BQD 青岛银行

Bank of Qingdao Co., Ltd.*
青島銀行股份有限公司*

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

(H Shares Stock Code: 3866)
(Preference Shares Stock Code: 4611)

Annual Results for the year ended 31 December 2020

The board of directors (the "**Board**") of Bank of Qingdao Co., Ltd. (the "**Bank**" or "**Bank of Qingdao**") is pleased to announce the audited annual results (the "**Annual Results**") of the Bank and its subsidiaries (the "**Company**") for the year ended 31 December 2020 (the "**Reporting Period**") prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board. The Board and its audit committee have reviewed and confirmed the Annual Results.

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

SECTION 1 CORPORATE BASIC INFORMATION

1.1 Corporate Basic Information

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

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

1.2 Contact Persons and Contact Details

Secretary to the Board:	Lu Lan
Joint company secretaries:	Lu Lan, Yu Wing Sze
Registered and office address:	Building No. 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, China Postal code: 266061
Principal place of business in Hong Kong:	31st Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Telephone:	+86 40066 96588 ext. 6
Fax:	+86 (532) 85783866
Email:	ir@qdbankchina.com
Company website:	http://www.qdccb.com/

SECTION 2 FINANCIAL HIGHLIGHTS

Item	**2020**	2019	Year-on-year	2018	2017	2016
Business Performance (RMB'000)			**Change (%)**			
Net interest income	**8,146,531**	6,846,055	19.00	4,464,029	4,802,408	5,007,955
Net non-interest income	**2,401,543**	2,776,054	(13.49)	2,900,809	765,185	988,190
Operating income	**10,548,074**	9,622,109	9.62	7,364,838	5,567,593	5,996,145
Operating expenses	**(3,676,022)**	(3,166,762)	16.08	(2,505,650)	(1,818,922)	(2,213,521)
Credit/Asset impairment losses(1)	**(4,143,756)**	(3,626,792)	14.25	(2,383,172)	(1,378,904)	(1,108,874)
Profit before taxation	**2,728,296**	2,828,555	(3.54)	2,476,016	2,369,767	2,673,750
Net profit	**2,453,298**	2,335,522	5.04	2,043,389	1,903,607	2,088,605
Net profit attributable to shareholders of the Bank	**2,394,072**	2,284,815	4.78	2,023,352	1,900,252	2,088,605
Per share (RMB/share)			**Change (%)**			
Basic earnings per share(2)	**0.42**	0.39	7.69	0.37	0.47	0.51
Diluted earnings per share(2)	**0.42**	0.39	7.69	0.37	0.47	0.51
Dividend per share(3)	**0.18**	0.20	(10.00)	0.20	0.20	0.20

Item	31 December 2020	31 December 2019	Year-on-year	31 December 2018	31 December 2017	31 December 2016
Scale indicators (RMB'000)			**Change (%)**			
Total assets[4]	**459,827,605**	373,622,150	23.07	317,658,502	306,276,092	277,988,106
Loans and advances to customers:						
Total loans to customers[4]	**206,747,221**	172,795,443	19.65	126,386,870	98,061,379	87,168,295
Add: Accrued interest	**899,064**	772,480	16.39	521,250	N/A	N/A
Less: Provision for impairment on loans and advances to customers measured at amortized cost[1]	**(5,287,801)**	(4,409,632)	19.91	(3,541,229)	(2,546,699)	(2,303,446)
Loans and advances to customers	**202,358,484**	169,158,291	19.63	123,366,891	95,514,680	84,864,849
Provision for loan impairment[1]	**(5,302,582)**	(4,422,549)	19.90	(3,557,806)	(2,546,699)	(2,303,446)
Of which: Impairment provision for loans and advances to customers at fair value through other comprehensive income [1]	**(14,781)**	(12,917)	14.43	(16,577)	N/A	N/A
Total liabilities[4]	**428,920,747**	343,144,232	25.00	290,161,778	280,152,883	260,352,133
Deposits from customers:						
Total deposits from customers[4]	**272,231,484**	212,790,909	27.93	175,675,849	160,083,783	141,604,761
Add: Accrued interest	**3,519,226**	2,634,494	33.58	2,235,398	N/A	N/A
Deposits from customers	**275,750,710**	215,425,403	28.00	177,911,247	160,083,783	141,604,761
Share capital	**4,509,690**	4,509,690	–	4,058,713	4,058,713	4,058,713
Equity attributable to equity shareholders of the Bank	**30,285,174**	29,915,460	1.24	26,984,973	25,629,854	17,635,973
Equity attributable to shareholders	**30,906,858**	30,477,918	1.41	27,496,724	26,123,209	17,635,973
Net capital base	**37,806,580**	39,252,505	(3.68)	36,021,656	33,806,113	20,783,634
Of which: Net core tier-one capital	**22,384,998**	22,224,697	0.72	19,268,600	17,733,763	17,464,312
Other tier-one capital	**7,909,292**	7,901,623	0.10	7,894,330	7,874,674	–
Tier-two capital	**7,512,290**	9,126,185	(17.68)	8,858,726	8,197,676	3,319,322
Total risk-weighted assets	**267,941,143**	265,908,365	0.76	229,776,495	203,708,884	173,267,933
Per share (RMB/share)			**Change (%)**			
Net assets per share attributable to shareholders of the Bank[5]	**4.97**	4.89	1.64	4.71	4.38	4.35

Item	**2020**	2019	Year-on-year	2018	2017	2016
Profitability indicators (%)			**Change**			
Return on average total assets(6)	**0.59**	0.68	(0.09)	0.66	0.65	0.90
Weighted average return on net assets(2)	**8.56**	8.27	0.29	8.36	10.80	12.22
Net interest spread(7)	**2.14**	2.10	0.04	1.67	1.57	2.05
Net interest margin(8)	**2.13**	2.13	–	1.63	1.72	2.23
Net fee and commission income to operating income	**16.04**	12.65	3.39	11.76	14.89	14.81
Cost-to-income ratio(9)	**33.59**	31.86	1.73	33.01	31.68	34.71

Item	**31 December 2020**	31 December 2019	Year-on-year	31 December 2018	31 December 2017	31 December 2016
Asset quality indicators (%)			**Change**			
Non-performing loan ratio	**1.51**	1.65	(0.14)	1.68	1.69	1.36
Provision coverage ratio	**169.62**	155.09	14.53	168.04	153.52	194.01
Loan provision ratio	**2.56**	2.56	–	2.82	2.60	2.64
Indicators of capital adequacy ratio (%)			**Change**			
Core tier-one capital adequacy ratio(10)	**8.35**	8.36	(0.01)	8.39	8.71	10.08
Tier-one capital adequacy ratio(10)	**11.31**	11.33	(0.02)	11.82	12.57	10.08
Capital adequacy ratio(10)	**14.11**	14.76	(0.65)	15.68	16.60	12.00
Total equity to total assets ratio	**6.72**	8.16	(1.44)	8.66	8.53	6.34
Other indicators (%)			**Change**			
Liquidity coverage ratio	**152.42**	142.27	10.15	125.95	173.05	101.24
Liquidity ratio	**65.44**	68.84	(3.40)	60.55	56.36	53.48

Notes:

(1) After the adoption of International Financial Reporting Standard 9 Financial Instruments ("**IFRS 9**") in 2018, the expected credit loss model has replaced incurred loss model for the measurement of impairment of financial instruments. "Credit losses" reflect the credit loss recognized by the provision for credit losses of financial instruments as required. "Provision for loan impairment" includes "provision for impairment on loans and advances to customers measured at amortized costs" and "impairment provision for loans and advances to customers measured at fair value through other comprehensive income".

(2) Earnings per share and weighted average return on net assets were calculated in accordance with the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 - Computation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision) (《公開發行證券的公司信息披露編報規則第9號－淨資產收益率和每股收益的計算及披露》(2010年修訂)). Weighted average return on net assets increased by 0.29 percentage point compared with the previous year, mainly due to the increase in net profit attributable to ordinary shareholders of the Bank. The Bank issued offshore preference shares in 2017. Therefore, in calculating earnings per share and weighted average return on net assets for the period, the dividends for preference shares for the period have been deducted from the "net profit attributable to shareholders of the Bank" and the effect from preference shares has been deducted from the "weighted average net assets".

(3) Dividend per share represents dividend per share attributable to ordinary shareholders of the Bank, and the dividend per share of 2020 is subject to approval by the general meeting.

(4) For details of the structure of total assets, total liabilities, total loans to customers and total deposits from customers, please refer to "4. Analysis of Major Items of the Statement of Financial Position" in Section 3 Management Discussion and Analysis of this results announcement.

(5) Net assets per share attributable to shareholders of the Bank = (equity attributable to equity shareholders of the Bank - other equity instruments)/the number of ordinary shares at the end of the period.

(6) Return on average total assets = net profit/average balance of total assets at the beginning and at the end of the period, of which total assets at the beginning of 2018 is the balance after the adoption of IFRS 9, and total assets at the beginning of 2019 is the balance after the adoption of International Financial Reporting Standard 16 - Leases.

(7) Net interest spread = average yield of interest-earning assets - average cost rate of interest-bearing liabilities.

(8) Net interest margin = net interest income/average interest-earning assets.

(9) Cost-to-income ratio = (operating expenses - tax and surcharges)/operating income.

(10) The relevant indicators of capital adequacy ratio were calculated in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and other relevant regulatory regulations.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

1. Overview

As the epidemic and other uncertain factors became clear gradually, the global economy had showed a sign of progressive recovery. However, the recovery remained imbalanced. Although being confronted with complicated external environment, China's economy recovered gradually. The focus of relevant policies shifted from supply-side structural reform to the combination of supply-side reform and demand-side management. The speeding up of the establishment of a new internal circulation oriented development pattern featuring dual circulation offered stronger support to economic growth. With the impact of the epidemic diminishing, a lower basis and the recovery of demand lifted the growth of consumption. The rebound of investment in the manufacturing industry accelerated the growth of investment. New infrastructure construction drove the growth of infrastructure investment at a faster pace.

The economic recovery of Shandong Province and Qingdao municipality was speeding up. With the active and effective epidemic prevention and control, the production and supply in Shandong Province picked up, and investment and consumption improved. The replacement of old drivers of growth with new ones accelerated, and quality efficiency was gradually enhanced, constantly releasing the vitality of the market. The economies of Qingdao municipality and that of Shandong Province were advancing side by side. With improving supply and demand of the market and smoother circulation of the industry, the market prospects remained buoyant.

2. Summary of Overall Operations

2.1 Status of Key Operational Indicators Achievements

1. Total assets amounted to RMB459.828 billion, representing an increase of RMB86.205 billion or 23.07% as compared with that at the end of the previous year, maintaining rapid growth;

2. Total loans to customers amounted to RMB206.747 billion, representing an increase of RMB33.952 billion or 19.65% as compared with that at the end of the previous year, maintaining rapid growth;

3. Total deposits from customers amounted to RMB272.231 billion, representing an increase of RMB59.441 billion or 27.93% as compared with that at the end of the previous year, maintaining rapid growth;

4. Operating income amounted to RMB10.548 billion, representing a year-on-year increase of RMB0.926 billion or 9.62%, achieving steady growth; net profit amounted to RMB2.453 billion, representing a year-on-year increase of RMB0.118 billion or 5.04%; net profit attributable to shareholders of the Bank amounted to RMB2.394 billion, representing a year-on-year increase of RMB0.109 billion or 4.78%;

5. Non-performing loan ratio was 1.51%, representing a decrease of 0.14 percentage point as compared with that at the end of the previous year, achieving asset quality steady improvement; provision coverage ratio was 169.62%, representing an increase of 14.53 percentage points as compared with that at the end of the previous year; capital adequacy ratio was 14.11%, representing a decrease of 0.65 percentage point as compared with that at the end of the previous year. The Company strictly controlled the scale of risk-weighted assets, and achieved a basically stable capital adequacy ratio under the condition of rapid business development and redemption of RMB2.2 billion of tier-two capital bonds;

6. Return on average total assets was 0.59%, representing a decrease of 0.09 percentage point as compared with that in the previous year, mainly attributable to the average total assets increased year-on-year as a result of the Company's business development and the increased scale of assets;

7. Basic earnings per share was RMB0.42, representing a year-on-year increase of RMB0.03; weighted average return on net assets was 8.56%, representing a year-on-year increase of 0.29 percentage point, mainly due to the increase in net profit attributable to ordinary shareholders of the Bank.

2.2 Major Tasks of Operational Management

1. The Bank strengthened accountability with new measures and won the battle against the pandemic. In response to the impact of the COVID-19 outbreak, the Bank adhered to its primary position of financial services, firmly implemented the "Stability in Six Areas" and "Six Priorities" requirements, innovated financial products, opened up green channels, and reduced social financing costs, so as to fully support the recovery and development of the real economy, and secured the stability of regional economy in an effective way. During the Reporting Period, the Bank granted 253 loans to enterprises in distress or engaged in pandemic prevention, amounting to RMB16.675 billion in aggregate. Meanwhile, in strict compliance with the relevant regulations, the Bank pursued sound pandemic prevention in office and business premises, and insisted on regular pandemic prevention measures. During the Reporting Period, the Bank carried out business operations in an orderly manner and there was no problem on pandemic prevention.

2. The Bank achieved remarkable results in business improvement and commenced management improvement. During the Reporting Period, the Bank launched the "Enhancement Plan 2.0 – improvement on both business and management". While promoting business development, the Bank carried out various management improvement measures focusing on development empowered by technology, transformation in business approval and operational management optimization, and achieved effective and high-quality development in the Bank's business. In particular, the Bank achieved robust growth in deposit business, with a further increase in the market share in Qingdao region as well as an overall improvement in the influence in Shandong Province. During the year, the total deposits from customers increased by RMB59.441 billion or 27.93% to RMB272.231 billion, breaking through the RMB270 billion mark with a year-on-year increase hitting a record high over the past decade.

3. The Bank proceeded with online and offline integration, and attained effective results in vitalizing retail customers. Our customer-based retail business realized linkage marketing through dual online and offline channels. By tapping into customer needs and focusing on services continuously, both the number and quality of retail customers improved. Taking full advantage of the role of the credit card business serving as a bridge, the Bank identified customers online and promoted in-depth marketing at lobbies, with the cumulative number of credit cards issued by the Bank exceeding 2.0 million. The Bank continued to deepen its service exploration projects and enhanced its integrated service marketing capabilities at lobbies. The number of active customers with valid accounts above RMB1,000 or signed contracts through mobile banking increased significantly, and the cross-selling rate of credit cards reached 70.64%. The Bank continued to introduce updates on "online service halls" such as mobile banking to diversify product functions and deeply bind offline customers.

4. The Bank strengthened its foundation with customer base management, and achieved fruitful results for synergies in wholesale business. Focusing on the "dual-base strategy" and "network construction", the Bank continued to improve the contribution of basic customer groups and customer service capabilities. Through hierarchical management of customers, the Bank achieved "refined" management of customer operations and continued to consolidate the basic customer groups. By improving basic products and basic services, the Bank innovated and improved its product system so as to improve customer service capabilities and customer stickiness. As at the end of the Reporting Period, the Bank had 198.2 thousand corporate customers, representing an increase of 25.9 thousand or 15.02%. Synergies were strengthened in the financial market business. While maintaining the increase in total investment and investment efficiency, the Bank continued to reduce non-standard assets and optimized investment structure. Through bond underwriting and bond investment, the Bank achieved derivative deposits of more than RMB26 billion.

5. The Bank's wealth management subsidiary commenced operation, forming the preliminary framework of group structure. During the Reporting Period, Qingyin Wealth Management Company Limited ("**Qingyin Wealth Management**") officially commenced operation and introduced China's first direct-selling mobile client for wealth management products and a brand new "Bright Life" product series. As a regional bank corporation, the Bank established the wholly-owned wealth management subsidiary, which will help the Bank expand its business scope and types of business and is a key step for the Bank's comprehensive operations and group-wide deployment. The wealth management business achieved strong growth in profitability. During the Reporting Period, the Bank realized service fee and commission income from wealth management products of RMB1,008 million, representing an increase of 45.04% over the same period of the previous year, accounting for nearly 60% of the Company's fee and commission income.

6. Empowered by mobile, online and digital technologies, the Bank pursued technology-driven development. During the Reporting Period, the Bank further promoted the mobile, online and digital development of operations and management in pursuit of technology-driven development. The Bank launched corporate mobile banking and personal mobile banking service version 5.0. The Bank took the lead in realizing 5G deployment for the entire network, and opened the flagship sub-branch of "5G + Ecosystem" smart bank. The Bank established the Eagle Eye 360 Intelligent Risk Monitoring Platform to achieve real-time intelligent risk management and control. The Bank completed the online layout of various businesses including the domestic letters of credit to gather strength for deepening business transformation.

7. The Bank steadily improved risk control capabilities, and significantly improved asset quality. The Bank continued to improve risk control capabilities, reshaped operating procedures, and streamlined and optimized handling procedures. The Bank promoted parallel operations and established a pre-communication mechanism for business approval to improve the efficiency of credit approval. The Bank consolidated the basic work of "before-loan investigation, loan-granting review and after-loan inspection" to improve the post-loan supervision mechanism. The Bank explored the implementation of unified credit extension, and unified risk appetite and loan approval standards, to enhance the risk control capabilities of the Group. The Bank stepped up efforts in increasing cancellation and collection of non-performing assets, and collected various risk assets in cash amounting to RMB923 million in aggregate throughout the year, which was a historic breakthrough. The non-performing loan ratio decreased by 0.14 percentage point as compared with the beginning of the year, showing significant improvement in asset quality.

3. Analysis of Major Items of the Statement of Profit or Loss and Other Comprehensive Income

3.1 Financial Performance Summary

In 2020, the Company's profit before taxation amounted to RMB2.728 billion, representing a year-on-year decrease of RMB100 million or 3.54%; net profit amounted to RMB2.453 billion, representing a year-on-year increase of RMB118 million or 5.04%; and effective income tax rate was 10.08%, representing a year-on-year decrease of 7.35 percentage points, mainly due to the year-on-year increase in tax-free income from government bonds, local government bonds and funds. In 2020, the Company's operating income grew steadily. In line with the sound development of the deposit and loan business, business expenses and taxes increased to a certain extent, and provision for credit losses also increased as appropriate. The following table sets forth the changes in the Company's major profit items during the periods indicated.

Unit: RMB'000

Item	**2020**	2019	**Change in amount**	**Change (%)**
Net interest income	**8,146,531**	6,846,055	1,300,476	19.00
Net fee and commission income	**1,691,624**	1,216,880	474,744	39.01
Net trading gains, net gains arising from investments and other operating income	**709,919**	1,559,174	(849,255)	(54.47)
Operating expenses	**(3,676,022)**	(3,166,762)	(509,260)	16.08
Credit impairment losses	**(4,143,756)**	(3,626,792)	(516,964)	14.25
Profit before taxation	**2,728,296**	2,828,555	(100,259)	(3.54)
Income tax expense	**(274,998)**	(493,033)	218,035	(44.22)
Net profit	**2,453,298**	2,335,522	117,776	5.04
Of which: Net profit attributable to shareholders of the Bank	**2,394,072**	2,284,815	109,257	4.78
Net profit attributable to non-controlling interests	**59,226**	50,707	8,519	16.80

3.2 Operating Income

In 2020, the Company's operating income amounted to RMB10.548 billion, representing a year-on-year increase of RMB0.926 billion or 9.62%, mainly due to the increase in the scale of the Company and the optimization of structure, resulting in the rapid increase in net interest income; and a good development in wealth management, agency service and credit card businesses, resulting in the rapid growth in net fee and commission income. Among the operating income, net interest income accounted for 77.23%, representing a year-on-year increase of 6.08 percentage points, and net fee and commission income accounted for 16.04%, representing a year-on-year increase of 3.39 percentage points. The following table sets forth the principal components of the Company's operating income and the changes during the periods indicated.

Unit: RMB'000

	2020		2019		**Percentage changes**
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)	**(percentage point)**
Net interest income	**8,146,531**	**77.23**	6,846,055	71.15	6.08
Interest income	**17,168,922**	**162.77**	14,515,004	150.85	11.92
Among which: Loans and advances to customers	**10,328,702**	**97.91**	7,686,778	79.89	18.02
Financial investments	**5,517,641**	**52.31**	5,400,084	56.12	(3.81)
Deposits with banks and other financial institutions	**7,146**	**0.07**	13,005	0.14	(0.07)
Placements with banks and other financial institutions	**82,898**	**0.79**	257,712	2.68	(1.89)
Deposits with central bank	**360,330**	**3.42**	352,657	3.67	(0.25)
Financial assets held under resale agreements	**246,435**	**2.34**	306,078	3.18	(0.84)
Long-term receivables	**625,770**	**5.93**	498,690	5.18	0.75
Interest expense	**(9,022,391)**	**(85.54)**	(7,668,949)	(79.70)	(5.84)
Net non-interest income	**2,401,543**	**22.77**	2,776,054	28.85	(6.08)
Among which: Net fee and commission income	**1,691,624**	**16.04**	1,216,880	12.65	3.39
Net trading (losses)/gains, net gains arising from investments and other operating income	**709,919**	**6.73**	1,559,174	16.20	(9.47)
Operating income	**10,548,074**	**100.00**	9,622,109	100.00	–

3.3 *Net Interest Income*

In 2020, the Company's net interest income amounted to RMB8.147 billion, representing a year-on-year increase of RMB1.300 billion or 19.00%, mainly due to a good development of the Company's deposit and loan business, with rapid growth in scale and continued structural adjustments. The following table sets forth the average balance of interest-earning assets and interest-bearing liabilities items, interest income/expense and average yield/cost rate of the Company for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities represent the daily average balances.

