrying amounts of other financial liabilities approximate their fair value.

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43. FAIR VALUE (CONT'D)

(c) Fair value hierarchy

The following table presents the fair value of financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
- Level 3: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and exchange rate. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

	2021			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial investments measured at fair value through profit or loss				
– debt securities	–	2,717,751	–	2,717,751
– investment funds	–	3,996,331	–	3,996,331
– assets-backed securities	–	413,111	–	413,111
– investment management products	–	–	5,040,009	5,040,009
Financial investments measured at fair value through other comprehensive income				
– debt securities	–	21,278,944	–	21,278,944
– equity investments	168,430	–	275,182	443,612
– assets-backed securities	–	85,511	–	85,511
– interbank deposits	–	1,561,448	–	1,561,448
Loans and advances to customers measured at fair value through other comprehensive income				
– discounted bills	–	8,795,916	–	8,795,916
Total	168,430	38,849,012	5,315,191	44,332,633

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43. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

	2020			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial investments measured at fair value through profit or loss				
– debt securities	–	3,651,163	–	3,651,163
– investment funds	–	714,700	–	714,700
– assets-backed securities	–	418,590	–	418,590
– investment management products	–	–	10,112,509	10,112,509
Financial investments measured at fair value through other comprehensive income				
– debt securities	–	17,312,816	–	17,312,816
– equity investments	–	–	258,493	258,493
– assets-backed securities	–	85,062	–	85,062
– interbank deposits	–	615,818	–	615,818
Loans and advances to customers measured at fair value through other comprehensive income				
– discounted bills	–	7,526,786	–	7,526,786
Total	–	30,324,935	10,371,002	40,695,937

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

43. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

The movement during the year ended December 31, 2021 in the balance of Level 3 fair value measurements is as follows:

	January 1, 2021	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				December 31, 2021	Unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	
				Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements			
Assets												
Financial investments measured at fair value through profit or loss - investment management products	10,112,509	-	-	350,294	-	-	-	(395,126)	(5,027,668)	5,040,009	10,303	
Financial investments measured at fair value through other comprehensive income - equity investments	258,493	-	-	-	16,689	-	-	-	-	275,182	-	
Total	10,371,002	-	-	350,294	16,689	-	-	(395,126)	(5,027,668)	5,315,191	10,303	

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For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

43. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

The movement during the year ended December 31, 2020 in the balance of Level 3 fair value measurements is as follows:

	January 1, 2020	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				December 31, 2020	Unrealised gains or losses for the year included in profit or loss for assets held at the end of the year
				Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements		
Assets											
Financial investments measured at fair value through profit or loss											
- wealth management products	1,019,544	-	-	-	-	-	-	-	(1,019,544)	-	-
- investment management products	12,859,617	-	-	720,013	-	2,116,808	-	(398,261)	(5,185,668)	10,112,509	8,865
Financial investments measured at fair value through other comprehensive income											
- equity investments	195,586	-	-	-	21,301	41,606	-	-	-	258,493	-
Total	14,074,747	-	-	720,013	21,301	2,158,414	-	(398,261)	(6,205,212)	10,371,002	8,865

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

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

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43. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

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

	Fair value as at December 31, 2021	Valuation techniques	Unobservable input
Financial investments measured at fair value through profit or loss			
– investment management products	5,040,009	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments measured at fair value through other comprehensive income			
– equity investments	275,182	Discounted cash flow	Risk-adjusted discount rate, cash flow

	Fair value as at December 31, 2020	Valuation techniques	Unobservable input
Financial investments measured at fair value through profit or loss			
– investment management products	10,112,509	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments measured at fair value through other comprehensive income			
– equity investments	258,493	Discounted cash flow	Risk-adjusted discount rate, cash flow

During the years ended December 31, 2021 and 2020, there were no significant change in the valuation techniques.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021 (Expressed in thousands of Renminbi, unless otherwise stated)

43. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

As at December 31, 2021 and 2020, unobservable inputs such as risk-adjusted discount rate and cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly equity investments, wealth management products and investment management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

The sensitivity analysis of the fair value on changes in unobservable inputs for Level 3 financial instruments measured at fair value on an ongoing basis is set out as below.