Unit: RMB'000

	2020			2019		
Item	**Average balance**	**Interest income/ expense**	**Average yield/ cost rate**	Average balance	Interest income/ expense	Average yield/ cost rate
Interest-earning assets						
Loans and advances to customers	**193,737,884**	**10,328,702**	**5.33%**	149,808,054	7,686,778	5.13%
Financial investment	**132,770,352**	**5,517,641**	**4.16%**	118,470,086	5,400,084	4.56%
Deposits and placements with banks and other financial institutions(1)	**19,658,882**	**336,479**	**1.71%**	21,038,678	576,795	2.74%
Deposits with central bank	**25,631,386**	**360,330**	**1.41%**	22,895,654	352,657	1.54%
Long-term receivables	**11,177,576**	**625,770**	**5.60%**	8,720,607	498,690	5.72%
Total	**382,976,080**	**17,168,922**	**4.48%**	320,933,079	14,515,004	4.52%
Interest-bearing liabilities						
Deposits from customers	**248,143,839**	**5,058,536**	**2.04%**	187,244,159	3,434,379	1.83%
Deposits and placements from banks and other financial institutions(2)	**51,285,774**	**1,219,121**	**2.38%**	48,344,197	1,386,247	2.87%
Debt securities issued	**79,022,457**	**2,539,802**	**3.21%**	72,417,074	2,588,388	3.57%
Borrowings from central bank	**7,793,986**	**204,932**	**2.63%**	8,436,605	259,935	3.08%
Total	**386,246,056**	**9,022,391**	**2.34%**	316,442,035	7,668,949	2.42%
Net interest income	**/**	**8,146,531**	**/**	/	6,846,055	/
Net interest spread	**/**	**/**	**2.14%**	/	/	2.10%
Net interest margin	**/**	**/**	**2.13%**	/	/	2.13%

Notes:

(1) Deposits and placements with banks and other financial institutions include financial assets held under resale agreements.

(2) Deposits and placements from banks and other financial institutions include financial assets sold under repurchase agreements.

In 2020, the average balance of interest-earning assets was RMB382.976 billion, representing a year-on-year increase of RMB62.043 billion or 19.33%. Net interest margin was 2.13%, remaining flat as compared with the previous year, and net interest spread was 2.14%, representing a year-on-year increase of 0.04 percentage point, which was mainly due to the basically stable net interest margin and net interest spread as a result of the appropriate increase in low-risk financial investment as well as the control of interbank debt costs for the intensive use of capital under the rapid growth in scale of the Company.

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

Unit: RMB'000

	2020 vs. 2019		
Item	**Due to volume**	**Due to rate**	**Net increase (decrease)**
Assets			
Loans and advances to customers	2,342,308	299,616	2,641,924
Financial investment	591,437	(473,880)	117,557
Deposits and placements with banks and other financial institutions	(23,618)	(216,698)	(240,316)
Deposits with central bank	37,437	(29,764)	7,673
Long-term receivables	137,545	(10,465)	127,080
Interest income changes	3,085,109	(431,191)	2,653,918
Liabilities			
Deposits from customers	1,230,944	393,213	1,624,157
Deposits and placements from banks and other financial institutions	69,761	(236,887)	(167,126)
Debt securities issued	212,115	(260,701)	(48,586)
Borrowings from central bank	(17,038)	(37,965)	(55,003)
Interest expense changes	1,495,782	(142,340)	1,353,442
Net interest income changes	1,589,327	(288,851)	1,300,476

3.4 Interest Income

In 2020, the Company's interest income was RMB17.169 billion, representing a year-on-year increase of RMB2.654 billion or 18.28%, mainly due to the increase in the size of the Company's assets and the rapid growth in loan interest income. The interest income from loans and advances to customers and from financial investments constituted major components of the interest income of the Company.

Interest income of loans and advances to customers

In 2020, the Company's interest income from loans and advances to customers amounted to RMB10.329 billion, representing a year-on-year increase of RMB2.642 billion or 34.37%, mainly due to the Company's implementation of the national monetary policy guidance, adjustment to the credit structure and continuous increase in loan supply based on the deepening of risk management and control. The following table sets forth the average balance, interest income and average yield of each component of the Company's loans and advances to customers for the periods indicated.

Unit: RMB'000

	2020			2019		
Item	**Average balance**	**Interest income**	**Average yield**	Average balance	Interest income	Average yield
Corporate loans	**128,798,862**	**6,880,335**	**5.34%**	93,398,927	4,917,025	5.26%
Personal loans	**55,744,560**	**3,163,664**	**5.68%**	46,440,488	2,382,842	5.13%
Discounted bills	**9,194,462**	**284,703**	**3.10%**	9,968,639	386,911	3.88%
Total loans	**193,737,884**	**10,328,702**	**5.33%**	149,808,054	7,686,778	5.13%

Interest income from financial investments

In 2020, the Company's interest income from financial investments was RMB5.518 billion, representing a year-on-year increase of RMB118 million or 2.18%, mainly due to the steady financial investment strategies of the Company, continuous reduction in non-standard assets, optimization of investment structure, maintaining steady growth in interest income from financial investment.

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

In 2020, the Company's interest income from deposits and placements with banks and other financial institutions amounted to RMB336 million, representing a year-on-year decrease of RMB240 million or 41.66%, mainly attributable to the declined interest rates in the interbank market and the adjustment to the Company's capital allocation, which appropriately reduced the scale of interbank lending.

3.5 Interest Expense

In 2020, the Company's interest expenses amounted to RMB9.022 billion, representing a year-on-year increase of RMB1.353 billion or 17.65%, mainly due to the rapid growth in interest expense on deposits as a result of the Company's expansion of debt scale. Interest expenses on deposits from customers and bond interest payable were major components of the interest expense of the Company.

Interest expense on deposits from customers

In 2020, the Company's interest expense on deposits from customers was RMB5.059 billion, representing a year-on-year increase of RMB1.624 billion or 47.29%, mainly due to the rapid growth in interest expense on deposits as a result of the good development of the Company's deposit business. The following table sets forth the average balance, interest expense and average cost rate of each component of the Company's deposits from customers for the periods indicated.

Unit: RMB'000

	2020			2019		
Item	**Average balance**	**Interest expense**	**Average cost rate**	Average balance	Interest expense	Average cost rate
Corporate deposits						
Demand	**92,228,295**	**784,525**	**0.85%**	74,841,714	583,655	0.78%
Time	**77,811,017**	**2,222,754**	**2.86%**	52,643,822	1,426,135	2.71%
Sub-total	**170,039,312**	**3,007,279**	**1.77%**	127,485,536	2,009,790	1.58%
Personal deposits						
Demand	**21,267,610**	**64,522**	**0.30%**	18,674,429	56,418	0.30%
Time	**56,836,917**	**1,986,735**	**3.50%**	41,084,194	1,368,171	3.33%
Sub-total	**78,104,527**	**2,051,257**	**2.63%**	59,758,623	1,424,589	2.38%
Total deposits from customers	**248,143,839**	**5,058,536**	**2.04%**	187,244,159	3,434,379	1.83%

Interest expense on deposits and placements from banks and other financial institutions

In 2020, the Company's interest expense on deposits and placements from banks and other financial institutions amounted to RMB1.219 billion, representing a year-on-year decrease of RMB167 million or 12.06%, mainly due to the fact that the Company grasped the downward trend of interest rates in the interbank market, and achieved a corresponding decline in interest expenses while increasing the scale of deposits and placements from banks and other financial institutions.

Interest expense on debt securities issued

In 2020, the Company's interest expense on debt securities issued amounted to RMB2.540 billion, representing a year-on-year decrease of RMB49 million or 1.88%, mainly due to the fact that the Company optimized the structure of active liabilities and exercised the redemption option for tier-two capital bonds of RMB2.2 billion while rolling issuance of interbank certificates of deposit to control the cost of liabilities in response to the loose monetary market.

3.6 Net Non-interest Income

In 2020, the Company's net non-interest income was RMB2.402 billion, representing a year-on-year decrease of RMB375 million or 13.49%. The following table sets forth the components of the Company's net non-interest income for the periods indicated.

Unit: RMB'000

Item	**2020**	2019
Fee and commission income	**1,855,260**	1,346,116
Less: Fee and commission expense	**(163,636)**	(129,236)
Net fee and commission income	**1,691,624**	1,216,880
Net trading (losses)/gains, net gains arising from investments and other operating income	**709,919**	1,559,174
Total net non-interest income	**2,401,543**	2,776,054

3.7 Net Fee and Commission Income

In 2020, the Company's net fee and commission income amounted to RMB1.692 billion, representing a year-on-year increase of RMB475 million or 39.01%, mainly due to the rapid growth in net fee and commission income as a result of the rapid development of wealth management, agency service, credit card and other businesses. The following table sets forth the components of the Company's net fee and commission income for the periods indicated.

Unit: RMB'000

Item	**2020**	2019
Fee and commission income	**1,855,260**	1,346,116
Of which: Wealth management service fees	**1,008,499**	695,313
Agency service fees	**454,522**	339,855
Custody and bank card service fees(1)	**170,260**	131,056
Financial leasing fees	**158,463**	118,743
Settlement fees	**35,635**	41,057
Others	**27,881**	20,092
Less: Fee and commission expense	**(163,636)**	(129,236)
Net fee and commission income	**1,691,624**	1,216,880

Note: According to the "Notice on Strictly Implementing Accounting Standards for Enterprises and Effectively Strengthening the Work of Enterprises' 2020 Annual Reports" promulgated by the Ministry of Finance, China Securities Regulatory Commission, State-owned Assets Supervision and Administration Commission of the State Council and China Banking and Insurance Regulatory Commission in January 2021 (Cai Kuai[2021] No. 2), the Group reclassified the credit card installment income in 2020 from fee and commission income to interest income.

In 2020, the Company's wealth management service fees amounted to RMB1.008 billion, representing a year-on-year increase of RMB313 million or 45.04%, mainly due to income improvement resulting from increase in the Company's wealth management scale; agency service fees amounted to RMB455 million, representing a year-on-year increase of RMB115 million or 33.74%, mainly due to an increase in commission fee from the sales agency business for trust products and underwriting fees for bond financing instruments; custody and bank card service fees amounted to RMB170 million, representing a year-on-year increase of RMB39 million or 29.91%, mainly due to an increase in credit card service fees income; financial leasing service fees amounted to RMB158 million, representing a year-on-year increase of RMB40 million or 33.45%, mainly due to an increase in the finance leasing business scale.

3.8 Net Trading (Losses)/Gains, Net Gains Arising from Investments and Other Operating Income

In 2020, the Company's net trading (losses)/gains, net gains arising from investments and other operating income, amounted to RMB710 million, representing a year-on-year decrease of RMB849 million or 54.47%, mainly due to the decrease in foreign exchange gains and losses as a result of exchange rate fluctuation; the bond market's performance was weaker than the previous year, and net gains on financial investments decreased. The following table sets forth the components of the Company's net trading (losses)/gains, net gains arising from investments and other operating income, for the periods indicated.

Unit: RMB'000

Item	**2020**	2019
Net trading (losses)/gains	**(567,428)**	152,464
Net gains arising from investments	**1,248,600**	1,380,437
Other operating income	**28,747**	26,273
Total	**709,919**	1,559,174

3.9 Operating Expenses

In 2020, the Company's operating expenses amounted to RMB3.676 billion, representing a year-on-year increase of RMB509 million or 16.08%, mainly due to the increase in business development fees as a result of the rapid business development. The following table sets forth the components of the Company's operating expenses for the periods indicated.

Unit: RMB'000

Item	**2020**	2019
Staff costs	**1,713,683**	1,691,541
Property and equipment expenses	**643,720**	646,952
Tax and surcharges	**133,315**	101,186
Other general and administrative expenses	**1,185,304**	727,083
Total operating expenses	**3,676,022**	3,166,762

3.10 Credit Impairment Losses

In 2020, the Company's credit impairment losses amounted to RMB4.144 billion, representing a year-on-year increase of RMB517 million or 14.25%, as the Company appropriately increased the provision for credit impairment according to the asset risk status. Credit impairment losses from loans and advances to customers constituted the largest component of the credit impairment losses. The following table sets forth the components of the Company's credit impairment losses for the periods indicated.

Unit: RMB'000

Item	2020	2019
Deposits with banks and other financial institutions	**334**	(98)
Placements with banks and other financial institutions	**(16,568)**	4,945
Financial assets held under resale agreements	**7,698**	820
Loans and advances to customers	**2,974,836**	3,026,604
Financial investments measured at amortized cost	**927,234**	401,784
Financial investments at fair value through other comprehensive income	**21,776**	61,177
Long-term receivables	**206,123**	130,299
Credit commitments	**2,548**	(5,249)
Others	**19,775**	6,510
Total credit impairment losses	**4,143,756**	3,626,792

In 2020, credit impairment losses from loans and advances to customers amounted to RMB2.975 billion, representing a year-on-year decrease of RMB52 million or 1.71%, mainly due to the fact that the Company steadily improved its loan quality and steadily decreased the impairment provision.

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

4.1 Assets

As at the end of the year 2020, the Company's total assets amounted to RMB459.828 billion, representing an increase of RMB86.205 billion or 23.07% as compared with that at the end of last year. The following table sets forth the components of the Company's total assets as at the dates indicated.

Unit: RMB'000

Item	**31 December 2020**		31 December 2019		**Change from the end of last year**		31 December 2018	
	Amount	**% of total**	Amount	% of total	**Change in amount (%)**	**Change in % of total**	Amount	% of total
Loans and advances to customers	**202,358,484**	**44.01**	169,158,291	45.28	19.63	(1.27)	123,366,891	38.84
Financial investments measured at amortized cost	**74,157,602**	**16.13**	64,491,058	17.26	14.99	(1.13)	70,032,056	22.05
Financial investments measured at fair value through other comprehensive income	**66,828,002**	**14.53**	54,973,781	14.71	21.56	(0.18)	53,002,751	16.69
Financial investments measured at fair value through profit or loss	**37,250,405**	**8.10**	22,912,561	6.13	62.58	1.97	22,361,816	7.04
Cash and deposits with central bank	**47,219,397**	**10.27**	39,704,840	10.63	18.93	(0.36)	29,554,430	9.30
Deposits with banks and other financial institutions	**2,568,919**	**0.56**	1,312,468	0.35	95.73	0.21	1,542,437	0.49
Placements with banks and other financial institutions	**–**	**–**	3,313,603	0.89	(100.00)	(0.89)	4,110,464	1.29
Derivative financial assets	**286,400**	**0.06**	12,436	–	2,202.99	0.06	–	–
Financial assets held under resale agreements	**9,726,476**	**2.12**	2,325,771	0.62	318.20	1.50	300,262	0.09
Long-term receivables	**11,001,178**	**2.39**	9,037,819	2.42	21.72	(0.03)	7,766,698	2.44
Property and equipment	**3,247,768**	**0.71**	3,048,813	0.82	6.53	(0.11)	3,124,355	0.98
Right-of-use assets	**826,821**	**0.18**	818,928	0.22	0.96	(0.04)	N/A	N/A
Deferred tax assets	**2,468,017**	**0.54**	1,581,905	0.42	56.02	0.12	1,152,778	0.36
Other assets	**1,888,136**	**0.4**	929,876	0.25	103.05	0.15	1,343,564	0.43
Total assets	**459,827,605**	**100.00**	373,622,150	100.00	23.07	–	317,658,502	100.00

4.1.1 Loans and advances to customers

As at the end of the year 2020, the Company's loans and advances to customers amounted to RMB202.358 billion, representing an increase of RMB33.200 billion or 19.63% as compared with that at the end of last year; accounting for 44.01% of the Company's total assets, representing a decrease of 1.27 percentage points as compared with that at the end of last year. During the Reporting Period, by implementing the national monetary policy guidance, the Company enhanced credit support for the real economy, epidemic prevention and control as well as material production and circulation, and actively developed inclusive financial services, achieving rapid growth in various loans. The following table sets forth the components of the loans and advances to customers of the Company by product type as at the dates indicated.

Unit: RMB'000

Item	**31 December 2020**		31 December 2019		**Change from the end of last year**		31 December 2018	
	Amount	**% of total**	Amount	% of total	**Change in amount (%)**	**Change in % of total**	Amount	% of total
Corporate loans	**138,776,966**	**67.12**	112,036,804	64.83	23.87	2.29	78,264,271	61.92
Personal loans	**60,755,096**	**29.39**	54,508,817	31.55	11.46	(2.16)	41,349,974	32.72
Discounted bills	**7,215,159**	**3.49**	6,249,822	3.62	15.45	(0.13)	6,772,625	5.36
Total customer loans	**206,747,221**	**100.00**	172,795,443	100.00	19.65	–	126,386,870	100.00
Add: Accrued interest	**899,064**	/	772,480	/	16.39	/	521,250	/
Less: Provision for impairment on loans and advances to customers measured at amortized cost	**(5,287,801)**	/	(4,409,632)	/	19.91	/	(3,541,229)	/
Loans and advances to customers	**202,358,484**	/	169,158,291	/	19.63	/	123,366,891	/

Corporate loans

As at the end of the year 2020, the Company's corporate loans amounted to RMB138.777 billion, representing an increase of RMB26.740 billion or 23.87% as compared with that at the end of last year, and accounted for 67.12% of the total customer loans (excluding accrued interest, the same hereinafter), representing an increase of 2.29 percentage points as compared with that at the end of last year. During the Reporting Period, the Company continued to enhance support for the real economy, adjusted its credit structure in a timely manner, and made good use of the "two policy tools" for inclusive loans to small and micro enterprises, which strongly supported the real economy and the production and circulation of anti-epidemic supplies.

Personal loans

As at the end of the year 2020, the Company's personal loans amounted to RMB60.755 billion, representing an increase of RMB6.246 billion or 11.46% as compared with that at the end of last year, and accounted for 29.39% of the total customer loans, representing a decrease of 2.16 percentage points as compared with that at the end of last year. During the Reporting Period, the Company implemented the policy guidance of "Housing is for people to live in, not for speculation" and supported residents' reasonable self-occupancy needs to purchase housing, thus personal housing loans grew steadily. At the same time, the Company actively supported the capital needs of individual business owners as well as small and micro enterprises owners to resume work and production, thus personal business loans grew rapidly.

Discounted bills

As at the end of the year 2020, the Company's discounted bills amounted to RMB7.215 billion, representing an increase of RMB965 million or 15.45% as compared with that at the end of last year, and accounted for 3.49% of the total customer loans, representing a decrease of 0.13 percentage point as compared with that at the end of last year. During the Reporting Period, by intensifying the effort in the bill discounting business of enterprises engaging in epidemic prevention and control, combined with the rediscount policy, the Company launched the "Anti-Coronavirus Discount*（抗疫貼）" product with a focus on supporting epidemic prevention and the resumption of work and production of small and medium enterprises, implementing preferential interest rate support for related corporates' bills, and at the same time, exploiting the potential of bill products, so as to increase the revenue of bill business.

4.1.2 Financial investments

As at the end of the year 2020, the Company's carrying value of financial investments amounted to RMB178.236 billion, representing an increase of RMB35.859 billion or 25.19% as compared with that at the end of last year. The following table sets forth the components of the Company's financial investment portfolio as at the dates indicated.

Unit: RMB'000

Item	**31 December 2020** Amount	**31 December 2020** % of total	31 December 2019 Amount	31 December 2019 % of total
Financial investments measured at fair value through profit or loss	**37,250,405**	**20.90**	22,912,561	16.09
Financial investments measured at fair value through other comprehensive income	**66,828,002**	**37.49**	54,973,781	38.61
Financial investments measured at amortised cost	**74,157,602**	**41.61**	64,491,058	45.30
Financial investments	**178,236,009**	**100.00**	142,377,400	100.00

Financial investments measured at fair value through profit or loss

As at the end of the year 2020, the Company's carrying value of financial investments measured at fair value through profit or loss amounted to RMB37.250 billion, representing an increase of RMB14.338 billion or 62.58% as compared with that at the end of last year. The increase was mainly due to increased investment in public bond funds with high liquidity and tax-exempt advantages. The following table sets forth the components of the Company's financial investments measured at fair value through profit or loss as at the dates indicated.

Unit: RMB'000

Item	**31 December 2020**	31 December 2019
Debt securities issued by banks and other financial institutions	**704,792**	676,304
Debt securities issued by corporate entities	**178,160**	124,557
Investment funds	**24,363,870**	9,008,256
Asset management plans	**9,998,794**	9,240,047
Trust fund plans	**2,004,789**	2,829,424
Wealth management products	**–**	1,033,973
Financial investments measured at fair value through profit or loss	**37,250,405**	22,912,561

Financial investments measured at fair value through other comprehensive income

As at the end of the year 2020, the Company's carrying value of financial investments measured at fair value through other comprehensive income amounted to RMB66.828 billion, representing an increase of RMB11.854 billion or 21.56% as compared with that at the end of last year. The increase was mainly due to the fact that the Company, guided by the support for the real economy, adjusted its investment structure, increased non-financial corporate bond investment, and enlarged the scale of investment in local government bonds, debt securities issued by policy banks as well as debt securities issued by banks and other financial institutions with better yields and relatively strong liquidity according to the overall market conditions. The following table sets forth the components of the Company's financial investment measured at fair value through other comprehensive income as at the dates indicated.

Unit: RMB'000

Item	**31 December 2020**	31 December 2019
Government bonds	**15,330,316**	12,412,488
Debt securities issued by policy banks	**6,437,969**	4,776,962
Debt securities issued by banks and other financial institutions	**11,039,796**	8,027,292
Debt securities issued by corporate entities	**26,338,440**	20,848,475
Asset management plans	**5,680,647**	7,128,140
Other investments	**703,121**	705,543
Equity investments	**23,250**	23,250
Add: Accrued interest	**1,274,463**	1,051,631
Financial investments measured at fair value through other comprehensive income	**66,828,002**	54,973,781

Financial investments measured at amortised cost

As at the end of the year 2020, the Company's carrying value of financial investments measured at amortised cost amounted to RMB74.158 billion, representing an increase of RMB9.667 billion or 14.99% as compared with that at the end of last year. The increase was mainly due to the fact that the Company reduced investment in asset management plans and trust fund plans, and increased the scale of investment in local government bonds and debt securities issued by banks and other financial institutions with better yields and relatively strong liquidity in accordance with the overall market situation. The following table sets forth the components of the Company's financial investments measured at amortised cost as at the dates indicated.

Unit: RMB'000

Item	**31 December 2020**	31 December 2019
Government bonds	**26,717,042**	11,196,072
Debt securities issued by policy banks	**11,799,924**	13,143,054
Debt securities issued by banks and other financial institutions	**18,552,129**	11,288,474
Debt securities issued by corporate entities	**1,823,781**	2,475,729
Asset management plans	**7,585,510**	16,285,720
Trust fund plans	**1,434,700**	5,052,516
Other investments	**6,150,000**	4,800,000
Total financial investments measured at amortised cost	**74,063,086**	64,241,565
Add: Accrued interest	**1,191,036**	1,118,779
Less: Impairment provision	**(1,096,520)**	(869,286)
Carrying value of financial investments measured at amortised cost	**74,157,602**	64,491,058

Investment in securities

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

Unit: RMB'000

Type of security	**Investment amount**	**% of total investment**
Government bonds	42,047,358	35.35%
Debt securities issued by policy banks	18,237,893	15.34%
Debt securities issued by banks and other financial institutions	30,296,717	25.48%
Debt securities issued by corporate entities	28,340,381	23.83%
Total	118,922,349	100.00%

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

Unit: RMB'000

Name of security	**Nominal value**	**Annual interest rates (%)**	**Maturity date**	**Impairment provision**
Bond 1	5,170,000	3.39	2050/3	152.69
Bond 2	4,270,000	3.80	2036/1	437.80
Bond 3	2,740,000	3.18	2026/9	272.95
Bond 4	2,650,000	3.07	2030/3	272.46
Bond 5	2,630,000	2.68	2030/5	78.06
Bond 6	2,250,000	3.55	2040/5	406.71
Bond 7	2,230,000	3.12	2026/12	69.31
Bond 8	2,000,000	3.23	2030/3	207.51
Bond 9	1,950,000	3.13	2029/11	61.08
Bond 10	1,740,000	3.25	2026/6	53.61

4.2 Liabilities

As at the end of the year 2020, the Company's total liabilities amounted to RMB428.921 billion, representing an increase of RMB85.777 billion or 25.00% as compared with that at the end of last year. The increase was mainly due to the fast growth in deposits from customers. The following table sets forth the components of the Company's total liabilities as at the dates indicated.

Unit: RMB'000

	31 December 2020		31 December 2019		**Change from the end of last year**		31 December 2018	
Item	**Amount**	**% of total**	Amount	% of total	**Change in amount (%)**	**Change in % of total**	Amount	% of total
Deposits from customers	**275,750,710**	**64.29**	215,425,403	62.78	28.00	1.51	177,911,247	61.31
Deposits from banks and other financial institutions	**17,024,732**	**3.97**	16,462,527	4.80	3.42	(0.83)	11,632,982	4.01
Borrowings from central bank	**11,207,069**	**2.61**	5,536,650	1.61	102.42	1.00	10,878,835	3.75
Placements from banks and other financial institutions	**12,947,575**	**3.02**	9,916,257	2.89	30.57	0.13	7,207,066	2.48
Derivative financial liabilities	**288,347**	**0.07**	8,805	–	3,174.81	0.07	–	–
Financial assets sold under repurchase agreements	**33,099,349**	**7.72**	16,027,082	4.67	106.52	3.05	14,850,333	5.12
Income tax payable	**431,921**	**0.1**	187,027	0.05	130.94	0.05	13,174	0.01
Debt securities issued	**72,834,508**	**16.98**	76,858,899	22.40	(5.24)	(5.42)	65,240,507	22.48
Lease liabilities	**453,671**	**0.11**	427,429	0.12	6.14	(0.01)	N/A	N/A
Other liabilities	**4,882,865**	**1.13**	2,294,153	0.68	112.84	0.46	2,427,634	0.84
Total liabilities	**428,920,747**	**100.00**	343,144,232	100.00	25.00	–	290,161,778	100.00

4.2.1 Deposits from customers

As at the end of the year 2020, the Company's deposits from customers amounted to RMB275.751 billion, representing an increase of RMB60.325 billion or 28.00% as compared with that at the end of last year; accounting for 64.29% of the Company's total liabilities, representing an increase of 1.51 percentage points as compared with that at the end of last year. During the Reporting Period, the Company strengthened the research and judgment on the national monetary policy, sought development opportunities from the epidemic, intensified the expansion of deposit business, met customer needs, increased customer stickiness, and achieved rapid growth in deposits from customers, continuously consolidating the fundamental position of deposits in the source of operating funds. The following table sets forth the components of Company's deposits from customers by product type and customer type as at the dates indicated.

Unit: RMB'000

	31 December 2020		31 December 2019		**Change from the end of last year**		31 December 2018	
Item	**Amount**	**% of total**	Amount	% of total	**Change in amount (%)**	**Change in % of total**	Amount	% of total
Corporate deposits	**183,447,242**	**67.38**	147,880,817	69.49	24.05	(2.11)	118,644,749	67.54
Demand deposits	**111,491,369**	**40.95**	92,593,934	43.51	20.41	(2.56)	72,852,694	41.47
Time deposits	**71,955,873**	**26.43**	55,286,883	25.98	30.15	0.45	45,792,055	26.07
Personal deposits	**88,339,315**	**32.45**	64,796,343	30.45	36.33	2.00	56,898,658	32.39
Demand deposits	**22,899,499**	**8.41**	20,622,060	9.69	11.04	(1.28)	18,313,340	10.43
Time deposits	**65,439,816**	**24.04**	44,174,283	20.76	48.14	3.28	38,585,318	21.96
Outward remittance and remittance payables	**428,585**	**0.16**	100,697	0.05	325.62	0.11	131,519	0.07
Fiscal deposits to be transferred	**16,342**	**0.01**	13,052	0.01	25.21	–	923	–
Total customer deposits	**272,231,484**	**100.00**	212,790,909	100.00	27.93	–	175,675,849	100.00
Add: Accrued interests	**3,519,226**	/	2,634,494	/	33.58	/	2,235,398	/
Deposits from customers	**275,750,710**	/	215,425,403	/	28.00	/	177,911,247	/

As at the end of the year 2020, the Company's demand deposits accounted for 49.36% of the total deposits from customers (excluding accrued interest, the same hereinafter), representing a decrease of 3.84 percentage points as compared with that at the end of last year. Among those deposits, corporate demand deposits accounted for 60.78% of corporate deposits, representing a decrease of 1.83 percentage points as compared with that at the end of last year; and personal demand deposits accounted for 25.92% of personal deposits, representing a decrease of 5.90 percentage points as compared with that at the end of last year.

4.2.2 Deposits from banks and other financial institutions

As at the end of the year 2020, the Company's deposits from banks and other financial institutions amounted to RMB17.025 billion, representing an increase of RMB562 million or 3.42% as compared with that at the end of last year, mainly due to the Company's strengthened management on active interbank liability, optimization of and adjustment to the liability structure, thus the scale of interbank deposits remaining basically stable while general deposits grew well.

4.2.3 Borrowings from central bank

As at the end of the year 2020, the Company's borrowing from central bank amounted to RMB11.207 billion, representing an increase of RMB5.670 billion or 102.42% as compared with that at the end of last year, mainly due to the fact that the Company implemented the policy guidance of the central bank to actively apply for the relending and rediscount to small and micro enterprises, and increase the sources of credit funds for small and micro enterprises to support the development of the real economy.

4.2.4 Financial assets sold under repurchase agreements

As at the end of the year 2020, the Company's financial assets sold under repurchase agreements amounted to RMB33.099 billion, representing an increase of RMB17.072 billion or 106.52% as compared with that at the end of last year, mainly due to Company's strengthened management on active interbank liability, adjustment to the maturity structure of interbank liabilities, and an increase in the business scale of bonds sold under repurchase agreements.

4.2.5 Debt securities issued

As at the end of the year 2020, the Company's debt securities payable amounted to RMB72.835 billion, representing a decrease of RMB4.024 billion or 5.24% as compared with that at the end of last year, mainly due to the fact that the Company exercised the redemption option for tier-two capital bonds of RMB2.2 billion, adjusted the maturity structure of interbank liabilities, and reduced the issue size of certificates of interbank deposit. For details of the bonds, please refer to Note 34 "Debt Securities Issued" to the financial statements of this results announcement.

4.3 Equity Attributable to Shareholders

As at the end of the year 2020, the shareholders' equity of the Company amounted to RMB30.907 billion, representing an increase of RMB429 million or 1.41% as compared with that at the end of last year. Equity attributable to equity shareholders of the Bank amounted to RMB30.285 billion, representing an increase of RMB370 million or 1.24% as compared with that at the end of last year, mainly due to the increased accrued and retained earnings. During the Reporting Period, the Company distributed dividends of RMB902 million to ordinary shareholders and distributed dividends of RMB497 million to preference shareholders. The following table sets forth the components of the Company's shareholders' equity as at the dates indicated.

Unit: RMB'000

Item	**31 December 2020**	31 December 2019
Share capital	**4,509,690**	4,509,690
Other equity instruments		
Including: Preference shares	**7,853,964**	7,853,964
Capital reserve	**8,337,869**	8,337,869
Other comprehensive income	**32,717**	658,230
Surplus reserve	**1,859,737**	1,626,662
General risk reserve	**5,072,217**	4,400,258
Retained earnings	**2,618,980**	2,528,787
Total equity attributable to equity shareholders of the Bank	**30,285,174**	29,915,460
Non-controlling interests	**621,684**	562,458
Total equity	**30,906,858**	30,477,918

4.4 Assets and Liabilities Measured at Fair Value

Unit: RMB'000

Main item	**31 December 2019**	**Changes in fair value included in profit or loss for the current period**	**Cumulative changes in fair value recognized in equity**	**Impairment provided during the current period**	**31 December 2020**
Financial investments measured at fair value through profit or loss	22,912,561	(237,078)	N/A	N/A	**37,250,405**
Loans and advances to customers measured at fair value through other comprehensive income	6,249,822	N/A	(4,401)	1,864	**7,215,159**
Financial investments measured at fair value through other comprehensive income	54,973,781	N/A	(90,583)	21,776	**66,828,002**
Derivative financial assets	12,436	273,964	N/A	N/A	**286,400**
Derivative financial liabilities	(8,805)	(279,542)	N/A	N/A	**(288,347)**

4.5 Derivative Financial Instruments

Unit: RMB'000

	31 December 2020			31 December 2019		
Item	**Nominal amount**	**Fair value of assets**	**Fair value of liabilities**	Nominal amount	Fair value of assets	Fair value of liabilities
Interest rate swaps and others	**76,567,494**	**286,400**	**(288,347)**	33,896,438	12,436	(8,805)

Note: 1. Within the risk appetite established by the Board and the risk framework of its own derivatives market, the Bank followed the limit requirements and actively carried out various derivatives transactions. As of 31 December 2020, derivative financial instruments held by the Bank included interest rate swaps and others.

2. During the Reporting Period, there were no significant changes in the Bank's derivatives accounting policies and specific accounting principles as compared with the previous reporting period.

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

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

5. Analysis of Quality of Loans

During the Reporting Period, the Company continuously strengthened its risk management and control. While the credit assets grew steadily, the non-performing loan ratio decreased significantly, the quality of credit assets continuously improved and the asset quality continuously remained stable as a whole. As at the end of the Reporting Period, the total amount of loans of the Company (excluding accrued interest) was RMB206.747 billion; total non-performing loans amounted to RMB3.126 billion; non-performing loan ratio was 1.51%. For the purpose of discussion and analysis, unless otherwise specified, the amount of loans presented in the analysis below excludes accrued interest.

5.1 Distribution of Loans by Five Categories

Unit: RMB' 000

	31 December 2020		31 December 2019	
Item	**Amount**	**% of total**	Amount	% of total
Normal loan	**200,577,540**	**97.02**	163,910,475	94.86
Special mention loan	**3,043,568**	**1.47**	6,033,401	3.49
Substandard loan	**1,427,636**	**0.69**	965,897	0.56
Doubtful loan	**1,338,977**	**0.65**	1,743,364	1.01
Loss loan	**359,500**	**0.17**	142,306	0.08
Total loans to customers	**206,747,221**	**100.00**	172,795,443	100.00
Total non-performing loans	**3,126,113**	**1.51**	2,851,567	1.65

Under the five-category classification system for loan supervision, the non-performing loans of the Company included the substandard, doubtful and loss loans. As at the end of the Reporting Period, the proportion of non-performing loans decreased by 0.14 percentage point as compared with that at the end of last year to 1.51%, of which the proportion of substandard loans was 0.69%, the proportion of doubtful loans was 0.65% and the proportion of loss loans was 0.17%.

5.2 Distribution of Loans and Non-performing Loans by Product Type

Unit: RMB' 000

Item	**31 December 2020** Amount of loans	% of Total	Amount of non-performing loans	Non-performing loan ratio %	31 December 2019 Amount of loans	% of Total	Amount of non-performing loans	Non-performing loan ratio %
Corporate loans	**145,992,125**	**70.61**	**2,795,608**	**1.91**	118,286,626	68.45	2,600,568	2.20
Working capital loans	**83,070,680**	**40.18**	**2,695,608**	**3.24**	61,475,942	35.57	2,500,568	4.07
Fixed asset loans	**54,374,209**	**26.30**	**100,000**	**0.18**	49,681,134	28.75	100,000	0.20
Import and export bills transactions	**1,332,077**	**0.64**	**–**	**–**	879,728	0.51	–	–
Discounted bills	**7,215,159**	**3.49**	**–**	**–**	6,249,822	3.62	–	–
Retail loans	**60,755,096**	**29.39**	**330,505**	**0.54**	54,508,817	31.55	250,999	0.46
Personal housing loans	**40,588,284**	**19.63**	**56,783**	**0.14**	36,762,232	21.28	38,882	0.11
Personal business loans	**10,768,653**	**5.21**	**176,341**	**1.64**	8,276,374	4.79	192,730	2.33
Personal consumption loans	**9,398,159**	**4.55**	**97,381**	**1.04**	9,470,211	5.48	19,387	0.20
Total loans to customers	**206,747,221**	**100.00**	**3,126,113**	**1.51**	172,795,443	100.00	2,851,567	1.65

5.3 Distribution of Loans and Non-performing Loans by Industry

Unit: RMB' 000

Item	31 December 2020 Amount of loans	% of Total	Amount of non-performing loans	Non-performing loan ratio %	31 December 2019 Amount of loans	% of Total	Amount of non-performing loans	Non-performing loan ratio %
Corporate loans	**145,992,125**	**70.61**	**2,795,608**	**1.91**	118,286,626	68.45	2,600,568	2.20
Manufacturing	**27,657,606**	**13.37**	**2,289,816**	**8.28**	23,033,775	13.32	2,029,615	8.81
Construction	**24,704,927**	**11.95**	**106,660**	**0.43**	19,902,351	11.52	65,677	0.33
Renting and business services	**21,806,775**	**10.55**	**–**	**–**	11,228,367	6.50	9,850	0.09
Real estate	**20,970,449**	**10.14**	**102,600**	**0.49**	19,673,198	11.39	102,600	0.52
Water conservancy, environment and public utility management	**19,600,238**	**9.48**	**18,950**	**0.10**	12,287,741	7.11	39,000	0.32
Wholesale and retail trade	**15,003,646**	**7.26**	**217,686**	**1.45**	11,628,689	6.73	288,677	2.48
Production and supply of electric and heating power, gas and water	**3,797,074**	**1.84**	**–**	**–**	4,443,352	2.57	–	–
Transportation, storage and postal services	**3,082,904**	**1.49**	**24,100**	**0.78**	3,247,547	1.88	–	–
Scientific research and technical services	**2,241,260**	**1.08**	**10,500**	**0.47**	2,305,828	1.33	33,373	1.45
Others	**7,127,246**	**3.45**	**25,296**	**0.35**	10,535,778	6.10	31,776	0.30
Retail loans	**60,755,096**	**29.39**	**330,505**	**0.54**	54,508,817	31.55	250,999	0.46
Total loans to customers	**206,747,221**	**100.00**	**3,126,113**	**1.51**	172,795,443	100.00	2,851,567	1.65

5.4 Distribution of Loans and Non-performing Loans by Region

Unit: RMB' 000

Region	31 December 2020 Amount of loans	% of Total	Amount of non-performing loans	Non-performing loan ratio %	31 December 2019 Amount of loans	% of Total	Amount of non-performing loans	Non-performing loan ratio %
Shandong Province	**206,747,221**	**100.00**	**3,126,113**	**1.51**	172,795,443	100.00	2,851,567	1.65
Of which: Qingdao City	**110,957,353**	**53.68**	**642,974**	**0.58**	92,363,443	53.46	739,064	0.80

5.5 Distribution of Loans and Non-performing Loans by Type of Collateral

Unit: RMB' 000

Item	31 December 2020 Amount of loans	% of Total	Amount of non-performing loans	Non-performing loan ratio %	31 December 2019 Amount of loans	% of Total	Amount of non-performing loans	Non-performing loan ratio %
Unsecured loans	**42,739,296**	**20.67**	**203,432**	**0.48**	27,881,658	16.14	34,345	0.12
Guaranteed loans	**50,477,538**	**24.41**	**2,468,265**	**4.89**	46,794,567	27.08	2,415,504	5.16
Mortgage loans	**84,180,163**	**40.72**	**454,416**	**0.54**	75,145,703	43.48	401,718	0.53
Pledged loans	**29,350,224**	**14.20**	**–**	**–**	22,973,515	13.30	–	–
Total loans to customers	**206,747,221**	**100.00**	**3,126,113**	**1.51**	172,795,443	100.00	2,851,567	1.65

5.6 Loans to the Top Ten Single Borrowers

Unit: RMB' 000

Top ten borrowers	Industry	Amount of loans as at the end of the Reporting Period	Percentage in net capital %	Percentage in total loans %
A	Manufacturing	2,621,992	6.93	1.27
B	Renting and business services	2,250,000	5.94	1.09
C	Renting and business services	2,000,000	5.28	0.97
D	Transportation, storage and postal services	1,896,000	5.01	0.92
E	Renting and business services	1,810,000	4.78	0.88
F	Renting and business services	1,800,000	4.76	0.87
G	Renting and business services	1,730,000	4.57	0.84
H	Water conservancy, environment and public utility management	1,530,000	4.04	0.74
I	Water conservancy, environment and public utility management	1,434,120	3.79	0.69
J	Construction	1,354,000	3.59	0.64
Total		18,426,112	48.69	8.91

5.7 Distribution of Loans by Overdue Period

Unit: RMB' 000

Overdue period	**31 December 2020 Amount of loans**	**% of Total**	31 December 2019 Amount of loans	% of Total
Overdue for 3 months (inclusive) or less	**586,640**	**0.30**	711,091	0.41
Overdue for over 3 months to 1 year (inclusive)	**996,473**	**0.48**	1,061,050	0.61
Overdue for over 1 year to 3 years (inclusive)	**754,257**	**0.36**	563,866	0.33
Overdue for over 3 years	**196,363**	**0.09**	159,443	0.09
Total overdue loans	**2,533,733**	**1.23**	2,495,450	1.44
Total loans to customers	**206,747,221**	**100.00**	172,795,443	100.00

As at the end of the Reporting Period, the overdue loans of the Company amounted to RMB2.534 billion, the overdue loans accounted for 1.23% of the total loans of the Company, representing a decrease of 0.21 percentage point as compared with that at the beginning of the year. The Company had adopted a strict classification standard as to overdue loans, according to which loans overdue for more than 60 days were classified as non-performing loans.

5.8 Repossessed Assets and Provision for Impairment

As at the end of the Reporting Period, the total amount of the repossessed assets of the Company was RMB50.09 million with no provision for impairment, and the net amount of repossessed assets was RMB50.09 million.

5.9 Change in Provision for Impairment of Loans

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

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

Unit: RMB'000

Item	**2020**	2019
Balance at the beginning of the year	**4,422,549**	3,557,806
Charge for the year	**2,974,836**	3,026,604
Write-offs for the year	**(2,372,532)**	(2,251,771)
Recovery of write-offs for the year	**325,385**	146,481
Other changes	**(47,656)**	(56,571)
Balance at the end of the year	**5,302,582**	4,422,549

The Company adhered to a stable and prudent policy in respect of making provisions. As at the end of 2020, the balance of provision for impairment of loans (including discounted bills) amounted to RMB5.303 billion, representing an increase of RMB880 million or 19.90% as compared with that at the end of last year. The provision coverage ratio reached 169.62%, representing an increase of 14.53 percentage points as compared with that at the end of last year; the provision rate of loans reached 2.56%, basically the same as compared with that at the end of last year. Both provision indicators satisfied regulatory requirements.

5.10 Countermeasures Taken against Non-performing Assets

In 2020, the Company persistently intensified the management and disposal of non-performing assets. Focusing on the prediction and handling in terms of underlying risks, the Company strengthened its goal check-up and restrictions, and strictly regulated the rebound of non-performing loans. The Company optimized its asset security management, assessment and incentive mechanism. The Company carried out the integrated application of measures such as self-recovery, judicial disposal, assets write-off and credit transfer. Surrounding the most important aspect of the management and disposal of non-performing assets, the Company accelerated the disposal of existing risky assets and took the quality and outcome of our work to the next level. The continuous strengthening of the subsequent settlement of written-off non-performing assets, the potential exploration as well as improvement of settlement capabilities in relation to non-performing loans produced a marked effect.

5.11 Credit Extension to Group Customers and Risk Management

The Company adhered to the principles of "implementing unified credit extension, providing an appropriate amount, employing classified management, conducting real-time monitoring and adopting a leading bank system" in extending credit to group customers, and strived to improve the risk management for the credit granting business. Firstly, it further strengthened the internal risk information sharing mechanism by continuously improving the management of corporate family trees of group customers, which consolidated and analyzed various credit risk information of group customers, thus enabling us to prudently determine the overall credit limit of group customers and subline limit of each member, and reasonably formulated and executed a unified credit extension proposal for group customers. Secondly, it further enhanced centralized management of group customers, with the prevention of large-sum credit extension risk as its focus. It established the Large-sum Credit Extension Review Committee composed of senior management at the headquarter level, which was in charge of reviewing and approving the credit extension business that meets the standards of large-sum credit extension bank-wide, optimizing the centralized management and control of customer groups continuously, as well as managing and controlling the credit granting for a single group in a practical and effective fashion. Thirdly, it further improved the pre-warning mechanism of group customer risk, setting proper risk warning thresholds for group customers based on the industry where the group customers operate and their operating capability, which was a key reference for post-loan inspection, so as to proactively monitor and prevent risks, thereby ensuring the control of overall credit extension risk of group customers.