The fair value of financial instruments is, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel movement of plus or minus 1 percent of change in fair value to reasonably possible alternative assumptions.

	2021			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets measured at fair value through profit or loss				
– investment management products	37,800	(37,800)	–	–
Financial investments measured at fair value through other comprehensive income				
– equity investments	–	–	2,064	(2,064)

	2020			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets measured at fair value through profit or loss				
– investment management products	75,844	(75,844)	–	–
Financial investments measured at fair value through other comprehensive income				
– equity investments	–	–	1,939	(1,939)

Notes to the Consolidated Financial Statements

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44. TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group only acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statements of financial position. Surplus funding is accounted for as deposits from customers.

	2021	2020
Entrusted loans	9,758,117	10,454,472
Entrusted funds	9,758,117	10,454,472

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including bonds and funds, and entrusted loans. The Group initiated the launch of wealth management products. The investment risk associated with these products is borne by the customers who invest in these products. The Group does not consolidate these wealth management products. The Group earns commission which represents the charges on customers in relation to sales and management services. The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the consolidated statement of financial position. At the end of the each reporting period, funds received from customers under unconsolidated non-principal-guaranteed wealth management services were as follows:

	2021	2020
Funds received from customers under wealth management services	42,639,990	33,647,885

45. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Group's credit commitments take the form of bank acceptances, letters of credit, financial guarantees and credit card commitments.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

Notes to the Consolidated Financial Statements

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45. COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

(a) Credit commitments (Cont'd)

	2021	2020
Acceptances	42,958,887	32,890,827
Letters of credit	4,500,625	2,024,745
Letters of guarantees	609,186	715,953
Credit card commitments	1,876,944	1,482,247
Total	49,945,642	37,113,772

The Group may be exposed to credit risk in all the above credit businesses. Group Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount for credit commitments

	2021	2020
Credit risk-weighted amounts	7,346,074	6,731,339

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

(c) Capital commitments

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

	2021	2020
Property and equipment		
– Contracted but not paid for	72,338	21,007
Intangible assets		
– Contracted but not paid for	45,490	58,596
Total	117,828	79,603

(d) Outstanding litigations and disputes

As at December 31, 2021 and 2020, the Group had not identified any outstanding litigations and disputes which the Group as defendant with an estimated gross amounts larger than RMB10 million. The Group has assessed the impact of the above outstanding litigation and disputes that may lead to an outflow of economic benefits. According to the opinion of the Group's internal lawyers, it is unlikely for the Group to receive unfavorable ruling in these cases. Therefore, the Group has not recognised the litigation provision at the reporting date. Directors of the Bank are of the view that these litigations will not have any material adverse effect on the Group's business, financial condition, results of operations or prospects.

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46. EVENT AFTER THE REPORTING PERIOD

Deemed disposal of certain equity interests in a subsidiary

On August 7, 2021, the Bank, Weihai Huancui District State-owned Capital Operation Co., Ltd. * (威海市環翠區國有資本運營有限公司) (“**Weihai Huancui District State-owned Capital**”) and Heze Caijin Investment Group Co., Ltd * (菏澤財金投資集團有限公司) (“**Heze Caijin**”) entered into the agreement, pursuant to which, Weihai Huancui District State-owned Capital agreed to inject RMB318.0 million into Tongda by way of cash contribution to acquire approximately 12.12% equity interests of Tongda; and Heze Caijin agreed to inject RMB159.0 million into Tongda by way of cash contribution to acquire for approximately 6.06% of the equity interest of Tongda; and the Bank agreed to further inject RMB397.5 million into Tongda by way of cash contribution (the “**Transaction**”). The Transaction is accounted as a deemed disposal of interests in the subsidiary to non-controlling interests without loss of control. As at January 5, 2022, upon the completion of the Transaction, the Group’s effective interest in Tongda has been decreased from 59.09% to 54.55%, Tongda is retained as the subsidiary of the Group. Currently, the increased capital has been received change of industrial and commercial registration underway.

* For identification only.