5.12 Rescheduled Loans

Unit: RMB'000

	31 December 2020		31 December 2019	
Item	**Amount of loans**	**% of total**	Amount of loans	% of total
Rescheduled loans	**424,834**	**0.21**	426,588	0.25
Total loans and advances to customers	**206,747,221**	**100.00**	172,795,443	100.00

The Company implemented strict management and control on rescheduled loans. As at the end of the Reporting Period, the proportion of rescheduled loans of the Company was 0.21%, which decreased by 0.04 percentage point as compared to the end of the previous year.

6. Analysis of Capital Adequacy Ratio and Leverage Ratio

The capital management of the Company, while satisfying regulatory requirements, was targeted at constantly enhancing the ability to resist risk of capital and boosting return on capital, and on this basis, it reasonably identified the Company's capital adequacy ratio target and guided business development by means of performance appraisal and capital allocation in a bid to achieve the coordinated development of its overall strategy, business development and capital management strategy.

In terms of internal capital management, the Company reinforced the allocation and management functions of economic capital, coordinated the development of assets business and capital saving, and raised capital saving awareness of operating agencies. In the performance appraisal scheme, it considered the capital consumption status and earnings of various institutions, gradually optimized the risk-adjusted performance appraisal scheme, and guided its branches and management departments to carry out more capital-saving businesses and businesses of high capital returns. Moreover, the Company set up a sound mechanism to balance and restrict capital occupancy and risk assets and ensured that the capital adequacy ratio continued to meet the standard.

6.1 Capital Adequacy Ratio

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

As at the end of 2020, the Company's capital adequacy ratio was 14.11%, representing a decrease of 0.65 percentage point as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 8.35%, representing a slight decrease of 0.01 percentage point as compared with that at the end of last year. In 2020, the Company adjusted the risk-weighted asset structure and prioritized the development of low-capital consumption businesses. In the case of a substantial increase in total assets and the redemption of RMB2.2 billion of tier-two capital bonds, the Company maintained a slight increase in risk-weighted assets and achieved remarkable results in adjusting the risk-weighted asset structure, effectively reducing capital consumption and realising the basic stability of capital adequacy ratio indicators.

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

Unit: RMB'000

The Company	**31 December 2020**	31 December 2019
Total core tier-one capital	**22,846,168**	22,418,940
Of which: Share capital	**4,509,690**	4,509,690
Qualifying portion of capital reserve	**8,337,869**	8,337,869
Other comprehensive income	**32,717**	658,230
Surplus reserve	**1,859,737**	1,626,662
General reserve	**5,072,217**	4,400,258
Retained earnings	**2,618,980**	2,528,787
Qualifying portion of non-controlling interests	**414,958**	357,444
Core tier-one capital deductions	**(461,170)**	(194,243)
Net core tier-one capital	**22,384,998**	22,224,697
Other tier-one capital	**7,909,292**	7,901,623
Net tier-one capital	**30,294,290**	30,126,320
Tier-two capital	**7,512,290**	9,126,185
Net capital base	**37,806,580**	39,252,505
Total risk-weighted assets	**267,941,143**	265,908,365
Of which: Total credit risk-weighted assets	**228,433,976**	218,075,573
Total market risk-weighted assets	**22,300,633**	33,723,233
Total operational risk-weighted assets	**17,206,534**	14,109,559
Core tier-one capital adequacy ratio	**8.35%**	8.36%
Tier-one capital adequacy ratio	**11.31%**	11.33%
Capital adequacy ratio	**14.11%**	14.76%

As at the end of the Reporting Period, at the level of the Bank, the capital adequacy ratio was 13.76%, representing a decrease of 1.01 percentage points as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 7.89%, representing a decrease of 0.40 percentage point as compared with that at the end of last year, mainly due to the increase in full deductions as a result of the establishment of a wealth management subsidiary of the Bank in 2020 and the redemption of RMB2.2 billion of tier-two capital bonds.

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

Unit: RMB'000

The Bank	**31 December 2020**	31 December 2019
Total core tier-one capital	**22,291,306**	21,984,910
Of which: Share capital	**4,509,690**	4,509,690
Qualifying portion of capital reserve	**8,337,869**	8,337,869
Other comprehensive income	**32,717**	658,230
Surplus reserve	**1,859,737**	1,626,662
General reserve	**4,981,263**	4,400,258
Retained earnings	**2,570,030**	2,452,201
Core tier-one capital deductions	**(2,061,374)**	(701,986)
Net core tier-one capital	**20,229,932**	21,282,924
Other tier-one capital	**7,853,964**	7,853,964
Net tier-one capital	**28,083,896**	29,136,888
Tier-two capital	**7,176,469**	8,770,981
Net capital base	**35,260,365**	37,907,869
Total risk-weighted assets	**256,336,451**	256,725,689
Of which: Total credit risk-weighted assets	**217,428,234**	209,289,525
Total market risk-weighted assets	**22,300,633**	33,723,233
Total operational risk-weighted assets	**16,607,584**	13,712,931
Core tier-one capital adequacy ratio	**7.89%**	8.29%
Tier-one capital adequacy ratio	**10.96%**	11.35%
Capital adequacy ratio	**13.76%**	14.77%

6.2 Leverage Ratio

The leverage ratio of commercial banks shall not be less than 4% in accordance with the "Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)" (《商業銀行槓桿率管理辦法（修訂）》) of the CBIRC. As at the end of the Reporting Period, the Company's leverage ratio was 6.14% as calculated according to the "Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)", which was above the regulatory requirements of CBIRC, representing a decrease of 1.32 percentage points as compared with that at the end of last year, mainly due to the increase in the size of the Bank's assets and the total consolidated assets increased at the end of this year.

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

Unit: RMB'000

No.	**Item**	**31 December 2020**	31 December 2019
1	Total consolidated assets	**459,827,605**	373,622,150
2	Consolidated adjustments	**–**	–
3	Customer assets adjustments	**–**	–
4	Derivative adjustments	**2,667,000**	117,777
5	Securities financing transactions adjustments	**–**	–
6	Off-balance sheet items adjustments	**31,328,289**	30,479,440
7	Other adjustments	**(461,170)**	(194,243)
8	Balance of assets on and off balance sheet after adjustments	**493,361,724**	404,025,124

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

Unit: RMB'000

No.	Item	**31 December 2020**	31 December 2019
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	**449,814,729**	371,283,943
2	Less: tier-one capital deductions	**(461,170)**	(194,243)
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	**449,353,559**	371,089,700
4	Replacement cost of various types of derivatives (net of qualified margins)	**286,400**	12,436
5	Potential risk exposure in various types of derivatives	**2,667,000**	115,239
6	The sum of collaterals deducted from the balance sheet	**–**	–
7	Less: Assets receivables formed due to qualified margins provided	**–**	–
8	Less: The balance of derivative assets formed due to transactions with central counterparties for providing clearing service for the customers	**–**	–
9	Notional principal for sold credit derivatives	**–**	2,538
10	Less: The balance of sold credit derivatives assets which can be deducted	**–**	–
11	The balance of derivatives assets	**2,953,400**	130,213
12	The balance of accounting assets for securities financing transactions	**9,726,476**	2,325,771
13	Less: The balance of securities financing transactions assets which can be deducted	**–**	–
14	Counterparty credit risk exposure to securities financing transactions	**–**	–
15	The balance of securities financing transactions assets formed due to securities financing transactions by proxy	**–**	–
16	The balance of securities financing transactions assets	**9,726,476**	2,325,771
17	The balance of items off balance sheet	**31,328,289**	30,479,440
18	Less: The balance of items off balance sheet reduced due to credit conversion	**–**	–
19	The balance of items off balance sheet after adjustments	**31,328,289**	30,479,440
20	Net tier-one capital	**30,294,290**	30,126,319
21	The balance of assets on and off balance sheet after adjustments	**493,361,724**	404,025,124
22	Leverage ratio	**6.14%**	7.46%

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

Unit: RMB'000

Item	**31 December 2020**	30 September 2020	30 June 2020	31 March 2020
Leverage ratio (%)	**6.14**	6.22	6.38	7.31
Net tier-one capital	**30,294,290**	30,128,413	30,593,930	31,099,145
The balance of assets on and off balance sheet after adjustments	**493,361,724**	484,692,986	479,894,635	425,251,459

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

7. Segment Reporting

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

Unit: RMB'000

	2020		2019	
Item	**Segment operating income**	**Ratio (%)**	Segment operating income	Ratio (%)
Corporate banking	**5,796,398**	**54.95**	5,266,469	54.73
Retail banking	**1,950,640**	**18.49**	2,085,547	21.67
Financial market business	**2,322,088**	**22.01**	1,927,237	20.03
Un-allocated items and others	**478,948**	**4.55**	342,856	3.57
Total	**10,548,074**	**100.00**	9,622,109	100.00

Unit: RMB'000

Item	**2020** Segment profit before taxation	**2020** Ratio (%)	2019 Segment profit before taxation	2019 Ratio (%)
Corporate banking	**891,877**	**32.69**	858,721	30.36
Retail banking	**604,925**	**22.17**	639,456	22.61
Financial market business	**1,062,602**	**38.95**	1,182,302	41.80
Un-allocated items and others	**168,892**	**6.19**	148,076	5.23
Total	**2,728,296**	**100.00**	2,828,555	100.00

8. Other Financial Information

8.1 Analysis of Off-balance Sheet Items

The Company's off-balance sheet items include credit commitments and capital commitments, etc. Credit commitments are the most important parts, and as at the end of the Reporting Period, the balance of credit commitments reached RMB36.523 billion. For details, please refer to Note 46 to the financial statement "Commitments and Contingency" of this results announcement.

8.2 Overdue and Outstanding Debts

As at the end of the Reporting Period, the Company had no overdue or outstanding debts.

8.3 Pledge of Assets

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

8.4 Analysis of Cash Flows Statement

In 2020, net cash flows generated from operating activities of the Company was RMB45.293 billion, representing an increase of RMB52.299 billion as compared with the previous year, which was mainly due to an increase in net increase in deposits from customers of RMB22.326 billion and an increase in net increase in financial assets sold under repurchase agreements of RMB15.889 billion. Among which, net cash outflows generated from operating assets decreased by RMB3.319 billion and net cash inflows generated from operating liabilities increased by RMB47.909 billion.

Net cash flows generated from investing activities was RMB-30.371 billion, representing a decrease of RMB40.187 billion as compared with the previous year, which was mainly due to an increase in cash payments on investments of RMB44.853 billion.

Net cash flows generated from financing activities was RMB-8.112 billion, representing a decrease of RMB17.588 billion as compared with the previous year, which was mainly due to a decrease in cash received by the Company for issuance of debt securities of RMB23.326 billion.

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

Unit: RMB'000

Item	For the year 2020	For the year 2019	Changes (%)	Main reasons
Fee and commission income	**1,855,260**	1,346,116	37.82	Accelerated growth of net fee and commission income due to rapid development of wealth management, agency service and bank card businesses
Net fee and commission income	**1,691,624**	1,216,880	39.01	Increase in fee and commission income
Net trading (losses)/gains	**(567,428)**	152,464	(472.17)	Decrease in foreign exchange gains and losses as a result of exchange rate fluctuation
Income tax expense	**(274,998)**	(493,033)	(44.22)	Increase in non-taxable income from government bonds, local government bonds and funds for the period as compared with the previous year
Other comprehensive income, net of tax	**(625,513)**	105,037	(695.52)	Decrease in changes in fair value of financial investments measured at fair value through other comprehensive income

Unit: RMB'000

Item	31 December 2020	31 December 2019	Changes (%)	Main reasons
Deposits with banks and other financial institutions	**2,568,919**	1,312,468	95.73	Increase in deposits with banks by the subsidiary
Placements with banks and other financial institutions	**–**	3,313,603	(100.00)	Mainly due to the declined inter-bank market interest rate, the Company adjusted the capital allocation and appropriately reduced the scale of inter-bank lending
Derivative financial assets	**286,400**	12,436	2,202.99	Revaluation increase in fair value of interest rate swaps and other derivative financial instruments
Financial assets held under resale agreements	**9,726,476**	2,325,771	318.20	Increased size of debt securities held under resale agreements
Financial investments measured at fair value through profit or loss	**37,250,405**	22,912,561	62.58	Mainly due to the increased investment in public bond funds with high liquidity and tax-exempt advantages
Deferred tax assets	**2,468,017**	1,581,905	56.02	Increase in deferred tax assets arising from provision for impairment of assets
Other assets	**1,888,136**	929,876	103.05	Increase in continuing involvement assets

Item	31 December 2020	31 December 2019	Changes (%)	Main reasons
Borrowings from central bank	**11,207,069**	5,536,650	102.42	Implementation of the policy guidance of the central bank, active application for the relending and rediscount to small and micro enterprises, increase in the sources of credit funds for small and micro enterprises, so as to support the development of the real economy
Placements from banks and other financial institutions	**12,947,575**	9,916,257	30.57	Increase in placements from subsidiaries
Derivative financial liabilities	**288,347**	8,805	3,174.81	Revaluation increase in fair value of interest rate swaps and other derivative financial instruments
Financial assets sold under repurchase agreements	**33,099,349**	16,027,082	106.52	Strengthening of the management on active interbank liability, optimization and adjustment to the liability structure, resulting to an increase in the business scale of bonds sold under repurchase agreements
Income tax payable	**431,921**	187,027	130.94	Increase in income tax for the period
Other liabilities	**4,882,865**	2,294,153	112.84	Increases in payable raising from agency service and continuing involvement liabilities
Other comprehensive income	**32,717**	658,230	(95.03)	Decrease in changes in fair value of financial investments at fair value through other comprehensive income

8.6 Changes in Interest Receivables

Unit: RMB'000

Item	31 December 2019	Increase during the period	Recovery during the period	31 December 2020
Loans and advances to customers	16,825	362,443	(361,226)	18,042
Long-term receivables	–	11,106	(10,473)	633
Total	16,825	373,549	(371,699)	18,675

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

8.7 Provision for Bad Debts

Unit: RMB'000

Item	31 December 2020	31 December 2019	Changes
Other receivables	389,641	131,317	258,324
Interest receivables	18,675	16,825	1,850
Less: Bad debt provision	(10,013)	(1,005)	(9,008)

9. Investment Analysis

9.1 General Situation

Unit: RMB'000

Investees	31 December 2020	31 December 2019	Percentage of shareholding in investees (%)	Cash dividend for the current year
China UnionPay Co., Ltd.	**13,000**	13,000	0.34	1,800
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	**10,000**	10,000	2.15	–
Clearing Center for City Commercial Banks	**250**	250	0.81	–
Total	**23,250**	23,250	N/A	1,800

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

As at the end of the Reporting Period, for details of other information concerning the Company's investments, please refer to "4.1.2 Financial Investments" and "11. Analysis of Main Shares Holding Companies and Joint Stock Companies" in Section 3 Management Discussion and Analysis of this results announcement.

9.2 Significant Equity Investments Made during the Reporting Period

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

9.3 Significant Non-equity Investments in Progress during the Reporting Period

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

9.4 Financial Assets Measured at Fair Value

For details of the financial assets measured at fair value of the Company as at the end of the Reporting Period, please refer to "4.4 Assets and Liabilities Measured at Fair Value" of Section 3 Management Discussion and Analysis of this results announcement.

9.5 Use of Proceeds Raised

During the Reporting Period, the Bank had no proceeds raised from issuance of ordinary shares or preference shares. The proceeds raised from the issuance of the ordinary shares and preference shares of the Bank during the previous reporting periods, after deduction of the issuance expenses, were all used to replenish the capital of the Bank.

10. Material Disposal of Assets and Equity Interest

During the Reporting Period, there was no material disposal of assets and equity interest of the Bank.

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

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

Unit: RMB in 100 million

Name of company	Type of company	Main business	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
Qingyin Wealth Management Company Limited	wholly-owned subsidiary	Public offering of wealth management products to the general public, investment and management of properties entrusted by investors; private placement of wealth management products to qualified investors, investment and management of properties entrusted by investors; advisory service on asset and wealth management; and other business approved by CBIRC	10.00	10.32	10.03	0.22	0.04	0.03
BQD Financial Leasing Company Limited	Subsidiary	Finance leasing business; transferring in and out assets under a finance lease; fixed income securities investment business; accepting guaranteed deposit of the lessee; absorbing fixed deposits over 3 months (inclusive) from non-bank shareholders; interbank lending and borrowing; obtaining loans from financial institutions; lending loans to offshore borrowers; disposal of and dealing with leased articles; economic consulting, etc.	10.00	115.20	12.69	4.40	1.45	1.21

11.2 Acquisition and Disposal of Subsidiaries During the Reporting Period

In September 2020, Qingyin Wealth Management, which was wholly initiated and established by the Bank, was officially set up. Save for the aforementioned matters, there was no acquisition and disposal of subsidiaries of the Bank.

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

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

BQD Financial Leasing Company Limited ("**BQD Financial Leasing**") was established on 15 February 2017, with a registered capital of RMB1.00 billion. It was registered in Qingdao, and was initiated and established by the Bank. The Bank holds 51% of the share capital of BQD Financial Leasing. Under the guidance of the national industrial policy, BQD Financial Leasing was committed to realize the original intent of leasing and serve the real economy. BQD Financial Leasing focused on the financing leasing of large and medium-sized equipment in medical and health care, cultural tourism, public utilities industries as its main lines of business development, and adhered to the business philosophy of "specialization, differentiation and marketization" to satisfy the specific needs of tenants in equipment purchase, sales boosting, assets revitalization, tax burden balancing, and the improvement of financial structure, etc., and to provide new financial lease services such as financing, asset management and economic consulting.

12. Overview of Business Development

12.1 Retail banking

During the Reporting Period, adhering to the central idea of "customer-centric", the Bank continued to enhance its capability to serve customers with the use of financial technology. Through online and offline integrated construction, the Bank identified customers online and promoted in-depth marketing at lobbies, thereby achieving two-way diversion of "flow" and linkage effect, and further expanding the customer base. Making full use of big data, artificial intelligence and other means, the Bank tapped into customer needs and continued to update the product system at a fast pace, so as to diversify product functions and carry out precision marketing. During the Reporting Period, the Company recorded operating income of RMB1.951 billion in respect of retail banking, accounting for 18.49% of the Company's operating income.

1. Retail customers and customer asset management

   The growth rate of financial assets retained by retail customers (including credit card customers) reached a new high. As at the end of the Reporting Period, the number of retail customers of the Bank reached 6,324.5 thousand, representing an increase of 763.1 thousand or 13.72% as compared with that at the end of the previous year. The assets retained by retail customers in the Bank reached a total of RMB202.799 billion, representing an increase of 24.95% as compared with that at the end of the previous year. The increase in the assets retained by retail customers for the year 2020 reached a record high over the same periods. In particular, the number of customers with financial assets of over RMB200,000 amounted to 246.6 thousand, representing an increase of 46.4 thousand as compared with that at the end of the previous year, with a total assets scale of RMB173.525 billion retained in the Bank. They accounted for 85.57% in the assets scale of its total retail banking customers, representing an increase of 1.58 percentage points as compared with that at the end of the previous year.

   The Bank recorded a significant increase in retail deposits. As at the end of the Reporting Period, the Bank's balance of retail deposits reached RMB88.339 billion, representing an increase of RMB23.543 billion or 36.33% as compared with that at the end of the previous year and accounting for 32.45% of the total deposits from customers. The increase in retail deposits for the year 2020 exceeded the total growth of retail deposits for the previous four years. In particular, demand deposits reached RMB22.899 billion, representing an increase of RMB2.277 billion or 11.04% as compared with that at the end of the previous year.

The Bank continued to optimize and enhance smart outlet projects. Centering on intelligent development of financial services and customer needs, the smart outlet projects of the Bank made use of big data, cloud computing, artificial intelligence and mobile Internet, 5G and other emerging technologies. During the Reporting Period, the Bank introduced new functions such as smart queuing, marketing centers and product manuals, and 84% of personal non-cash businesses were handled via smart equipment terminals, which greatly relieved pressure of counters. As at the end of the Reporting Period, the smart outlet projects basically reached the construction goal of "mobile development of services, scenario development of transactions, and intelligent development of processes". 132 branches of the Bank have deployed the smart outlet service model with a promotion rate of 89.80%. The Bank rationalized the high-efficiency hall service marketing process, and integrated business handling, service marketing and customer maintenance into one, speeding up basic business handling by 75% on average. The smart outlet projects of the Bank won the "Best Financial Integrated Smart Platform Award" in the 2020 China Financial Technology Innovation Competition.

The intelligent marketing system opened a new chapter in "retail customer base management". During the Reporting Period, the Bank launched the "Retail Smart Marketing System (CRM)" and "Qingyin Marketing Link (Mobile CRM)" created by itself, and built a marketing data middle platform, laying a data foundation for the transformation of online and offline digital marketing. In particular, the CRM system opened up the marketing access channels on the SMS terminal and the customer managers terminal, focused on "customer acquisition – customer vitalization – customer retention", and deeply dug into and analyzed customer information and customer behavior, in order to further strengthen the precision marketing capabilities of the Bank. Mobile CRM, a mobile marketing tool integrating convenience, reliability and security, allowed marketing staff to keep abreast of customer information and product information anytime and anywhere, and pursue marketing opportunities. As at the end of the Reporting Period, the retail smart marketing project had been piloted in 12 outlets of the Bank and achieved good results.

The Bank expanded the scope of retail services and promoted financial services to rural areas. During the Reporting Period, the Bank, in association with China UnionPay, issued the exclusive "rural vitalization cards" with reference to the characteristics of rural financial services, so as to provide rural retail customers with convenient and efficient bank asset and settlement services, and a series of value-added services that benefit farmers was further provided. During the Reporting Period, the Bank issued a total of 60,000 "rural vitalization cards", and the assets retained by cardholders in the Bank reached RMB1.8 billion. Meanwhile, the Bank set up comprehensive service stations for inclusive finance and agricultural support across Shandong Province. As at the end of the Reporting Period, the Bank has 189 agricultural support service stations in operation.

2. Retail loans

As at the end of the Reporting Period, the balance of retail loans (including credit cards) of the Bank amounted to RMB60.755 billion, representing an increase of RMB6.246 billion or 11.46% as compared with that at the end of the previous year. The balance of retail loans accounted for 29.39% of the total balance of various loans. During the Reporting Period, the retail loan business of the Bank focused on increasing service efficiency with an aim to increase market share. The Bank overcame the adverse impact of the pandemic with its various businesses all experienced encouraging developments.

The Bank improved risk management capabilities and maintained stability in asset quality. During the Reporting Period, the Bank continued to adopt the standard of "including all loans overdue for more than 60 days in non-performing loans" on retail loans (including credit cards), pursuant to which, the balance of non-performing loans to retail customers reached RMB331 million while non-performing loan ratio to retail customers was 0.54%. Among the new non-performing retail loan, mortgage loans and loans repaid by collaborative partners accounted for 80.25%. The collaterals had sufficient value, and loan loss was controllable.

The Bank enhanced comprehensive profitability, and the interest income derived from loans had gradually increased. During the Reporting Period, the Bank realized interest income from retail loans of RMB3.164 billion, representing a year-on-year increase of RMB781 million or 32.77%, accounting for 30.63% of the Bank's total interest income from loans.

The Bank constructed quality channels for obtaining customers, and maintained stable development of housing loans. Adhering to the position of "Housing is for people to live in, not for speculation", the Bank collaborated with top-ranking developers and intermediaries across the country to thoroughly prevent and control market risks as well as support residents' reasonable self-occupancy needs to purchase housing. As at the end of the Reporting Period, the balance of personal housing loans of the Bank reached RMB40.588 billion, and the number of customers reached 70.9 thousand.

The Bank developed featured micro loan business relying on financial technology. In respect of internet online personal loans, the Bank cooperated with well-known domestic internet companies to develop business of internet-based small-amount consumption loans, operation loan business of Small and Micro Enterprises and individual business owners. During the Reporting Period, the Bank granted a total of 1,976.7 thousand loans with an amount of RMB19.407 billion. As at the end of the Reporting Period, the balance of loans was RMB10.484 billion, representing an increase of 2.24% as compared with that at the end of the previous year. In respect of supply chain finance, during the Reporting Period, the Bank deepened its relationship with existing core corporations and customers and granted credit of RMB1.080 billion in aggregate to a total of 1,592 distributors of 17 domestic leading fast-moving consumer goods enterprises with a loan balance of RMB241 million as at the end of the Reporting Period.

3. Credit card business

During the Reporting Period, the Bank newly issued 732.6 thousand credit cards (except public services cards, the same hereinafter), the same hereinafter, so the cumulative number of credit cards issued by the Bank reached 2,037.1 thousand. During the Reporting Period, the transaction amount of credit cards amounted to RMB35.721 billion, representing an increase of 89.31% year on year. As at the end of the Reporting Period, the Bank's overdraft balance reached RMB5.389 billion, representing an increase of 53.12% year on year. In 2020, the Bank's credit card business recorded operating income of RMB427 million, representing a year-on-year increase of 198%.

The Bank secured card issuance with complementary channels and mitigated risks as empowered by financial technology. Firstly, the Bank secured card issuance with multiple channels through online, offline and crossover cooperation. Although the card issuance rate slowed down in the first half of the year due to the pandemic, the monthly card issuance in the second half of the year quickly recovered, with a peak of nearly 100,000 cards issued. Secondly, the Bank adhered to a prudent risk management strategy, and made use of financial technology to identify and respond to pre-loan risks in advance, strengthened post-loan collection, and made sure that non-performing loans were at a low level.

The Bank adopted precision marketing with data interconnection, and further enhanced brand influence. Based on big data analysis, the Bank further build a hierarchical customer base model to break "data islands" and strengthen digital marketing. The Bank achieved precise investment by focusing on areas and customer groups. Meanwhile, the Bank continued to promote brand building for credit cards, and was awarded the "Best Co-branded Credit Card Product in China" by the Asian Banker magazine of Singapore.

The Bank increased revenue through deep cultivation, and enhanced output with categorized investment. During the Reporting Period, the Bank reshaped the full-process experience of credit card installment business, and combined with the hierarchical customer base model, to improve business conversion efficiency, and rapidly increased the proportion of interest-generating products, driving the average yield of credit card business related assets. The Bank attached to value creation and made investment based on business classification, which improved the efficiency of input and output.

4. Wealth management and private banking business

During the Reporting Period, in response to the impact of the pandemic, the Bank focused on enhancing the capability to serve remote and online customers, accelerated the "online transformation" of the wealth management business, and introduced measures such as "remote double recording and online salon". As a result, its business volume increased rather than decreased during the pandemic. During the Reporting Period, the Bank realized wealth management fee and commission income of RMB207 million, which passed the RMB200 million mark, representing a year-on-year increase of 97.15%, including income from agency for collective trust program amounting to RMB154 million, income from agency for insurance amounting to RMB22 million, and income from agency for funds amounting to RMB31 million. The Bank recorded sales of RMB6.737 billion in agency for trust products, RMB275 million in agency for insurance premiums, and sales of RMB3.867 billion in agency for open-ended funds.

As at the end of the Reporting Period, the Bank's customers with assets under management of over RMB2.00 million reached 11,743, representing an increase of 2,858 as compared with that at the end of the previous year, and the assets retained in the Bank amounted to RMB50.585 billion, representing an increase of RMB12.462 billion as compared with that at the end of the previous year. The growth rate reached 32.17% and 32.69%, respectively.

5. Customer service management

During the Reporting Period, the Bank took a series of actions to enhance its service value with its focus pinned on "customer base". Firstly, under the guideline of offering a "warm and valuable" service experience, the Bank exploited the opportunities arising from the upgrade of the IT infrastructure of its outlets while increasing its efforts in service exploration and capitalization and promotion of its 5+N services, developing new standards for service experience of "friendliness, accessibility, and professionalism", taking a firm grip on the opportunities for "face-to-face" services, further promoting the exploration of its service value by building new business halls that prioritize "operation, connection and experience" so as to strengthen its outlets' capability to obtain and vitalize customers. Secondly, the Bank steadily promoted the construction of the intelligent service management system by starting to use intelligent customer service robots in WeChat banking, mobile banking and online banking, thereby fully upgrading online customer service experience by means of technology. Thirdly, the Bank comprehensively strengthened consumer rights protection, and enhanced the quality and efficiency of consumer complaint management with restructuring and process reengineering. With the closed-loop service experience management of "diagnosis-tracking-optimization-monitoring-upgrade", the Bank further consolidated the entity responsibility for consumer complaints, and executed business governance with data management thinking. In 2020, the consumer complaint rate of the Bank was 0.0014%, and the settlement rate was 100%. The management indicators including consumer complaints were stable and improving. Fourthly, the Bank was further recognized for its service brand, and was selected as one of the "Top 500 Asian Brands" of China's 500 Most Valuable Brands in 2020 and was granted the "Five-Star Diamond Award", the highest award in the services sectors across the world, for five consecutive years.

12.2 Corporate banking

During the Reporting Period, the corporate banking business of the Bank focused on the "dual-base" strategy and "network construction", and the contribution from customer base and customer service capabilities were continuously enhanced. By achieving "refined" management through hierarchical operations, the basic customer base groups continued to be consolidated. Our customer service capabilities and customer stickiness enhanced significantly as we continuously improved basic products and basic services as well as product system based on customer and market needs. During the Reporting Period, the operating income from the corporate banking business was RMB5.796 billion, accounting for 54.95% of the Company's operating income.

1. Corporate deposits

   As at the end of the Reporting Period, the balance of corporate deposits (excluding accrued interest) reached RMB183.447 billion, representing an increase of RMB35.566 billion as compared with that as at the end of the previous year, representing an increase of 24.05%, accounting for 67.38% of the balance of various deposits (excluding accrued interest). Newly added corporate deposits for the year reached an all-time high. In particular, corporate demand deposit amounted to RMB111.491 billion, representing an increase of RMB18.897 billion or 20.41% as compared with that at the end of the previous year. Corporate time deposit amounted to RMB71.956 billion, representing an increase of RMB16.669 billion or 30.15% as compared with that at the end of the previous year, accounting for 39.22% of corporate deposits. The average cost rate of corporate deposits was 1.77%.

   During the Reporting Period, the Bank blended in with the local economy, returned to its business origins to boost the scale of deposits, and increased customer stickiness and overall contribution through product and service optimization. Focusing on public finance, open tender for projects and other segments, the Bank won the bid for 23 key projects in the year, including the business of fund deposit in special fiscal accounts, agency business for the payroll of government agencies and public institutions, as well as medical and medical insurance platforms, driving an increase in corporate deposits of more than RMB1.4 billion. Bond underwriting and investment businesses had a significant effect in stimulating the growth of deposits. While obtaining fees and commission income from relevant businesses, the Bank realized deposits of business funds at the Bank, deriving corporate deposits of more than RMB26 billion. As at the end of the Reporting Period, among the customers of the Bank's bond business, there were 49 customers whose annual average daily corporate deposits increased by more than RMB50 million.

2. Corporate loans

As at the end of the Reporting Period, the Bank's balance of corporate loans (including discounted bills and excluding accrued interest) amounted to RMB145.992 billion, representing an increase of RMB27.705 billion as compared with that at the end of the previous year, representing an increase of 23.42%, accounting for 70.61% of the total loans. In particular, The balance of the loans of private enterprises was RMB67.457 billion, representing an increase of RMB14.179 billion, or 26.61% as compared with that at the beginning of the year, accounting for 46.21% of the total corporate loans. The balance of green credit was RMB15.233 billion, representing an increase of RMB3.646 billion, or 31.47% as compared with that at the beginning of the year, accounting for 10.43% of the total corporate loans.

During the Reporting Period, the Bank actively responded to the decisions and deployments of the State in relation to pandemic prevention and control, adhered to its primary position of financial services, firmly implemented the "Stability in Six Areas" and "Six Priorities" requirements, innovated financial products, opened up green channels, provided financial support for the resumption of work and production of enterprises, and strengthened the credit support for private economy and inclusive small and micro enterprises, continuously improving the quality and efficiency of serving the real economy. At the same time, the Bank carried out differentiated credit policies and guidelines, optimized credit structure, and gave priority to the financing of projects in the areas of inclusive finance, green finance, technology finance and the blue economy. Also, the Bank continued to support infrastructure construction and other key engineering and construction projects, and met the diversified financing needs of enterprises, promoting the financial supply-side reform.

3. Corporate customers

As at the end of the Reporting Period, the Bank had 198.2 thousand corporate customers, representing an increase of 25.9 thousand or 15.02% as compared with that at the end of the previous year, which was an all-time high. In particular, the number of corporate customers with an average daily deposit of RMB10 million or more reached 1,858, representing an increase of 366 from the beginning of the year.

During the Reporting Period, the Bank thoroughly implemented the "dual-base strategy". The Bank carried out comprehensive stratification of corporate customer base and launched its CRM management system of corporate customers to implement refined hierarchical and categorized management of customers, strengthening technological support and empowerment. The Bank established a team of specialized business managers for corporate customer groups to achieve full coverage of effective one-to-one customer service, and implemented precise marketing for basic corporate customer group. The Bank also entered into strategic cooperation agreements with various municipal People's Governments in Shandong Province, as well as state-owned enterprise groups in key areas in China and Shandong Province. We also actively promoted the "two policy tools for inclusive small and micro enterprises". With measures such as postponed payment, credit loans, mortgage credit enhancement and low-cost sub-loans, we strengthened the financial support for inclusive small and micro customers and provided inclusive financial services that were "inclusive, profitable, and high-quality and efficient" in a practical manner. As at the end of the Reporting Period, the inclusive loans to small and micro enterprises of the Bank included loans to small and micro enterprises, loans to individual business owners and loans to owners of small and micro enterprises. Their balance was RMB18.551 billion, representing an increase of RMB4.540 billion or 32.40% as compared with the beginning of the year. The average interest rate of the inclusive loans to small and micro enterprises was 5.33%, and the number of loans to inclusive Small and Micro Enterprises reached 33.8 thousand, representing an increase of 19.9 thousand from the beginning of the year, and featured branches serving small and micro enterprises totaled 13.

4. Corporate products

During the Reporting Period, the Bank implemented the "network construction", which offered superior products with multi-dimensional linkage by promoting industry professionalism and customer diversification. First, it further improved the Company's banking channels and platforms. With the official launch of its mobile corporate banking service and version 2.0 of its online cash management service platform, as well as the completion of connection of over 50 cash management projects. Second, it empowered its major products with financial technology, exemplified by the online launches of multiple products such as "Qing Easy Payment" (青易繳), "Purchase Loan" (採購貸) and "Tax and Goods" (稅貸通), and, in terms of supply chain finance, the completion of the development of the online business mode of "Cloud Factoring" (雲保理) and "Pool Financing" (池融資), which augmented the ability of its business scenarios to reach customers. Third, it blended in with the local economy and responded to the government's call at all levels for supporting real-economy enterprises and weak links. During the pandemic, the Bank first launched the "Anti-coronavirus Loan (抗疫貸)" to support Small and Micro Enterprises in resuming work and production and debuted innovative featured products such as "Shi Yi Loan* (食宜貸)", "Yi Dai Tong* (醫貸通)" and "Anti-Coronavirus Discount* (抗疫貼)", as well as working with the Bureau of Commerce and Finance of Shandong Province to launch "Lu Mao Loan* (魯貿貸)", utilizing its supply chain financial products to realize online lending. Fourth, it scaled new heights in terms of product innovation. The Bank concluded the first cross-border Kazakhstan Tenge settlement in Shandong, and became the first in Shandong Province to establish direct link with the cross-border financial blockchain service platform of State Administration of Foreign Exchange. Its "Science and Technology Road Show Loan (科創路演貸)" product won the second prize in "Qingdao Financial Innovation (青島市金融創新)" awarded by the Qingdao Local Financial Supervision Bureau. In addition, it jointly established a cross-border supply chain financial platform with COSMO's industrial internet platform and concluded the first order in the PRC.

12.3 Financial Market Business

During the Reporting Period, bracing the impact of the sudden outbreak of the pandemic, the significant changes in economic and financial landscapes both at home and abroad, and the large scale shake-up of the global fiscal situation, the financial market business of the Bank developed in accordance with its strategic planning with an emphasis on synergy, and contributed to the development of the Bank's businesses by optimizing the investment portfolio, promoting the asset securitization business, saving capital appropriation and revitalizing stock assets. During the Reporting Period, the operating income of the financial market business amounted to RMB2.322 billion, accounting for 22.03% of the Company's operating income.

1. Proprietary investment

   During the Reporting Period, the Bank continued to improve the investment portfolio and enhanced investment quality and efficiency. First, management costs dropped significantly with the reduction of non-underlying assets and the transition of asset investment from entrusted management to independent management. Second, in terms of saving capital appropriation, while maintaining the downtrend of the financial investment risk weighted assets, the Bank achieved a steady increase in total investment and investment returns, resulting in a considerable increase in the revenue-generating efficiency per unit risk asset. Third, it participated in various innovative businesses. During the Reporting Period, the Bank invested in the first batch of standardized bills approved for issuance in the PRC, which helped the Bank familiarize with the transaction structure and pricing mechanism of emerging products on the market; the Bank invested in the strategically enhanced asset management plans with government bonds and options, which equipped the Bank with derivative strategy on the basis of its fixed income strategy.

   As at the end of the Reporting Period, the Bank's proprietary investment (excluding accrued interest) reached RMB167.803 billion, representing a year-on-year increase of RMB24.557 billion or 17.14%. Among which: the scope of bond investment (excluding accrued interest) reached RMB118.922 billion, representing a year-on-year increase of RMB33.953 billion or 39.96%, which was mainly attributable to the increase of investment in central government bonds as well as local government bonds, debt securities issued by banks and other financial institutions, and corporate entity bonds. The investment in public fund products amounted to RMB24.364 billion, representing a year-on-year increase of RMB15.356 billion or 170.46% mainly attributable to the increased investment in public bond fund products. Investment in subsidiary amounted to RMB1.510 billion, representing a year-on-year increase of RMB1.000 billion or 196.08% mainly attributable to the increased equity investment in subsidiaries.

2. Interbank business

The Bank made active attempts at market trade and derivative transaction, constantly increasing the transaction volume. During the Reporting Period, the delivery amount of bonds of the Bank in the interbank market nationwide reached RMB14.20 trillion. In the ranking of delivery amount of bonds issued by China Central Depository & Clearing Co., Ltd., the Bank ranked No. 29 among national financial institutions and No. 9 among city commercial banks, both up by two places compared with the previous year. The Bank was granted the titles of "Core Dealer", "Outstanding Currency Market Dealer" and the "Innovative Trading Mechanism (X-Repo)" awards issued by the National Interbank Funding Center, as well as the title of "Outstanding Dealer", and the "Best Progressive Agency for Local Bond Banking Underwriters" award issued by China Central Depository & Clearing Co., Ltd.

The Bank rationally managed its interbank liabilities and reduced financing costs. As at the end of the Reporting Period, the balance of interbank deposits (excluding accrued interest) was RMB17.216 billion, representing an increase of 3.29% as compared with that as at the end of the previous year. The balance of interbank deposits (excluding accrued interest) accounted for 4.11% of the Bank's total liabilities. Among which, the interbank demand deposit (excluding accrued interest) accounted for 47.20%, up by 15.6 percentage points as compared with that at the end of the previous year. The balance of interbank deposit certificates issued amounted to RMB50.009 billion, representing a decrease of 3.35% as compared with that at the end of the previous year, and accounting for 11.94% of the Bank's total liabilities. During the Reporting Period, the Bank issued the first special interbank deposit certificate for pandemic prevention, specifically supporting companies engaging in pandemic prevention and control via loan placement and other means to meet their capital needs, which involved an issue size of RMB200 million, with an interest rate of 2.65%, representing a decrease by 10 bps compared with the market price.

The Bank obtained multiple qualification licenses and achieved multiple breakthroughs in business innovation. The Bank obtained the ordinary class derivatives transaction business qualification, interest rate options business qualification, standard bond forward business qualification, and trustee qualification for non-financial corporate debt financing instruments. In addition, it was approved for engaging in RMB and foreign exchange forwards, swaps and options businesses on behalf of customers, became a bond quotation agency and joined the RMB-Tenge regional trading market. With a diversified portfolio of financial risk management tools, the Bank was able to better meet customer needs and provide them with comprehensive financial services.

The Bank fully revitalized stock assets and drove the asset securitization business. During the Reporting Period, the Bank successively completed the issuance of residential mortgage-backed securities (RMBS) and collateralized loan obligations (CLO), continuing to optimize the Bank's asset-liability structure. In October 2020, the Bank issued the first RMBS product in Shandong Province that reached RMB4.224 billion. While in December 2020, the Bank issued the "2020 first credit asset-backed securities of Haiying (海盈2020年第一期信貸資產支持證券)" with the issue size at RMB4.170 billion.

3. Asset management

With the extended transition period under the new regulations and requirements on asset management, the organization and establishment of wealth management subsidiary at the start-up phase and the recurrent emergence of the pandemic, the Bank achieved steady growth in terms of management scale of its wealth management business, significantly increased its service fee income from wealth management, continued to enhance its capacity for net-worth management, constantly optimized its product and asset structures, and maintained sustainable and healthy development for the asset management business.

As at the end of the Reporting Period, wealth management products of the Bank reached 790, with a balance of RMB124.123 billion, and the scale of wealth management products increased by 22.93% over the same period of the previous year. During the Reporting Period, wealth management products issued by the Company reached 1,820, raising a total amount of RMB545.790 billion, all of which were non-principal-guaranteed wealth management products, representing an increase of 31.90% as compared to the same period of the previous year. During the Reporting Period, the Company realized service fee and commission income from wealth management products of RMB1.008 billion, representing an increase of 45.04% as compared to the same period of the previous year.

As at the end of the Reporting Period, the balance of the Company's wealth management investment products amounted to RMB140.849 billion, and asset types directly and indirectly invested mainly include fixed return type, non-standard debt assets type and capital market assets type, etc. Among them, fixed return assets amounted to RMB123.271 billion, accounting for 87.52%; non-standard debt assets amounted to RMB11.646 billion, accounting for 8.27%; capital market assets amounted to RMB2.627 billion, accounting for 1.86%; and public funds amounted to RMB3.305 billion, accounting for 2.35%.

The Bank, in strict accordance with the new regulations and requirements on asset management and their supporting policies, continued to promote the net-worth transformation of wealth management products and further consolidated its market position. As at the end of the Reporting Period, the balance of net-worth wealth management products of the Company was RMB111.854 billion, representing an increase of 50.11% as compared to the same period of the previous year, accounting for 90.12% of the balance of wealth management products, representing an increase of 16.32 percentage points as compared to the end of the previous year. During the Reporting Period, in the selection campaign for the 2019 "Gold Bull Wealth Management Product" held by China Securities Journal and jnlc.com in August 2020, the Bank was awarded the title of "2019 Gold Bull Wealth Management Bank", and the Bank's wealth management products won the "Gold Bull Bank Wealth Management Product of the Year 2019". The Bank was awarded the title of "Star of Wealth Management" at the "2020 6th Annual Financial Conference – Financial Star" by The Economic Observer and other organizers. The Bank received the "Outstanding Bank in Banking Wealth Management Registration of 2020" award at the "2020 Banking Industry Financial Management Registration Work Evaluation" by the Banking Wealth Management Product Registration & Depository Center Co., Ltd. (銀行業理財登記託管中心). According to the Bank Wealth Management Capabilities Ranking Report (4Q 2020) published by PY Standard, the Bank ranked 5th in comprehensive capabilities of wealth management business among city commercial banks.

During the Reporting Period, the Bank received the approval on the establishment of Qingyin Wealth Management, a wholly-owned subsidiary of the Bank, which went through smooth preparation and was approved for opening. Subsequent to the commencement of business, Qingyin Wealth Management launched the first direct mobile client for a banking wealth management subsidiary in the PRC and released the brand new "Bright Life (璀璨人生)" series of wealth management products. As at the end of the Reporting Period, the balance of products of Qingyin Wealth Management amounted to RMB1.537 billion.

4. Investment banking

The Bank deeply explored the Shandong market and ranked among the top of Shandong Province in terms of underwriting scale of debt financing. During the Reporting Period, in spite of the impact of the COVID-19 pandemic, the Bank completed the launch of 53 debt products, representing an increase of 12 products or 29.17% as compared to the previous year; the issue amount totaled RMB30.73 billion, representing an increase of RMB11.67 billion or 62.02% as compared to the previous year; and the underwriting amount was RMB21.843 billion, representing an increase of RMB8.711 billion or 66.33% from the previous year. Among which, the Bank underwrote 27 debt financing tools rated AA and AA+, with the underwriting scale at RMB11.013 billion, ranking first in Shandong Province; it underwrote 12 targeted debt financing instruments, with an underwriting scale of RMB5.796 billion, ranking first in Shandong Province; and it underwrote 25 medium-and long-term debt financing tools, with the underwriting scale at RMB11.373 billion, ranking second in Shandong Province.