CHAPTER 14 UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

The Bank discloses the unaudited supplementary financial information in accordance with the Listing Rules and the Banking (Disclosure) Rules as follows:

1. LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

1.1 Liquidity coverage ratio

Unit: RMB'000

Liquidity coverage ratio	December 31, 2021	December 31, 2020
Qualified and quality liquidity assets	68,875,163	65,932,239
Amount of net cash outflows in the next 30 days	28,661,682	29,181,509
Liquidity coverage ratio	240.30%	225.94%

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

1.2 Leverage ratio

	December 31, 2021	December 31, 2020
Leverage ratio	6.83%	7.13%

Pursuant to the Administrative Measures on the Leverage Ratio Management of Commercial Banks (《商業銀行槓桿率管理辦法》) issued by the former China Banking Regulatory Commission and became effective since April 1, 2015, a minimum leverage ratio of 4% is required for commercial banks.

The following table sets forth the relevant accounting items corresponding to the regulatory leverage ratio items and the differences between the regulatory items and accounting items.

Unit: RMB'000

No.	Item	December 31, 2021	December 31, 2020
1	Consolidated total assets	304,499,922	267,142,967
2	Consolidated adjustments	–	–
3	Adjustments for client assets	–	–
4	Adjustments for derivatives	78,779	12,182
5	Adjustments for securities finance transactions	–	–
6	Adjustments for off-balance sheet items	44,539,929	33,950,203
7	Other adjustments	(47,846)	(39,017)
8	Balance of on-and off-balance sheet assets after adjustments	349,070,784	301,066,335

Chapter 14 Unaudited Supplementary Financial Information

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

1.2 Leverage ratio (cont'd)

The following table sets forth information on the Bank's leverage ratio, net tier-one capital, on – and off-balance sheet assets after adjustments and relevant breakdown.

Unit: RMB'000

No.	Item	December 31, 2021	December 31, 2020
1	On-balance sheet assets (excluding derivatives and securities finance transactions)	304,499,922	267,142,967
2	Less: Tier-one capital deductions	(47,846)	(39,017)
3	Balance of on-balance sheet assets after adjustments (excluding derivatives and securities finance transactions)	304,452,076	267,103,950
4	Replacement cost of various derivatives (net of qualified security deposits)	–	–
5	Potential risk exposure of various derivatives	78,779	12,182
6	Total collateral and pledges charged to the balance sheet	–	–
7	Less: Assets receivable arising from provision of qualified security deposits	–	–
8	Less: Balance of assets of derivatives arising from transactions with central counterparties when providing clearing services to customers	–	–
9	Notional principal amount of sold credit derivatives	–	–
10	Less: Balance of deductible assets of sold credit derivatives	–	–
11	Balance of assets of derivatives	78,779	12,182
12	Balance of accounting assets for securities finance transactions	–	–
13	Less: Balance of deductible assets of securities finance transactions	–	–
14	Counterparty credit risk exposure of securities finance transactions	–	–
15	Balance of assets of securities finance transactions arising from agency securities finance transactions	–	–
16	Balance of assets of securities finance transactions	–	–
17	Balance of off-balance sheet items	44,539,929	33,950,203
18	Less: Balance of off-balance sheet items deducted by credit conversion	–	–
19	Balance of off-balance sheet items after adjustments	44,539,929	33,950,203
20	Net tier-one capital	23,835,044	21,461,826
21	Balance of on – and off-balance sheet assets after adjustments	349,070,784	301,066,335
	Leverage ratio	6.83%	7.13%

Chapter 14 Unaudited Supplementary Financial Information

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

1.3 Net stable funding ratio

Unit: RMB'000

Net stable funding ratio	December 31, 2021	December 31, 2020
Available stable funding	191,494,773	169,483,790
Required stable funding	152,159,929	132,693,469
Net stable funding ratio	125.85%	127.73%

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

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

2. CURRENCY CONCENTRATIONS

Unit: RMB'000

	December 31, 2021			Total
	USD	HKD	Others	
Spot assets	5,174,461	2,625,325	5,039	7,804,825
Spot liabilities	(5,218,747)	-	(4,966)	(5,223,713)
Net position	(44,286)	2,625,325	73	2,581,112

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

3. INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all third parties claims outside Mainland China as international claims. International claims include loans and advances to customers, balances with central bank and amounts due from banks and other financial institutions.