The Bank innovated bond underwriting and explored new ways to serve its customers. During the Reporting Period, the Bank underwrote the first offshore asset acquisition notes in the PRC amounting to RMB1.8 billion, developed project income notes registration business totaling RMB10.7 billion, and designed credit risk mitigation contracts for private enterprises, etc. The Bank further explored new paths to financing through more "first orders".

12.4 Distribution channels

1. Physical distribution channels

The business outlets of the Bank are based in Qingdao with its footprint covering all corners of Shandong Province. As at the end of the Reporting Period, the Bank had 147 business outlets including 15 branches in 15 cities in Shandong Province, including Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Laiwu, Linyi, Jining, Tai'an and Heze. The Bank had its head office, a branch and 81 sub-branches located in the vicinity of Qingdao. The headquarters of BQD Financial Leasing, the controlling subsidiary of the Bank, and Qingyin Wealth Management, the wholly-owned subsidiary of the Bank, are both located in Qingdao.

2. Self-service banking channels

As at the end of the Reporting Period, the Bank had 105 in-bank self-service banks and 423 self-service devices including 52 self-service ATMs, 252 self-service Cash Deposit and Teller machines (CTM), and 117 self-service terminals. These units provided services such as withdrawal, deposit, transfer, account enquiry, and payment. As at the end of the Reporting Period, the Bank had recorded 5.795 million transactions through self-service banks with a total transaction amount of RMB17.469 billion.

3. Electronic banking channels

The Bank regarded electronic banking as a significant breakthrough in innovation and development, and continuously optimizes online service channels such as mobile banking and online banking on the basis of "enhancing customers' experience". The Bank also enhanced its comprehensive channel service capabilities through more utilization of financial technology. The Bank also sought to open its doors to further cooperation, and promoted rapid update of its products and services.

(1) Mobile finance

The Bank continued to accelerate the intelligent and personalized construction of mobile banking. We had launched mobile banking 5.0. Our services feature intelligence, various scenes and great value. We had created a brand new UI and wealth management with our customers in mind. The app adds intelligent search, intelligent remainder, visualized asset presentation and personalized financial management recommendation. We cooperated with Qingdao's provident fund center, making the provident fund balance check and withdrawal on our app come true.

The Bank introduced a new function of mobile "face-scanning payment (刷臉付)". Leveraging biometric technology, and under the guidance of regulatory policies, the Bank developed offline merchant face-scanning payment business. Upon completion of signing up for "face-scanning payment" and other functions on mobile banking, and by initiating the upgrade of offline POS terminals at the same time, perfect acceptance environment for comprehensive promotion of cardless payment services was constructed. As at the end of the Reporting Period, there were 40 thousand customers who successfully signed up for face-scanning payment, achieving 13.2 thousand face-scanning transactions.

The number of users of the Bank's mobile banking service and the volume of mobile banking transactions were in constant and rapid growth. As at the end of the Reporting Period, the number of existing mobile banking users of the Bank reached 3,015.7 thousand, representing year-on-year growth of 27.99%, and the number of average monthly active customers reached 920 thousand, with an accumulated transaction volume of 397.564 billion, representing a year-on-year growth of 0.38%.

The sales volume of wealth management products on the mobile banking channel continued to rise. During the Reporting Period, the total sales of wealth management products of the Bank were RMB181.998 billion, representing a year-on-year growth of 144.16%. The volume of transactions was near to 4 million, reaching the peak of history. The proportion of mobile banking sales to that in the whole channel reached 77.49%, representing year-on-year growth of 24.17 percentage points.

(2) Internet banking

As at the end of the Reporting Period, the Bank had a total of 134.9 thousand online corporate banking customers, representing an increase of 15.00% as compared to the end of last year. During the Reporting Period, the Bank's accumulated number of transactions totaled 17,099.8 thousand, representing a year-on-year decrease of 17.83%, while the value of transaction amounted to RMB1,733.765 billion, representing a year-on-year increase of 36.54%. As the number of online corporate banking customers increased, the transaction amounts also increased. The transfer amount limit for online banking interconnections and small amount system of the People's Bank of China was raised from RMB50,000 to RMB1 million, customers no longer needed to split large amount of funds and carry out multiple transfers, which reduced the number of transactions.

The number of online retail banking customers totaled 737.4 thousand, representing a year-on-year increase of 0.60%, and accumulated a total of 40,337.8 thousand transactions, representing a decrease of 49.02% as compared to the same period of last year. Total transaction amounted to RMB256.666 billion, representing a year-on-year decrease of 27.80%. During the Reporting Period, mobile finance grew continuously. Our customers were placing greater reliance on mobile banking, and online personal banking transactions were continuously decreasing.

12.5 Information technology

During the Reporting Period, the Bank comprehensively implemented the strategy of scientific and technological innovations, combined the new financial concept of "Finance + Technology + Scenes", accelerated the application of emerging technologies such as big data, artificial intelligence, cloud computing, 5G technologies and biometrics, gradually improved the construction of the comprehensive risk management system for "stability," accelerated the application of new technologies for "agility" and accelerated the response to business demand, empowered the new improvement in business, hence effectively supporting the achievement of business strategic objectives during the Reporting Period.

1. Promoted the construction of key projects and strived to achieve key breakthroughs in smart banking, inclusive finance and other aspects

   During the Reporting Period, the Bank stepped up its efforts in the construction of technology projects and launched 52 new IT projects during the year. 50 projects including mobile banking 5.0, 5G+ smart banking and core system upgrade have gone into operation successfully. We were expanding our online business scenes continuously from the four perspectives of platform empowerment, ecosystem reconstruction, data drive and 5G, building an inclusive financing ecosystem together and promoting the digitalization transformation in an orderly manner.

We were innovating on the "traditional business + Internet" mode constantly. Our first "5G+ Ecosystem" intelligent bank had gone into operation, providing our customers with four-in-one intelligent service experience featuring "technologies application, services functions, scenes connection and ecosystem integration". The Bank also became the industry leader in China in terms of the realization of 5G full coverage in all our headquarters and branches.

We put new strategies in respect of mobile finance into effect and strengthened the establishment of mobile finance channels continuously. Personal mobile banking 5.0 had evolved in terms of performance, security, features and user interface. Mobile applications featuring corporate mobile banking and pre-approval of credit business had sped up the shift of finance services from offline to online.

We deepened the value transformation of the application of big data in the scenes such as intelligent risk control and intelligent marketing in a sustained manner. By establishing the Eagle Eye 360 Intelligent Risk Monitoring Platform, a retail customer intelligent marketing system and a finance information intelligent service platform, we were achieving digitalization of customer information, mobilized services provision, real-time marketing and shared business channels.

The Bank also strengthened cross-sector cooperation with leading enterprises, government organizations and online platforms to create new models and formats of inclusive finance. We gradually launched personal loan services such as Meituan Loan, 360 Microloan and 360 Business Loan, and the first supply chain finance business along the Asia-Europe Trade Lane in Shandong province had gone into operation. The constantly improving connection between interface banking and third-party platforms effectively mitigated the problem of "difficult and costly financing" that micro and small companies encountered.

The channels and products for corporate customers of the Bank were constantly expanded. The Bank's cross-border financial blockchain service platform was successfully connected to the State Administration of Foreign Exchange. We managed to complete the first domestic electronic letter of credit transaction, providing credit facilities to export companies.

We spared no effort to support the establishment of projects of our wealth management subsidiaries. 13 systems in relation to the confirmation of the amount of wealth management, risk management and performance analysis were established and put into production in six months. The mobile APP featuring the sales of wealth management plans that we grandly launched was the first banking wealth management direct sales mobile APP nationwide.

2. Strengthened information technology risk management and fully safeguarded the security of information system

   The Bank attached great importance to information security management and control and kept on enhancing the management of IT risks, strengthened active operation and maintenance to enhance system availability and IT service level. The Bank successfully fulfilled its mission to safeguard the information system and security of the Internet during the "Two Sessions" by implementing a variety of initiatives such as "zero-fault launch", optimization of demand exploration procedure and enhancement of independent research and development to reduce change risks and ensure the reliable, stable, continuous and efficient operation of information systems.

3. Carried out in-depth research on the application of cutting-edge technologies and constructed blueprints for digitalization transformation

   The Bank established and improved IT strategic plans to enhance its IT core capability and focused on constructing strategic blueprints that supported the overall digitalization transformation of the Bank.

   With cutting-edge technology research as the guidance, the Bank continued to conduct research on the application of cloud computing, big data, artificial intelligence and 5G technologies in the financial sector, and continued to enhance its independent control and independent innovation capabilities. The Bank's finance technology innovation projects came out in an unending flow, which successively won nine prestigious awards such as the Technology Development Award conferred by the People's Bank, 5G Application Award, and other awards in various fields including big data application and network security. During the Reporting Period, the Bank invested RMB47.4256 million in innovative research and application of technology.

   By constantly optimizing the internal organizational structure of the technology team and increasing efforts in recruiting digitalization talents and nurturing multi-skilled talents, the Bank optimized its technology resource allocation, explored and adopted the appraisal and salary systems required for digitalization transformation and deepened the integration of technology with business. Through employee empowerment, the Bank enhanced the core capabilities of its IT teams, which in turn facilitated the innovation, transformation and development of the Bank's businesses. As at the end of the Reporting Period, the Bank had a total of 172 technological talents, accounting for 4.07% of the Bank's employees.

13. Structured Entities Controlled by the Company

During the Reporting Period, the structured entities controlled by the Company mainly were the asset-backed securities sponsored by the Company. Please refer to the "2. Interbank business under 12.3 Financial Market Business" in Section 3 Management Discussion and Analysis of this results announcement.

14. Risk Management

14.1 Credit Risk Management

Credit risk refers to the risk arising from the failure by the obligating party or a party concerned to meet its obligations in accordance with agreed upon terms. The Company's credit risks are mainly derived from loan portfolios, investment portfolios, guarantees and commitments. The credit risk management is under the unified leadership of the risk management committee of the head office. Each business sector is required to implement credit policies and procedures, and is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio, including those subject to central approval.

The Company is committed to the establishment of a credit risk management system with comprehensive functions, controlled and balanced risks, streamlined structure and high efficiency as well as well-delegated authorities and duties. The risk management procedures and methods are constantly being improved and the policy system is being optimized. The credit approval procedures have been reshaped and optimized while risk screening on regular areas and key business is conducted to pre-assess risk trends. Asset quality and quantity are further controlled and monitored, the management of maturing loans and overdue loans is strengthened to heighten the clearing and receiving of risky assets. The Bank continues to build an accurate and efficient risk-monitoring system and a quick-response mechanism through strengthening smart risk control capabilities. During the Reporting Period, the Company focused on the following areas to strengthen its credit risk management:

1. Implemented the Group's standards on credit risk management and control mechanism and unified risk appetite and risk control standards. Based upon its persistent implementation of unified credit extension, the Company has been actively promoting the inclusion of large sum risk exposure management into the works of the comprehensive risk management system. By adopting a top-level design and focusing on improving relevant rules and regulations, the Company moved forward with the construction of a multi-level unified credit extension system covering full range of customers, assets and the entire institution and the construction of a large sum risk exposure management system, and maintained the stability of its overall credit quality.

2. The Bank constantly strengthened the management and control of asset quality and quantity indicators, implemented dynamic refined management, strengthened the pre-assessment and analyses of the trends of risk migrations and changes and enhanced preprocessing capabilities for risk signals. The Bank intensified risk screening on potentially risky customers, actively controlled and monitored the trends of risk changes and stepped up efforts in increasing cash collection and cancellation of non-performing loans. The asset quality and quantity indicators of the Bank had maintained a positive and stable level. The loans that were overdue more than 60 days continued to be managed as non-performing loans. The ratio of non-performing and special mention loans continued to declined, thus achieving our goal of management and control.

3. The Bank continuously optimized its credit structure. It strengthened the responsibility for preventing risks, strictly controlled credit access and selected customers with clear-cut principal business and steady operating cash flow, while weeding out customers engaging in lagging industries, as well as those with high risks and low profitability. It perfected the credit policies and enhanced the leading ability in credit policies, increased anti-epidemic enterprises and prioritized the support for industries relating closely to people's basic livelihood, for which the Bank arranged a special limit and established a green credit channel so as to specifically handle such special case with quick approval process and granting of credit. The Bank set up a green channel leading team regarding credit and payment in pandemic and formulated a credit working plan for the prevention and control of the coronavirus epidemic. It launched twelve measures for enhancing services, actively carrying out on-lending loans business to small and medium-sized enterprises with simplified procedures and fast and favorable services. The Bank actively adopted bailout policies for enterprises facing temporary difficulties, so the enterprises could overcome the difficulties.

4. By comprehensively organizing the process of system modification, the Bank built an intensive credit management system with high-efficiency. The credit business operational process was optimized while credit management work efficiency was enhanced. The Bank had improved the post-loan supervision working method and set up a system of letter of supervising to carry out post-supervision orderly as well as tracking and rectifying the problems found. According to changes in the impact of the epidemic, the Bank would strengthen risk screening. The Bank would also implement differentiated post-loan management measures and consolidate the "before-loan investigation, loan-granting review and after-loan inspection" basis while sticking to the bottom line of risk.

5. The Bank enhanced the smart risk control capabilities in respect of credit risk, continued to explore the use of advanced mobile Internet technology, imaging technology and risk measurement tools. The Bank introduced channel data to improve the timeliness and accuracy of risk assessment and early warning, realize efficient and intensive credit management in branches, and increase the use of information technology in credit management.

   During the Reporting Period, the Company further improved its asset quality and put its credit risks under effective management and control through the above measures.

14.2 Liquidity Risk Management

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain sufficient funds at a reasonable cost to sustain its asset growth or pay debts due even if the bank's solvency remains strong.

The objective of the Company's liquidity risk management is to ensure that the Company has sufficient cash flow to meet payment obligations and fund business operations on a timely basis. The Company, based on the development strategy, continuously improve its level of liquidity risk management and measures, strengthen its capability of identifying, monitoring, measuring and refining the management and control of liquidity risks, and maintain a reasonable balance between liquidity and profitability.

The Company has established a liquidity risk management governance structure in accordance with the principle of the segregation of the formulation, implementation and supervision of its liquidity risk management policies, specifying the roles, responsibilities and reporting lines of the Board, the board of supervisors, senior management, special committees and the relevant departments of the Bank in liquidity risk management in order to enhance the effectiveness thereof. The Company has established a prudent risk appetite in respect of liquidity risks, which better suits the current development stage of the Company. The current liquidity risk management policy and system basically meet the regulation requirements and the Company's own management needs.

The Company measures, monitors, and identifies liquidity risks from two perspectives of short-term provision and structure, closely monitors every indicator of the quota according to fixed frequency and conducts regular stress tests to evaluate its ability to meet liquidity requirements under extreme conditions. In addition, the Company has enacted a liquidity emergency plan and would conduct tests and evaluations thereon on a regular basis.

The Company holds sufficient liquidity assets to meet the liquidity demand of the Company, and the Company holds sufficient capital for the unexpected payment demand that may occur in the daily operations. Moreover, the Company's internal control system for liquidity risk management is sound and compliant. The Company conducts special internal audits on liquidity risks annually and prepares and submits an independent audit report to the Board.

The Company closely monitors changes in liquidity patterns and market expectations, and deploys in advance and dynamically adjusts its liquidity management strategy based on changes in its asset and liability business and the liquidity gap to ensure that its liquidity risk is within a reasonable and controllable range. During the Reporting Period, the Company focused on strengthening its liquidity risk management in the following areas:

1. Strengthening daily liquidity monitoring and management, paying close attention to macroeconomic trends, combined with regulatory trends and market liquidity changes, and doing a good job in daily monitoring of liquidity;

2. Improving the level of liquidity risk measurement, rationalizing various regulatory reports on liquidity risk, constantly improving the indicator prediction model, predicting the value of liquidity risk indicators in a forward-looking manner, and formulating business plans to ensure that various indicators continued to meet regulatory requirements;

3. Continuously promoting the growth of its proprietary deposits, strengthening the control of key time points through measures such as strengthening the guidance on marketing strategy for key customer groups, and implementing multiple measures to promote the steady growth of deposits and increasing the stability of liabilities;

4. Carrying out active debt management in all aspects through multiple channels, and dynamically orchestrating the maturity structure of active liabilities to guide the gradual decline of inter-bank debt costs while strengthening cooperation with counterparties and expanding diversified financing channels;

5. Continuing to manage the matching between growth of assets and liabilities well, dynamically regulating and controlling investment in credit assets, and realizing the stable operation of assets and liabilities.

Details of the Company's liquidity coverage ratio and net stable capital ratio as at the end of the Reporting Period are as follows:

Item of liquidity coverage ratio (RMB'000)	**31 December 2020**	31 December 2019
Qualified and high-quality current assets	**84,342,175**	78,152,065
Net cash outflows in next 30 days	**55,334,625**	54,930,790
Liquidity coverage ratio	**152.42%**	142.27%

Note: Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018.

	31 December 2020		30 September 2020	
Item of net stable funding ratio (RMB'000)	**The Company**	**The Bank**	The Company	The Bank
Available stable funding	**255,993,293**	**252,948,124**	248,287,255	245,959,890
Required stable funding	**243,259,039**	**236,609,794**	240,250,588	233,083,308
Net stable funding ratio	**105.23%**	**106.91%**	103.35%	105.52%

Note: Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio of commercial banks 100% is required.

For more details on the Company's liquidity risk management, please refer to "Notes to the Financial Statements".

14.3 Market Risk Management

Market risk refers to the potential risk of causing losses to the Company's future income or future cash flows due to adverse changes in market factors such as interest rates, exchange rates, commodity prices and stock prices. The market risks faced by the Company mainly include interest rate risk and exchange rate risk.

In accordance with the relevant requirements formulated by regulatory authorities on market risk management with reference to the relevant provisions of the New Basel Capital Accord, the Company continued to improve its market risk management system during the Reporting Period, optimized its market risk management policy system, and deepened the construction of the market risk management information system. The Company continued to manage its interest rate risk and exchange rate risk and has established a market risk management system through measures such as the stipulation, monitoring and reporting of authorization, credit and risk limits, aiming to constantly improve the efficiency of its risk management.

The Company's internal control system for market risk management is sound and compliant, with clear duties and responsibilities defined for the Board, senior management and various departments. Meanwhile, the Company regularly inspects the policies and systems in relation to market risk management, so as to regulate the identification, monitoring and control process of market risks. The Company carries out special internal audits on market risks annually and regularly reports the status of market risk management to the senior management and the Board and prepares an independent report.

The Company comprehensively utilizes information systems including the Banking Financial Institutions Supervision Information System and the China Bond Integrated Operation Platform to monitor the appropriation of market risk capital in strict accordance with the requirements of the New Basel Capital Accord.

14.3.1 Analysis of interest rate risk

The Company distinguishes its banking book and trading book according to the regulations of the regulatory authorities and the banking management traditions, and adopts the corresponding approaches for the identification, measurement, monitoring and control of market risks according to different natures and characteristics of its banking book and trading book. The trading book records the freely traded financial instruments and commodity positions held by the Bank for trading purposes or for hedging the risks of other items in the trading book. Positions recorded in the trading book must not be subject to any terms on the transaction, or can be fully hedged to avert risks, accurately valued, and actively managed. Corresponding to the trading book, other banking businesses are included in the banking book.

For the interest rate risk exposure in its banking book, the Company adopts measurement approaches suitable for the scale and structure of its assets and liabilities in accordance with the regulatory requirements, which employ various techniques such as repricing gap analysis, duration analysis, and net interest income simulation analysis to quantify and assess the impact of changes in interest rate on the Company's net interest income and economic value respectively according to different risk sources, and puts forward management recommendations and business adjustment strategies based on report arrived from the analysis results. For the interest rate risk exposure in its trading book, the Company mainly adopts techniques such as sensitivity analysis and scenario simulation to measure and monitor it. Risk exposure limits, such as interest rate sensitivity, risk exposure and stop-loss are set, and the implementation of these limits is also effectively monitored, managed and reported on a regular basis with market risk stress tests carried out. During the Reporting Period, the Company realized a rapid growth in net interest income by proactively adjusting business pricing and structure strategies of its asset and liability, and ensured that the interest rate risk as a whole was within the control.

14.3.2 Analysis of interest rate sensitivity

The Company uses sensitivity analysis to measure the potential impact of changes in interest rates on the Company's net interest income. The following table sets forth the results of the interest rate sensitivity analysis based on the current assets and liabilities on 31 December 2020 and 31 December 2019.

Unit: RMB' 000

Item	**31 December 2020 (Decrease)/ Increase**	31 December 2019 (Decrease)/ Increase
Change in annualized net interest income		
Interest rate increase by 100 bps	**(640,745)**	(438,707)
Interest rate decrease by 100 bps	**640,745**	438,707

The above sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The relevant analysis only measures the changes in the interest rates within one year, reflecting how annualized interest income would have been affected by the repricing of the Company's assets and liabilities within the one-year period. The analysis is based on the following assumptions:

1. All assets and liabilities that are repriced or matured within three months and after three months but within one year are repriced or matured at the beginning of the respective periods (i.e. all the assets and liabilities that are repriced or matured within three months are repriced or matured immediately, and all the assets and liabilities that are repriced or mature after three months but within one year are repriced or matured immediately after three months);

2. There is a parallel shift in the yield curve and in interest rates;

3. There are no other changes to the portfolio of assets and liabilities and all positions will be retained and rolled over upon maturity.

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

14.3.3 Analysis of exchange rate risk

The Company's exchange rate risk mainly arises from the risk exposures of the non-RMB assets held in the banking book of the Company. The Company manages to control the exchange rate risk in its banking book at a reasonable level by means of strict management and control of its foreign currency exposures. Methods such as foreign exchange exposure analysis, scenario simulation analysis and stress test are mainly adopted for the measurement and analysis of the Company's exchange rate risks in its banking book.

14.3.4 Analysis of exchange rate sensitivity

The following table sets forth the results of the analysis of exchange rate sensitivity based on the current assets and liabilities on 31 December 2020 and 31 December 2019.