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

Unit: RMB'000

	December 31, 2021		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	24,962	–	24,962
Europe	12,655	–	12,655
Others	2,996	–	2,996
Total	40,613	–	40,613

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

4. GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

Unit: RMB'000

	December 31, 2021	December 31, 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)	170,745	502,650
between 6 months and 1 year (inclusive)	537,210	501,977
between 1 year and 3 years (inclusive)	734,203	411,374
over 3 years	28,494	30,630
Total	1,470,652	1,446,631
As a percentage of gross loans and advances		
between 3 and 6 months (inclusive)	0.12%	0.42%
between 6 months and 1 year (inclusive)	0.37%	0.42%
between 1 year and 3 years (inclusive)	0.51%	0.34%
over 3 years	0.02%	0.02%
Total	1.02%	1.20%

5. RISK EXPOSURE ANALYSIS

5.1 Credit risk exposure and assessment

In accordance with the relevant provisions of the Guidelines of Risk-based Classification of Loans 《貸款風險分類指引》 issued by the CBIRC and the Administrative Measures for the Capital of Commercial Banks (Provisional) 《商業銀行資本管理辦法(試行)》, the Bank has formulated comprehensive asset risk classification and administrative measures for all types of assets that are exposed to credit risk, and implemented five-category classification management for all types of credit assets based on their risk levels, namely, normal, special-mentioned, substandard, doubtful and loss. Special-mentioned assets represent that borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors. Non-performing assets comprise the last three categories, which represent that borrowers cannot repay principal and interest in full and certain losses may ensue even when collaterals or guarantees are invoked. As at the end of the Reporting Period, the balance of principal of assets for which principal or interest is not repaid in accordance with the contractually stipulated terms was defined as overdue assets.

As of the end of the Reporting Period, our total credit risk exposure was RMB345.499 billion. Among which, the on-balance sheet credit risk exposure was RMB301.044 billion, while the off-balance sheet credit risk exposure was RMB44.455 billion. During the Reporting Period, the maturity profile of our business remained stable, and our credit risk exposure was mainly distributed in Shandong and Tianjin, with industries concentrated in the leasing and business services, water conservancy, environment and public facilities management.

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

Unit: RMB million

	Risk exposure	Unmitigated risk exposure
0% combined	97,822.3	60,790.8
20% combined	29,882.4	29,522.3
25% combined	9,818.1	8,322.3
50% combined	16,110.8	16,110.8
75% combined	25,469.7	24,961.6
100% combined	164,463.9	155,352.0
250% combined	1,604.0	1,604.0
400% combined	272.3	262.0
1,250% combined	55.7	55.7
Total	345,499.2	296,981.5

5. RISK EXPOSURE ANALYSIS (CONT'D)

5.1 Credit risk exposure and assessment (cont'd)

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

Unit: RMB million

	Risk exposure	Unmitigated risk exposure
Cash assets	24,356.4	24,356.4
Claims to the Central Government and the Central Bank	5,551.2	5,551.2
Claims to public sector entities	25,548.8	25,548.8
Claims to PRC financial institutions	42,839.6	40,886.6
Claims to financial institutions registered in other countries/regions	2,834.0	2,834.0
Claims to general businesses	152,938.2	144,026.2
Claims to qualified small and micro enterprises	2,117.1	1,639.5
Claims to individuals	39,463.4	39,432.9
Equity investments	310.5	300.2
Others	4,082.2	4,082.2
On-balance sheet items of asset securitization	1,003.1	1,003.1
Off-balance sheet credit risk exposure	44,454.7	7,320.3
Total	345,499.2	296,981.5

We continue to standardize the management of credit risk mitigation tools, and have formulated the systems and procedures covering guarantee management, collateral classification, valuation method and process, investigation and evaluation, stress test, establishment and duration management of collateral and pledges, and collateral return and disposal. We have also regularly evaluated the value of collateral and guarantee capabilities. All of the above have facilitated the effective function of risk mitigation. Our credit risk mitigation tools include collateral, pledges and guarantees. The pledge includes financial pledge, accounts receivable and other pledge (warehouse receipts, intellectual property rights, inventories, machinery and equipment, etc.). The collaterals mainly include land, real estate and other real estates. Real estate mortgage, land mortgage and financial product pledge represent a relatively high proportion of mitigation tools. The types of guarantors include sovereign institutions, financial institutions, credit guarantee institutions, general corporate legal entities and natural persons, etc., in which credit guarantee institutions, general corporate legal persons and natural persons account for a relatively high proportion, and have better overall guarantee qualifications. As at the end of the Reporting Period, the qualified mitigation tools calculated by us in accordance with the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) amounted to RMB48.518 billion, all of which are in substance.