Unit: RMB' 000

Item	**31 December 2020 Increase/ (Decrease)**	31 December 2019 Increase/ (Decrease)
Change in annualized net profit		
Foreign exchange rate increase by 100 bps	**9,953**	9,511
Foreign exchange rate decrease by 100 bps	**(9,953)**	(9,511)

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

1. The foreign exchange sensitivity is the gain or loss recognized as a result of 100 basis points fluctuation in the foreign currency exchange rates against the average of the central parity rates of RMB on the reporting date;

2. The exchange rates against RMB for all foreign currencies change in the same direction simultaneously;

3. The foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity.

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

14.4 Operational Risk Management

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

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

During the Reporting Period, the Company actively improved the operational risk management system, effectively identified, evaluated, monitored, controlled and minimized operational risks, vigorously promoted the enhancement of the level of operational risk management, and its operational risks had been well contained. During the Reporting Period, the Company focused on enhancing its operational risk management in the following areas:

1. Improving risk inspection to strictly control the occurring of operational risks. Focusing on key businesses and key areas of the Bank, combined with the "looking back" work requirement for the rectification of irregularities in 2020, the Bank carried out various forms of self-examination and inspections, rectified problems through self-knowledge and self-autonomy process, addressed operation and management loopholes, and eliminated risks in the early stage.

2. Upgrading the operational risk management tools in order to systematically prevent the operational risk. The Bank comprehensively monitored operational risks through integrating various means such as system monitoring, risk screening, internal inspection, and business line supervision, and properly collected and analyzed key indicators of operational risk, and losses of data and issued early warning, improved the construction of internal procedures, and prevented operational risks in an all-round manner.

3. Conducting system establishment and employee training in a robust manner to ensure the regulated operation of various businesses. By taking a series of actions including optimizing the system formulation process, reinforcing the implementation of the system and refining management duties, the Bank comprehensively created a system governance environment of "the unity of knowledge and action" from the aspects of the system update, enforcement and responsibility shouldering and formulated systems that regulate the Bank comprehensively and effectively. The Bank continuously strengthened staff training, paid attention to practical operational guidance training for new staff, and valued on-the-job education and training so as to raise staff's business operation level and increase their awareness of "full compliance", which helped strictly prevent man-made operational risks.

4. Strengthening the construction of our information technology in order to effectively control the operational risks. The Bank expanded the application of innovative information technology and raised the automatic operation and maintenance level. Through rationalizing the daily operation and maintenance work, the Bank identified various automatic operation and maintenance scenes, which scaled down overall man-made and systematic operational risks in data centers.

5. Enhancing business continuity management and improving risk control and management ability. The Bank continued to promote business continuity management, improved the system construction of emergency plans, organized business continuity drills, and enhanced the relevant personnel's ability to respond to emergencies and their ability to work collaboratively.

15. Outlook on Future Development of the Company

15.1 Industry landscape and trend for the new year

In 2021, the Chinese economy will recover steadily, and policy benefits will be gradually released. The impact of the pandemic will gradually reduce, and the economy recovery of Shandong Province and Qingdao City will be accelerated. In the coming year, fiscal policies will be improved in terms of quality, efficiency and sustainability. The margin of monetary policy will be tightened and become relatively moderate and neutral. Regulations will continue to be tightened, and risk prevention will remain the top priority.

15.2 Development guiding principle for the new year

In 2021, the Bank will uphold "solidifying foundation, serving the real economy, preventing and mitigating risks and improving comprehensively" as its basic operating guiding principle. While deepening its business improvement, the Bank will fully push forward its management enhancement and put great effort in making a good start for the year in which the 14th Five-Year Plan commences.

To solidify our foundation, we will continue to expand our customer base and develop our basic customer groups. We will continue to tap our potential, increase the penetration rate of existing customers, persist in optimizing and improving the product system, and strengthen our basic service capabilities.

To serve the real economy, we will strictly implement the spirit of the Central Government, serve real economy, and remain committed to serving the local economy and deeply cultivate the Shandong market. We will persist in seeking progress while maintaining stability, and continue to increase our market influence.

To prevent and mitigate risks, we will pay close attention to the delay risks that may be caused by the pandemic, respond to the risks of local bonds and credit bonds in a prudent manner, and strictly control the increase of non-performing assets. We will continue to pay more efforts in mitigating existing risks to ensure that asset quality remains stable and positive.

To improve comprehensively, we will continue to promote business improvement and apply ourselves to seizing deposits and high-quality assets. We will fully push forward management enhancement, technology empowerment, perfection of risk control systems as well as the optimization of business processes.

15.3 Main measures to be adopted for the new year

In 2021, the Bank will focus on the following eight aspects to promote and carry out our work:

1. In terms of wholesale business, we will consolidate our customer base and coordinate synergistic development;

2. In terms of retail business, we will expand effective customer base and increase value contribution;

3. In terms of inclusive finance, we will ensure the completion of indicators and explore new business models;

4. In terms of channel construction, we will carry out online and offline integration for the synergistic development of the Group;

5. In terms of risk management, we will strictly control credit risk and improve the risk system;

6. In terms of digital transformation, we will improve the governance system and carry out comprehensive transformation;

7. In terms of management enhancement, we will deepen business improvement and enhance overall management;

8. In terms of comprehensive management, we will enhance the level of party building and lead business development.

SECTION 4 OTHER EVENTS

4.1 Use of Proceeds Raised

Please refer to "9. Investment Analysis" in Section 3 Management Discussion and Analysis of this results announcement.

4.2 Corporate Governance Code

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

4.3 Securities Transactions by Directors and Supervisors

The Bank has adopted the required standard in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors and supervisors of the Bank.

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

4.4 Changes in Directors, Supervisors and Senior Management

The directors of the Bank are nominated by the Board and elected in accordance with the qualifications of directors and the election procedures as specified in the Articles of Association. The shareholder supervisor and external supervisors are nominated by the board of supervisors, and the employee supervisors are nominated by the labor union's committee, and all of such supervisors are elected in accordance with the election procedures as specified in the Articles of Association. Changes in directors, supervisors and senior management of the Bank during the Reporting Period are shown in the following table:

Name	Position held	Type of change	Date of change	Reason for change
Tingjie ZHANG	Independent non-executive director	Newly elected	13 February 2020	–
WONG Tin Yau, Kelvin	Former independent non-executive director	Resigned	13 February 2020	Work reason
YANG Fengjiang	Former executive director, former vice president	Resigned	25 March 2020	Work adjustment
	Employee supervisor	Newly elected	26 March 2020	–
	Chairman of the board of supervisors	Newly elected	30 March 2020	–
CHEN Qing	Former chairlady of the board of supervisors, former employee supervisor	Resigned	26 March 2020	Reaching the age of retirement

Save for the aforementioned matters, from the beginning of the Reporting Period to the date of this results announcement, there were no other changes in the directors, supervisors and senior management of the Bank.

4.5 Profits and Dividends

The Company's profit for the year ended 31 December 2020 and the Company's financial position as at the same date are set out in the section headed Financial Statements of this results announcement.

1. Pursuant to the relevant resolutions considered and passed at the 2019 annual general meeting on 7 May 2020, the Bank distributed to holders of A shares, whose names appeared on the A-share register of the Bank on 1 July 2020, and holders of H shares, whose names appeared on the H-share register of the Bank on 18 May 2020, dividends in cash for 2019 in an aggregate amount of RMB902,000,000 (tax inclusive), according to the dividend distribution plan to distribute a cash dividend of RMB2.00 per 10 shares (tax inclusive) on 2 July 2020.

2. On 28 August 2020, the chairman, the president and the secretary to the Board of the Bank jointly signed the Decision on Full Distribution of Dividends on Offshore Preference Shares of Bank of Qingdao Co., Ltd. for the Third Dividend Accruing Year to agree the dividend distribution plan for offshore preference shares. The Bank distributed a dividend in the total amount of US$73.5167 million for offshore preference shares at the initial dividend rate of 5.50%. Dividends shall be paid in cash, of which US$66.1650 million was paid to offshore preference shareholders and US$7.3517 million was withheld for income tax.

3. The Board has proposed to pay a final dividend in cash of RMB1.80 per 10 shares (tax inclusive) for the year ended 31 December 2020 to all ordinary shareholders of the Bank. The total cash dividends will be calculated based on the total number of the share capital as at the share registration date of the interest distribution. The dividend distribution plan will be submitted to the 2020 annual general meeting for consideration. In 2020, the Bank did not distribute bonus shares or increase share capital with provident fund.

   If the proposal is approved by the 2020 annual general meeting, the dividend will be distributed to holders of A shares and holders of H shares whose names appear on the register of members of the Bank at the close of business on their respective share registration date. The proposed dividends mentioned above will be denominated in RMB. Dividends to holders of A shares shall be paid in RMB, and dividends to holders of H shares shall be paid in Hong Kong dollars. The applicable exchange rate for dividends payable in Hong Kong dollars shall be the average of the central parity rates of RMB to Hong Kong dollars in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends at the 2020 annual general meeting (including the day the annual general meeting to be held) as announced by the People's Bank of China. The register of members of the Bank will be closed from 15 May 2021 to 20 May 2021 (both days inclusive), during such period no transfer of H shares will be registered. In order to be entitled to the 2020 final dividend distribution, holders of H shares of the Bank who have not registered the related transfer documents are required to lodge the transfer documents together with the relevant share certificates with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 14 May 2021.

   The Board proposes to distribute the final dividends for 2020 on or before 9 July 2021. If there are any changes to the expected dividend payment date, an announcement will be published regarding such changes.

4.6 2020 Annual General Meeting and Closure of Register of Members

The Bank's 2020 annual general meeting is proposed to be held on Tuesday, 11 May 2021. In order to determine the list of holders of H shares who are entitled to attend and vote at the 2020 annual general meeting, the H share register of members of the Bank will be closed from Thursday, 6 May 2021 to Tuesday, 11 May 2021 (both days inclusive), during such period no share transfer will be registered. Holders of H shares of the Bank who intend to attend and vote at the annual general meeting must lodge all the transfer documents accompanied by the relevant share certificates with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 5 May 2021.

4.7 Purchase, Sale or Redemption of Listed Securities

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

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

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

4.9 Review of Annual Results

KPMG Huazhen LLP and KPMG audited the 2020 annual financial statements prepared by the Company in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards respectively, and issued unqualified auditor's reports. The audit committee of the Board has reviewed the annual results and the financial statements of the Company for the year ended 31 December 2020.

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

4.10 Subsequent events

The resolutions related to the domestic and overseas rights issue were approved at the general meeting of the Bank on 26 March 2021. Total proceeds raised from the rights issue will not exceed RMB5.0 billion. The final total proceeds will be determined based on the rights issue price and the number of rights shares at the time of issuance.

On 22 March 2021, the Bank issued the 2021 fixed rate tier-two capital bonds with a term of 10 years. The nominal amount of the bonds amounted to RMB4.0 billion. The bonds will mature on 24 March 2031 with annual interest payments. The Bank has an option to redeem the bonds at the end of the fifth year after the issuance of the bonds.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Bank of Qingdao Co., Ltd.
(A joint stock company incorporated in the People's Republic of China (the "PRC") with limited liability)

Opinion

We have audited the consolidated financial statements of Bank of Qingdao Co., Ltd. ("the Bank") and its subsidiaries ("the Group") set out on pages 96 to 203, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

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

Refer to the accounting policies in note 2(5), and note 19 and note 22 to the financial statements.

The Key Audit Matter

The Group uses the expected credit loss model to determinate loss allowances of financial assets in accordance with the International Financial Reporting Standards 9, *Financial Instruments*.

The determination of loss allowances of loans and financial investments using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information, the impact of COVID-19 pandemic on related parameters as at 31 December 2020 and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.

How the matter was addressed in our audit

Our audit procedures to assess loss allowances of loans 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 financial investments measured at amortised cost, the credit grading process and the measurement of provisions for impairment.
- with the assistance of our internal specialists in financial risk management, assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments, including management judgment on the impact of COVID-19 pandemic on related parameters as at 31 December 2020.

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

Refer to the accounting policies in note 2(5), and note 19 and note 22 to the financial statements.

The Key Audit Matter	How the matter was addressed in our audit
In particular, the determination of the loss allowances is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses for corporate loans and financial investments measured at amortised cost are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The expected credit losses for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors. Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. Management refers to valuation reports issued by qualified third party valuers and considers the influence of various factors including the market price, location and use when assessing the value of property held a collateral. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of loss allowances as at the end of the reporting period.	• assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of the loan and financial investment list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan and investment information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and investment list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources. • for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development.

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

Refer to the accounting policies in note 2(5), and note 19 and note 22 to the financial statements.

The Key Audit Matter	How the matter was addressed in our audit
We identified the loss allowances of loans and advances to customers and financial investments measured at amortised cost as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Group.	• for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the logics and compilation of the overdue information and the operational process of the credit grading of corporate customers for selected samples. • evaluating the validity of management's assessment on whether the credit risk of the loan has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting risk-based samples. We analysed the portfolio by industry sector to select samples in industries more vulnerable to the current economic situation or COVID-19 pandemic with reference to other borrowers with potential credit risk. We checked loan overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses, with respect to the impact of COVID-19 pandemic on borrowers' credit risk as at 31 December 2020.

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

Refer to the accounting policies in note 2(5), and note 19 and note 22 to the financial statements.

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

2. Assessment of fair value of financial instruments

Refer to the accounting policies in note 2(5), and note 45 to the financial statements.

The Key Audit Matter	How the matter was addressed in our audit
Financial instruments carried at fair value account for a significant part of the Group's assets and liabilities. The changes in fair value may affect profit or loss or other comprehensive income. The Group mainly holds level 2 and level 3 financial instruments measured at fair value. The valuation of financial instruments measured at fair value of the Group is based on a combination of market data and valuation models which often require a considerable number of inputs. As in the case of level 2 financial instruments measured at fair value, the inputs of valuation models are mainly observable data. As in the case of level 3 financial instruments measured at fair value, where such observable data is not readily available, estimates need to be developed which can involve significant management judgment. The Group has developed its own models to value certain level 2 and level 3 financial instruments measured at fair value, which also involves significant management judgment. We identified assessment of the fair value of financial instruments as a key audit matter because of the complexity involved in valuing certain financial instruments and the significant judgment exercised by management in determining the inputs used in the valuation models.	Our audit procedures to assess the fair value of financial instruments included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the valuation, independent price verification, front office/back office reconciliations and valuation model approval for financial instruments. • performing, on a sample basis, independent valuations of level 2 and level 3 financial instruments measured at fair value and comparing these valuations with the valuations of the Group. Our procedures included comparing the valuation models of the Group with our knowledge of practice, testing inputs to the fair value calculations or, with the assistance of our internal specialists in financial risk management, establishing our own valuation models to perform revaluations. • assessing whether the disclosures in the consolidated financial statements appropriately reflect the exposure to financial instrument valuation risk and meet the requirements of the prevailing accounting standards.

3. Consolidation of structured entities

Refer to the accounting policies in note 2(27), and note 47 to the financial statements.

The Key Audit Matter

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

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

How the matter was addressed in our audit

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

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

3. Consolidation of structured entities

Refer to the accounting policies in note 2(27), and note 47 to the financial statements.

The Key Audit Matter

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

How the matter was addressed in our audit

- reviewing the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity.

- reviewing management's analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity.

- assessing management's judgement over whether the structured entity should be consolidated or not.

• assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, 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.

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

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

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

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

KPMG

Certified Public Accountants

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

30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	Note	**2020**	2019
Interest income		**17,168,922**	14,515,004
Interest expense		**(9,022,391)**	(7,668,949)
Net interest income	*3*	**8,146,531**	6,846,055
Fee and commission income		**1,855,260**	1,346,116
Fee and commission expense		**(163,636)**	(129,236)
Net fee and commission income	*4*	**1,691,624**	1,216,880
Net trading (losses)/gains	*5*	**(567,428)**	152,464
Net gains arising from investments	*6*	**1,248,600**	1,380,437
Other operating income	*7*	**28,747**	26,273
Operating income		**10,548,074**	9,622,109
Operating expenses	*8*	**(3,676,022)**	(3,166,762)
Credit losses	*11*	**(4,143,756)**	(3,626,792)
Profit before taxation		**2,728,296**	2,828,555
Income tax expense	*12*	**(274,998)**	(493,033)
Net profit for the year		**2,453,298**	2,335,522
Profit attributable to:			
Equity shareholders of the Bank		**2,394,072**	2,284,815
Non-controlling interests		**59,226**	50,707
Basic and diluted earnings per share (in RMB)	*13*	**0.42**	0.39

The notes on pages 105 to 203 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Note	**2020**	2019
Net profit for the year		**2,453,298**	2,335,522
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Remeasurement of defined benefit liability		**(600)**	(1,650)
Items that may be reclassified subsequently to profit or loss			
– Changes in fair value of debt investments measured at fair value through other comprehensive income	*39(4)*	**(642,643)**	63,549
– Credit losses of debt investments measured at fair value through other comprehensive income	*39(4)*	**17,730**	43,138
Other comprehensive income, net of tax		**(625,513)**	105,037
Total comprehensive income		**1,827,785**	2,440,559
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**1,768,559**	2,389,852
Non-controlling interests		**59,226**	50,707

The notes on pages 105 to 203 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	**31 December 2020**	31 December 2019
Assets			
Cash and deposits with central bank	*14*	**47,219,397**	39,704,840
Deposits with banks and other financial institutions	*15*	**2,568,919**	1,312,468
Placements with banks and other financial institutions	*16*	**–**	3,313,603
Derivative financial assets	*17*	**286,400**	12,436
Financial assets held under resale agreements	*18*	**9,726,476**	2,325,771
Loans and advances to customers	*19*	**202,358,484**	169,158,291
Financial investments:			
– Financial investments measured at fair value through profit or loss	*20*	**37,250,405**	22,912,561
– Financial investments measured at fair value through other comprehensive income	*21*	**66,828,002**	54,973,781
– Financial investments measured at amortised cost	*22*	**74,157,602**	64,491,058
Long-term receivables	*24*	**11,001,178**	9,037,819
Property and equipment	*25*	**3,247,768**	3,048,813
Right-of-use assets	*26*	**826,821**	818,928
Deferred tax assets	*27*	**2,468,017**	1,581,905
Other assets	*28*	**1,888,136**	929,876
Total assets		**459,827,605**	373,622,150
Liabilities			
Borrowings from central bank	*29*	**11,207,069**	5,536,650
Deposits from banks and other financial institutions	*30*	**17,024,732**	16,462,527
Placements from banks and other financial institutions	*31*	**12,947,575**	9,916,257
Derivative financial liabilities	*17*	**288,347**	8,805
Financial assets sold under repurchase agreements	*32*	**33,099,349**	16,027,082
Deposits from customers	*33*	**275,750,710**	215,425,403
Income tax payable		**431,921**	187,027
Debt securities issued	*34*	**72,834,508**	76,858,899
Lease liabilities	*35*	**453,671**	427,429
Other liabilities	*36*	**4,882,865**	2,294,153
Total liabilities		**428,920,747**	343,144,232

The notes on pages 105 to 203 form part of these financial statements.

	Note	**31 December 2020**	31 December 2019
Equity			
Share capital	*37*	**4,509,690**	4,509,690
Other equity instrument			
Including: preference shares	*38*	**7,853,964**	7,853,964
Capital reserve		**8,337,869**	8,337,869
Surplus reserve	*39(2)*	**1,859,737**	1,626,662
General reserve	*39(3)*	**5,072,217**	4,400,258
Other comprehensive income	*39(4)*	**32,717**	658,230
Retained earnings	*40*	**2,618,980**	2,528,787
Total equity attributable to equity shareholders of the Bank		**30,285,174**	29,915,460
Non-controlling interests		**621,684**	562,458
Total equity		**30,906,858**	30,477,918
Total liabilities and equity		**459,827,605**	373,622,150

Approved and authorised for issue by the board of directors on 30 March 2021.

Guo Shaoquan	**Wang Lin**	**Meng Dageng**	(Company Stamp)
Legal Representative (Chairman)	*President*	*Head of the Planning & Finance Department*	

The notes on pages 105 to 203 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

		Attributable to equity shareholders of the Bank									
	Note	Share capital	Other equity instrument	Capital reserve *Note 39(1)*	Surplus reserve *Note 39(2)*	General reserve *Note 39(3)*	Other comprehensive income *Note 39(4)*	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2020		4,509,690	7,853,964	8,337,869	1,626,662	4,400,258	658,230	2,528,787	29,915,460	562,458	30,477,918
Profit for the year		–	–	–	–	–	–	2,394,072	2,394,072	59,226	2,453,298
Other comprehensive income		–	–	–	–	–	(625,513)	–	(625,513)	–	(625,513)
Total comprehensive income		–	–	–	–	–	(625,513)	2,394,072	1,768,559	59,226	1,827,785
Appropriation of profit:											
– Appropriation to surplus reserve	*40*	–	–	–	233,075	–	–	(233,075)	–	–	–
– Appropriation to general reserve	*40*	–	–	–	–	671,959	–	(671,959)	–	–	–
– Dividends	*40*	–	–	–	–	–	–	(1,398,845)	(1,398,845)	–	(1,398,845)
Balance at 31 December 2020		4,509,690	7,853,964	8,337,869	1,859,737	5,072,217	32,717	2,618,980	30,285,174	621,684	30,906,858

The notes on pages 105 to 203 form part of these financial statements.