5. RISK EXPOSURE ANALYSIS (CONT'D)

5.2 Market risk exposure and assessment

Our market risk capital under the standardized approach is the sum of the capital requirements for interest rate risk and exchange rate risk. Interest rate risk capital is the sum of general market risk capital requirement and specific risk capital requirement.

The capital requirement for market risk under the standardized approach is the sum of the capital requirements for interest rate risk, exchange rate risk, commodity risk, equity risk and option risk. Interest rate risk capital requirement and equity risk capital requirement are the sum of general market risk capital requirement and specific risk capital requirement.

Standardized approach of market risk basically measures the capital requirement for each type of risks

Unit: RMB million

Type of risk	Capital requirement
Interest rate risk	56.5
General risk	40.8
Specific risk	15.7
Equity risk	—
General risk	—
Specific risk	—
Exchange rate risk	—
Commodity risk	—
Option risk	—
Specific risk to risk exposure of asset securitization in transaction accounts	—
Total	56.5

5.3 Operational risk exposure and assessment

We use the basic indicator approach to measure our operational risk capital. In accordance with the basic indicator rules of the Administrative Measures for the Capital of Commercial Banks (Provisional) 《商業銀行資本管理辦法(試行)》, operational risk capital covers our overall business scale and corresponding operational risk exposure.

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6. MATERIAL RELATED PARTY TRANSACTIONS

As at the end of the Reporting Period, the Bank's credit exposure to material related party transactions was RMB4.219 billion, details of which are as follows:

Unit: RMB'000

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	300,000	1.06%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	300,000	1.06%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	300,000	1.06%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	250,000	0.88%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	200,000	0.70%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	200,000	0.70%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	200,000	0.70%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	200,000	0.70%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	200,000	0.70%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	200,000	0.70%
Shangao International Commercial Factoring (Shenzhen) Co., Ltd. Jinan Branch* (山高國際商業保理(深圳)有限公司濟南分公司)	Loan	Guarantees	200,000	0.70%
Shangao International Commercial Factoring (Shenzhen) Co., Ltd. Jinan Branch* (山高國際商業保理(深圳)有限公司濟南分公司)	Loan	Guarantees	135,000	0.48%
Shangao International Commercial Factoring (Shenzhen) Co., Ltd. Jinan Branch* (山高國際商業保理(深圳)有限公司濟南分公司)	Loan	Guarantees	135,000	0.48%
Shandong Tonghui Jiatai Financial Leasing Co., Ltd.* (山東通匯嘉泰融資租賃有限公司)	Loan	Guarantees	197,000	0.69%
Shandong Tonghui Jiatai Financial Leasing Co., Ltd.* (山東通匯嘉泰融資租賃有限公司)	Loan	Guarantees	97,500	0.34%

6. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Letters of Guarantee	Guarantees	76,000	0.27%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Letters of Guarantee	Guarantees	75,042	0.26%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Letters of Guarantee	Guarantees	53,907	0.19%
Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)	Debt Investments	Credit	200,000	0.70%
Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)	Held-for-trading Financial Assets	credit	800	0.00%
Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)	Held-for-trading Financial Assets	credit	400	0.00%
Shandong high-speed Forest Industry Supply Chain Co., Ltd.* (山東高速林產供應鏈有限公司)	Loan	Collateral	199,500	0.70%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	20,000	0.07%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	19,500	0.07%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	19,000	0.07%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	19,000	0.07%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	9,800	0.03%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	9,600	0.03%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	8,400	0.03%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	7,500	0.03%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	4,300	0.02%
Shandong Hi-Speed Information Engineering Co., Ltd. (山東高速信息工程有限公司)	Loan	Collateral	98,500	0.35%

6. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Hi-Speed Lunan Logistics Development Co., Ltd.* (山東高速魯南物流發展有限公司)	Loan	Guarantees	84,990	0.30%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	11,023	0.04%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	8,484	0.03%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	7,835	0.03%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	6,448	0.02%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	3,392	0.01%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	2,000	0.01%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	2,000	0.01%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	2,000	0.01%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	1,002	0.00%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	951	0.00%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	867	0.00%
Shandong Hi-speed Construction Materials Co., Ltd. (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	826	0.00%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	788	0.00%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	500	0.00%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	390	0.00%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	337	0.00%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	319	0.00%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	267	0.00%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	254	0.00%
Shandong Hi-speed Construction Materials Co., Ltd. (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	249	0.00%
Shandong Hi-speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of Guarantee	Guarantees	240	0.00%

6. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Rural Revitalization Big Data Co., Ltd.* (山東鄉村振興大數據有限公司)	Loan	Guarantees	40,000	0.14%
Qilu Wisdom (Shandong) Digital Technology Co., Ltd.* (齊魯智慧(山東)數字科技有限公司)	Loan	Guarantees	30,000	0.11%
Shandong High-Speed Engineering Project Management Co., Ltd.* (山東高速工程項目管理有限公司)	Letters of Guarantee	Guarantees	6,292	0.02%
Shandong High-Speed Engineering Project Management Co., Ltd.* (山東高速工程項目管理有限公司)	Letters of Guarantee	Guarantees	3,650	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.* (山東高速工程項目管理有限公司)	Letters of Guarantee	Guarantees	3,520	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.* (山東高速工程項目管理有限公司)	Letters of Guarantee	Guarantees	3,513	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.* (山東高速工程項目管理有限公司)	Letters of Guarantee	Guarantees	2,765	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.* (山東高速工程項目管理有限公司)	Letters of Guarantee	Guarantees	2,426	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.* (山東高速工程項目管理有限公司)	Letters of Guarantee	Guarantees	1,660	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.* (山東高速工程項目管理有限公司)	Letters of Guarantee	Guarantees	1,553	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.* (山東高速工程項目管理有限公司)	Letters of Guarantee	Guarantees	1,007	0.00%
Shandong High-Speed Engineering Project Management Co., Ltd.* (山東高速工程項目管理有限公司)	Letters of Guarantee	Guarantees	711	0.00%
Qilu Wisdom (Shandong) Supply Chain Co., Ltd.* (齊魯智慧(山東)供應鏈有限公司)	Loan	Guarantees	17,000	0.06%
Shandong Hi-Speed Global Finance Leasing Co., Ltd.* (山東高速環球融資租賃有限公司)	Debt Investments	Credit	17,000	0.06%

6. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	1,656	0.01%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	1,144	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	1,063	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	733	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	437	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	372	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	340	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	339	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	320	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	304	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	264	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	193	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	160	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	112	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	109	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	96	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	82	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	63	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	62	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	19	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of Guarantee	Guarantees	19	0.00%

6. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Hi-Speed Service Area Management Co., Ltd.* (山東高速信聯科技股份有限公司)	Letters of Guarantee	Guarantees	4,000	0.01%
Shandong Hi-Speed Service Area Management Co., Ltd.* (山東高速信聯科技股份有限公司)	Letters of Guarantee	Guarantees	2,000	0.01%
Shandong Hi-Speed Huarui Road Material Technology Co., Ltd.* (山東高速華瑞道路材料技術有限公司)	Discounting	Credit	1,000	0.00%
Shandong Hi-Speed Huarui Road Material Technology Co., Ltd.* (山東高速華瑞道路材料技術有限公司)	Discounting	Credit	1,000	0.00%
Shandong Hi-Speed Huarui Road Material Technology Co., Ltd.* (山東高速華瑞道路材料技術有限公司)	Discounting	Credit	200	0.00%
Shandong Hi-Speed Huarui Road Material Technology Co., Ltd.* (山東高速華瑞道路材料技術有限公司)	Discounting	Credit	200	0.00%
Shandong Hi-Speed Huarui Road Material Technology Co., Ltd.* (山東高速華瑞道路材料技術有限公司)	Discounting	Credit	200	0.00%
Shandong Hi-Speed Huarui Road Material Technology Co., Ltd.* (山東高速華瑞道路材料技術有限公司)	Discounting	Credit	200	0.00%
Shandong Hi-Speed Huarui Road Material Technology Co., Ltd.* (山東高速華瑞道路材料技術有限公司)	Discounting	Credit	200	0.00%
Total			4,218,892	14.86%

* for identification only

During the reporting period, the Bank signed the Commodity Procurement Contract for Procurement Project of Video Conferencing Equipment of Weihai City Commercial Bank Co., Ltd. (《威海市商業銀行股份有限公司視頻會議設備採購項目商品採購合同》) with Shandong Hi-Speed Information Engineering Co., Ltd., our related party, at a contract price of RMB1.0668 million.

LIST OF INSTITUTIONS

District	Name of Organisation	Business Address	Remarks
Weihai, Shandong	Headquarter	9 Bao Quan Road, Huancui District, Weihai City	51 licensed branches and sub-branches in Weihai District
Jinan, Shandong	Jinan Branch	The whole building of Building 1 (A3), Room101-107, 1/F, Room 201-206, 2/F, Building 2 (A1), Xinyuanxin Center, 3 Huaxin Road, Licheng District, Jinan City	12 licensed branches and sub-branches in Jinan District
	Laiwu Branch	60 Luzhong East Main Street, Laiwu District, Jinan City, Shandong Province	2 licensed branches and sub-branches in Laiwu District
Qingdao, Shandong	Qingdao Branch	487 Changjiang Middle Road, Huangdao District, Qingdao City, Shandong Province	9 licensed branches and sub-branches in Qingdao District
Yantai, Shandong	Yantai Branch	218-1 Changjiang Road, Yantai Development Zone, Shandong Province	6 licensed branches and sub-branches in Yantai District
Dezhou, Shandong	Dezhou Branch	1337 Tianqu Middle Road, Decheng District, Dezhou City, Shandong Province	5 licensed branches and sub-branches in Dezhou District
Jining, Shandong	Jining Branch	9-1 Pipashan North Road, Jining High-tech Zone, Shandong Province	7 licensed branches and sub-branches in Jining District
Linyi, Shandong	Linyi Branch	0004 Yimeng Road, Lanshan District, Linyi City, Shandong Province	6 licensed branches and sub-branches in Linyi District
Weifang, Shandong	Weifang Branch	1589 Xinhua Road, Kuiwen District, Weifang City, Shandong Province	3 licensed branches and sub-branches in Weifang District

List of Institutions

District	Name of Organisation	Business Address	Remarks
Dongying, Shandong	Dongying Branch	500 Xier Road, Dongying District, Dongying City, Shandong Province	1 licensed branch and sub-branch in Dongying District
Zibo, Shandong	Zibo Branch	227 Xincun West Road, Zhangdian District, Zibo City, Shandong Province	2 licensed branches and sub-branches in Zibo District
Liaocheng, Shandong	Liaocheng Branch	117 Dongchang West Road, Dongchangfu District, Liaocheng City, Shandong Province	1 licensed branch and sub-branch in Liaocheng District
Zaozhuang, Shandong	Zaozhuang Branch	117 Guangming West Road and 55 Deren North Road, Zaozhuang High-tech Zone, Shandong Province	2 licensed branches and sub-branches in Zaozhuang District
Heze, Shandong	Heze Branch	289 Yongchang Road, Heze Economic and Technological Development Zone, Shandong Province	1 licensed branch and sub-branch in Heze District
Taian, Shandong	Taian Branch	472 Dongyue Main Street, Taishan District, Taian City, Shandong Province	2 licensed branch and sub-branch in Taian District
Rizhao, Shandong	Rizhao Branch	59 Qinhuangdao Road, Donggang District, Rizhao City, Shandong Province	1 licensed branch and sub-branch in Rizhao District
Binzhou, Shandong	Binzhou Branch	338 Huanghe 6th Road, Binzhou Economic and Technological Development Zone, Shandong Province	1 licensed branch and sub-branch in Binzhou District
Tianjin City	Tianjin Branch	150 Fuan Main Street, Heping District, Tianjin City	10 licensed branches and sub-branches in Tianjin District