(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank									
	Note	Share capital	Other equity instrument	Capital reserve *Note 39(1)*	Surplus reserve *Note 39(2)*	General reserve *Note 39(3)*	Other comprehensive income *Note 39(4)*	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2019		4,058,713	7,853,964	6,826,276	1,403,575	3,969,452	553,193	2,319,800	26,984,973	511,751	27,496,724
Profit for the year		–	–	–	–	–	–	2,284,815	2,284,815	50,707	2,335,522
Other comprehensive income		–	–	–	–	–	105,037	–	105,037	–	105,037
Total comprehensive income		–	–	–	–	–	105,037	2,284,815	2,389,852	50,707	2,440,559
Ordinary shares insurance		450,977	–	1,511,593	–	–	–	–	1,962,570	–	1,962,570
Appropriation of profit:											
– Appropriation to surplus reserve	*40*	–	–	–	223,087	–	–	(223,087)	–	–	–
– Appropriation to general reserve	*40*	–	–	–	–	430,806	–	(430,806)	–	–	–
– Dividends	*40*	–	–	–	–	–	–	(1,421,935)	(1,421,935)	–	(1,421,935)
Balance at 31 December 2019		4,509,690	7,853,964	8,337,869	1,626,662	4,400,258	658,230	2,528,787	29,915,460	562,458	30,477,918

The notes on pages 105 to 203 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2020	2019
Cash flows from operating activities		
Profit before taxation	**2,728,296**	2,828,555
Adjustments for:		
Credit losses	**4,143,756**	3,626,792
Depreciation and amortisation	**428,870**	409,659
Unrealised foreign exchange losses/(gains)	**564,713**	(143,159)
Net losses on disposal of property and equipment, intangible assets and other assets	**3,650**	777
Losses/(Gains) from changes in fair value	**237,080**	(228,383)
Dividend income	**(1,800)**	(1,500)
Net gains arising from investment	**(1,483,879)**	(1,148,597)
Interest expense on debt securities issued	**2,539,802**	2,588,388
Interest income from financial investment	**(5,517,641)**	(5,400,084)
Others	**(47,656)**	(56,571)
	3,595,191	2,475,877
Changes in operating assets		
Net (increase)/decrease in deposits with central bank	**(2,625,978)**	1,385,277
Net decrease in deposits with banks and other financial institutions	**–**	200,000
Net decrease in placements with banks and other financial institutions	**2,801,364**	1,061,906
Net increase in loans and advances to customers	**(36,018,021)**	(48,460,968)
Net increase in financial assets held under resale agreements	**(7,407,980)**	(2,026,600)
Net increase in long-term receivables	**(2,160,869)**	(1,386,300)
Net increase in other operating assets	**(792,055)**	(296,162)
	(46,203,539)	(49,522,847)

The notes on pages 105 to 203 form part of these financial statements.

	2020	2019
Changes in operating liabilities		
Net increase/(decrease) in borrowings from central bank	**5,694,999**	(5,271,556)
Net increase in deposits from banks and other financial institutions	**600,021**	4,784,097
Net increase in placements from banks and other financial institutions	**3,018,767**	2,726,981
Net increase in financial assets sold under repurchase agreements	**17,067,937**	1,179,371
Net increase in deposits from customers	**59,440,575**	37,115,060
Net increase in other operating liabilities	**2,787,219**	166,728
	88,609,518	40,700,681
Income tax paid	**(707,711)**	(659,446)
Net cash flows generated from/(used in) operating activities	**45,293,459**	(7,005,735)
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	**57,207,409**	52,477,166
Net cash received from investment gains and interest	**6,864,343**	6,484,979
Proceeds from disposal of property and equipment, intangible assets and other assets	**12,136**	26,955
Payments on acquisition of investments	**(93,725,231)**	(48,872,103)
Payments on acquisition of property and equipment, intangible assets and other assets	**(729,936)**	(301,351)
Net cash flows (used in)/generated from in investing activities	**(30,371,279)**	9,815,646

The notes on pages 105 to 203 form part of these financial statements.

	Note	2020	2019
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**–**	1,962,570
Net proceeds from debt securities issued	*41(2)*	**60,472,387**	83,798,288
Repayment of debt securities issued	*41(2)*	**(64,300,618)**	(74,130,000)
Interest paid on debt securities issued	*41(2)*	**(2,735,962)**	(638,284)
Dividends paid		**(1,397,628)**	(1,420,742)
Payment of lease liabilities		**(150,363)**	(96,505)
Net cash flows (used in)/generated from financing activities		**(8,112,184)**	9,475,327
Effect of foreign exchange rate changes on cash and cash equivalents		**(31,264)**	3,329
Net increase in cash and cash equivalents		**6,778,732**	12,288,567
Cash and cash equivalents as at 1 January		**22,500,749**	10,212,182
Cash and cash equivalents as at 31 December	*41(1)*	**29,279,481**	22,500,749
Net cash flows generated from operating activities include:			
Interest received		**12,166,238**	9,309,374
Interest paid		**(5,643,370)**	(4,724,436)

The notes on pages 105 to 203 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

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

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

The Bank obtained its financial institution licence No. B0170H237020001 from the Qingdao branch of the former CBRC. The Bank obtained its business license with a unified social credit code 91370200264609602K from the Administration for Industry and Commerce of Qingdao City, and the registered office is located at Building No. 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the People's Republic of China (the "PRC"). In December 2015, the Bank's H-shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 3866). In January 2019, the Bank's A-shares were listed on the SME Board of Shenzhen Stock Exchange (Stock code: 002948). The share capital of the Bank is RMB4.510 billion as at 31 December 2020.

The Bank has 15 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Qingdao Westcoast, Laiwu, Linyi, Jining, Taian and Heze as at 31 December 2020. The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, financial market business, financial leasing, wealth management and other services as approved by the regulatory authority. The background information of subsidiary refers to Note 23. The Bank mainly operates in Shandong Province.

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

2 SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance and basis of preparation

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

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

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(27).

The measurement basis used in the preparation of financial statements is historical cost, with the exception of certain financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(5).

(2) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(3) Translation of foreign currencies

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

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

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

(4) Cash and cash equivalents

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

(5) Financial instruments

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

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

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

Measurement of fair value

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

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

(ii) Classification and subsequent measurement of financial assets

(a) Classification of financial assets

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

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

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

– It is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

– It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

(b) Subsequent measurement of financial assets

– Financial assets measured at FVTPL

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

– Financial assets measured at amortised cost

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

– Debt investments measured at FVOCI

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

– Equity investments measured at FVOCI

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

(iii) Classification and subsequent measurement of financial liabilities

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

– Financial liabilities measured at FVTPL

A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

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

– Financial guarantee liabilities

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

Subsequent to initial recognition, deferred income related to financial guarantee is recognised on average in profit or loss during the term of the contract. A financial guarantee liability is measured at the higher of the amount of the loss allowance determined in accordance with impairment policies of financial instruments (see Note 2(5)(iv)) and the amount initially recognised less the cumulative amount of income.

– Financial liabilities measured at amortised cost

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

(iv) Impairment

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

– financial assets measured at amortised cost;

– debt investments measured at FVOCI;

– lease receivables; and

– financial guarantee contracts issued and loan commitments, which are not measured at FVTPL.

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value 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 ECLs is the maximum contractual period (including extension options) over which the Group is exposed to credit risk.

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

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

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

Presentation of allowance for ECL

ECLs are remeasured at the end of each reporting period to reflect changes in the financial instruments' credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income.

Write-off

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

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

(v) Offsetting

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

– The Group currently has a legally enforceable right to set off the recognised amounts; and

– The Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(vi) Derecognition of financial assets and financial liabilities

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

– The Group's contractual rights to the cash flows from the financial asset expire;

– The financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or

– The financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

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

– The carrying amount of the financial asset transferred measured at the date of derecognition; and

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

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

Securitisation

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

Sales of assets on condition of repurchase

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

(vii) Derivative financial instruments

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

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

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

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

(viii) Equity instrument

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

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

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

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

(ix) Preference share

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

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

(6) Financial assets held under resale and repurchase agreements (including securities borrowing and lending)

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are recognised and measured in the statements of financial position in accordance with the accounting policy set out in Note 2(5).

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are recognised and measured in accordance with the accounting policy set out in Note 2(5).

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

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

(7) Precious metals

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

(8) Property and equipment

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

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

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

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

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

Property and equipment assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see Note 2(13)).

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

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

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

The carrying amount of a property and equipment is derecognised:

– When the property and equipment is holding for disposal; or

– When no future economic benefit is expected to be generated from its use or disposal.

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

(9) Assets held for sale

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

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

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

– According to the customary practices of selling such asset or disposal group in similar transactions, the non-current asset or disposal group must be available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets or disposal groups; and

– Its sale is highly probable, that is, the Group has made a resolution on a sale plan and has obtained a firm purchase commitment. The sale is to be completed within one year.

Non-current assets or disposal groups held for sale are stated at the lower of carrying amount and fair value (see Note 2(27)(ii)) less costs to sell (except financial assets (see note 2(5)), deferred tax assets (see note 2(15)) initially and subsequently. Any excess of the carrying amount over the fair value (see Note 2(27)(ii)) less costs to sell is recognised as an impairment loss in profit or loss.

(10) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated in the statements of financial position at cost less accumulated amortisation and impairment losses (see Note 2(13)). The cost of intangible assets less residual value and impairment losses is amortised on a straight-line basis over the estimated useful lives, unless the intangible asset is classified as held for sale

The amortisation period for intangible assets is as follows:

Software	3 – 10 years

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

(11) Long-term deferred expenses

Long-term deferred expenses are amortised using a straight-line method within the expected benefit period and stated in "other assets" at actual cost less accumulated amortisation and impairment losses (see Note 2(13)).

(12) Repossessed assets

Repossessed assets are initially accounted 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.

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

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

– property and equipment

– right-of-use assets

– intangible assets

– investments in subsidiaries, associates and joint ventures

– long-term deferred expenses, etc.

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

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

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

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

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

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

(14) Employee benefits

(i) Short-term employee benefits

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

(ii) Post-employment benefits – defined contribution plans

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

(iii) Post-employment benefits – defined benefit plans

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

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

(iv) Termination benefits

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

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

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

(15) Income tax

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

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

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

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

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

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

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

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

– The taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

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

(16) Provisions and contingency

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

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

– Where the contingency involves a single item, the best estimate is the most likely outcome; and

– Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

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

(17) Fiduciary activities

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

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

(18) Income recognition

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

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

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

(i) ***Interest income***

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

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

– For purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortised cost; and

– Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated, in the subsequent period, by applying the effective interest rate to their amortised cost.

(ii) ***Fee and commission income***

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

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

  – The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

  – The customer controls the service provided by the Group in the course of performance; or

  – The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

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

(iii) ***Dividend income***

Dividend income is recognised when the Group's right to receive payment is established.

(19) Government grants

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

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

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

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

(20) 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.

(21) Leases

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

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

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

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

– The lessee has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

– The lessee has the right to direct the use of the asset.

For a contract that contains more separate lease components, the lessee and the lessor separate lease components and account for each lease component as a lease separately. For a contract that contains lease and non-lease components, the lessee and the lessor separate lease components from non-lease components. For a contract that contains lease and non-lease components, the lessee allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The lessor allocates the consideration in the contract in accordance with the accounting policy in Note 2(18).

(i) As a lessee

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

The right-of-use asset is depreciated using the straight-line method. If the lessee is reasonably certain to exercise a purchase option by the end of the lease term, the right-of-use asset is depreciated over the remaining useful lives of the underlying asset. Otherwise, the right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Impairment losses of right-of-use assets are accounted for in accordance with the accounting policy described in Note 2(13).

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

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

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

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

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

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

(ii) As a lessor

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

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

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

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return. The derecognition and impairment of the finance lease receivable are recognised in accordance with the accounting policy in Note 2(5). Variable lease payments not included in the measurement of net investment in the lease are recognised as income as they are earned.

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

(22) Dividends

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

(23) Related parties

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

(i) A person, or a close member of that person's family, if that person:

(a) has significant influence over the Group; or

(b) is a member of the key management personnel of the Group.

(ii) An entity, if that entity:

(a) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(b) has significant influence over the Group;

(c) controls an entity identified in (ii)(b);

(d) is controlled or jointly controlled by an entity identified in (ii)(b) and (ii)(c);

(e) is controlled or jointly controlled by a person identified in (i).

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

(24) Segment reporting

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

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

(25) Subsidiaries and non-controlling interests

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

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

In the Bank's statements of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 2(13)).

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

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

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

(26) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements of the Group under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 2(13)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the period are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income of the Group. The Group's interest in associate or joint venture is included in the consolidated financial statements from the date that significant influence or joint control commences until the date that significant influence or joint control ends.

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

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(5)).

(27) Significant accounting estimates and judgements

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

(i) Measurement of ECLs

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

(ii) Fair value of financial instruments

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, option pricing models, etc. Valuation models established by the Group make maximum use of market 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.

(iii) Income taxes

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

(iv) Impairment of non-financial assets

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

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

(v) Depreciation and amortisation

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

(vi) Determination of control over structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement.

When assessing whether to control and consolidate structured entities, the Group considers several factors including the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management and other services, and the Group's exposure to variability of returns.

3 NET INTEREST INCOME

	2020	2019
Interest income arising from		
Deposits with central bank	**360,330**	352,657
Deposits with banks and other financial institutions	**7,146**	13,005
Placements with banks and other financial institutions	**82,898**	257,712
Loans and advances to customers		
– Corporate loans and advances	**6,880,335**	4,917,025
– Personal loans and advances	**3,163,664**	2,382,842
– Discounted bills	**284,703**	386,911
Financial assets held under resale agreements	**246,435**	306,078
Financial investments	**5,517,641**	5,400,084
Long-term receivables	**625,770**	498,690
Sub-total	**17,168,922**	14,515,004
Interest expense arising from		
Borrowings from central bank	**(204,932)**	(259,935)
Deposits from banks and other financial institutions	**(324,254)**	(465,372)
Placements from banks and other financial institutions	**(427,454)**	(392,306)
Deposits from customers	**(5,058,536)**	(3,434,379)
Financial assets sold under repurchase agreements	**(467,413)**	(528,569)
Debt securities issued	**(2,539,802)**	(2,588,388)
Sub-total	**(9,022,391)**	(7,668,949)
Net interest income	**8,146,531**	6,846,055

Note:

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

4 NET FEE AND COMMISSION INCOME

	Note	2020	2019
Fee and commission income			
Wealth management service fees		**1,008,499**	695,313
Agency service fees		**454,522**	339,855
Custody and bank card service fees	*(i)*	**170,260**	131,056
Financial leasing service fees		**158,463**	118,743
Settlement fees		**35,635**	41,057
Others		**27,881**	20,092
Sub-total		**1,855,260**	1,346,116
Fee and commission expense		**(163,636)**	(129,236)
Net fee and commission income		**1,691,624**	1,216,880

Note:

(i) Pursuant to the relevant provisions of the Notice on Strictly Implementing Accounting Standards, Strengthening the Annual Report of Enterprises in 2020 (Caikuai [2021] No. 2) issued by the Ministry of Finance of the People's Republic of China (the "**MOF**,"), China Securities Regulatory Commission (the "**CSRC**"), State-owned Assets Supervision and Administration Commission of the State Council, and China Banking and Insurance Regulatory Commission (the "**CBIRC**") in January 2021, the Group reclassified the instalment income of credit cards in 2020 from fee and commission income to interest income.

5 NET TRADING (LOSSES)/GAINS

	Note	2020	2019
Net (losses)/gains of foreign exchange and foreign exchange derivative financial instruments	*(i)*	**(547,799)**	156,176
Net (losses)/gains from debt securities	*(ii)*	**(4,759)**	2,579
Net losses of non-foreign exchange derivative financial instruments		**(14,870)**	(6,291)
Total		**(567,428)**	152,464

Notes:

(i) Net (losses)/gains of foreign exchange and foreign exchange derivative financial instruments include gains or losses from foreign exchange derivative financial instruments, the purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into RMB, etc.

(ii) Net (losses)/gains from debt securities mainly include gains or losses arising from the buying and selling of, and changes in the fair value of debt securities held for trading.

6 NET GAINS ARISING FROM INVESTMENTS

	2020	2019
Net gains on financial investments measured at FVTPL	**675,478**	966,856
Net gains on disposal of financial assets measured at FVOCI	**571,206**	412,081
Dividend income	**1,800**	1,500
Others	**116**	–
Total	**1,248,600**	1,380,437

7 OTHER OPERATING INCOME

	2020	2019
Government grants	**23,030**	17,071
Rental income	**1,065**	1,598
Net losses on disposal of property and equipment, intangible assets and other assets	**(3,650)**	(777)
Others	**8,302**	8,381
Total	**28,747**	26,273

8 OPERATING EXPENSES

	2020	2019
Staff costs		
– Salaries, bonuses and allowances	**1,181,142**	1,139,210
– Social insurance and housing allowances	**118,809**	111,196
– Staff welfare expenses	**236,736**	197,197
– Staff education expenses	**31,729**	28,798
– Labor union expenses	**23,829**	28,238
– Post-employment benefits – defined contribution plans	**110,468**	170,312
– Supplementary retirement benefits	**10,970**	16,590
Sub-total	**1,713,683**	1,691,541
Property and equipment expenses		
– Depreciation and amortization	**428,870**	409,659
– Electronic equipment operating expenses	**117,863**	134,455
– Maintenance	**96,987**	102,838
Sub-total	**643,720**	646,952
Tax and surcharges	**133,315**	101,186
Other general and administrative expenses	**1,185,304**	727,083
Total	**3,676,022**	3,166,762

Note:

(i) Other general and administrative expenses include audit remunerations for auditors which amounted to RMB5.20 million for the year ended 31 December 2020 (2019: RMB5.83 million).

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

	Year ended 31 December 2020					
Name	**Fees**	**Salaries**	**Discretionary bonuses**	**Contributions to pension schemes**	**Other benefits**	**Total emoluments before tax**
Executive directors						
GUO Shaoquan	**–**	**1,253**	**1,095**	**107**	**277**	**2,732**
WANG Lin	**–**	**1,128**	**986**	**107**	**293**	**2,514**
LU Lan	**–**	**785**	**701**	**–**	**181**	**1,667**
Non-executive directors						
ZHOU Yunjie	**112**	**–**	**–**	**–**	**–**	**112**
Rosario STRANO	**–**	**–**	**–**	**–**	**–**	**–**
TAN Lixia	**112**	**–**	**–**	**–**	**–**	**112**
Marco MUSSITA	**–**	**–**	**–**	**–**	**–**	**–**
DENG Youcheng	**112**	**–**	**–**	**–**	**–**	**112**
CHOI Chi Kin, Calvin	**106**	**–**	**–**	**–**	**–**	**106**
Independent non-executive directors						
CHEN Hua	**168**	**–**	**–**	**–**	**–**	**168**
DAI Shuping	**168**	**–**	**–**	**–**	**–**	**168**
Simon CHEUNG	**168**	**–**	**–**	**–**	**–**	**168**
FANG Qiaoling	**168**	**–**	**–**	**–**	**–**	**168**
Tingjie ZHANG	**140**	**–**	**–**	**–**	**–**	**140**
Supervisors						
YANG Fengjiang	**–**	**806**	**701**	**107**	**292**	**1,906**
WANG Dawei	**–**	**569**	**1,056**	**107**	**144**	**1,876**
MENG Xianzheng	**–**	**542**	**850**	**107**	**162**	**1,661**
FU Changxiang	**118**	**–**	**–**	**–**	**–**	**118**
HU Yanjing	**118**	**–**	**–**	**–**	**–**	**118**
HE Liangjun	**81**	**–**	**–**	**–**	**–**	**81**
Total	**1,571**	**5,083**	**5,389**	**535**	**1,349**	**13,927**

	Year ended 31 December 2019					
Name	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	Total emoluments before tax
Executive directors						
GUO Shaoquan	–	1,144	1,259	194	298	2,895
WANG Lin	–	1,019	1,119	177	290	2,605
YANG Fengjiang	–	718	824	150	241	1,933
LU Lan	–	759	796	100	242	1,897
Non-executive directors						
ZHOU Yunjie	119	–	–	–	–	119
Rosario STRANO	–	–	–	–	–	–
TAN Lixia	119	–	–	–	–	119
Marco MUSSITA	–	–	–	–	–	–
DENG Youcheng	118	–	–	–	–	118
CHOI Chi Kin, Calvin	119	–	–	–	–	119
Independent non-executive directors						
WONG Tin Yau, Kelvin	182	–	–	–	–	182
CHEN Hua	188	–	–	–	–	188
DAI Shuping	182	–	–	–	–	182
Simon CHEUNG	181	–	–	–	–	181
FANG Qiaoling	206	–	–	–	–	206
Supervisors						
CHEN Qing	–	409	435	95	147	1,086
ZHANG Lanchang	39	–	–	–	–	39
WANG Dawei	–	488	983	137	236	1,844
MENG Xianzheng	–	417	710	130	212	1,469
WANG Jianhua	–	–	–	–	–	–
FU Changxiang	127	–	–	–	–	127
HU Yanjing	127	–	–	–	–	127
HE Liangjun	21	–	–	–	–	21
Total	1,728	4,954	6,126	983	1,666	15,457

Notes:

(1) The emoluments of non-executive directors ("NED"), independent non-executive directors ("INED"), shareholder supervisors and external supervisors were affected by the time of service during the reporting period. Directors and supervisors received emoluments since their assumption of duty until their departure. The changes in directors and supervisors in the year of 2020 and 2019 are as follows:

(i) In March 2019, Mr. WANG Jianhua no longer served as external supervisor of the Bank.

(ii) In May 2019, Mr. ZHANG Lanchang no longer served as shareholder supervisor of the Bank.

(iii) In July 2019, Ms. CHEN Qing retired.

(iv) In October 2019, Mr. HE Liangjun, shareholder supervisor of the Bank, began to assume his duty.

(v) In February 2020, Mr. Tingjie ZHANG, INED of the Bank, began to assume his duty. Mr. WONG Tin Yau, Kelvin no longer served as INED of the Bank.

(vi) In March 2020, Mr. YANG Fengjiang no longer served as executive director of the Bank and began to assume his duty as employee supervisor and chairman of the Board of Supervisors. Ms. CHEN Qing no longer served as employee supervisor and chairlady of the Board of Supervisors of the Bank.

(2) The emoluments of Mr. Rosario STRANO, Mr. Marco MUSSITA and Mr. WANG Jianhua were waived with their authorization. There was no other arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the reporting period.

(3) There were no amounts paid during the reporting period to the directors and supervisors in connection with their retirement from employment or as compensation for loss of office with the Bank or as inducement to join.

(4) The total compensation package for certain directors and supervisors for the year ended 31 December 2020 have not yet been finalized. The difference in emoluments is not expected to have any significant impact on the Group's financial statements for the year ended 31 December 2020.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2020, the five individuals with the highest emoluments included two directors and two supervisors of the Bank (2019: four directors), whose emoluments are disclosed in Note 9. The emoluments before individual income tax for the rest of the five highest paid individuals for the reporting period are as follows:

	2020	2019
Salaries and other emoluments	**1,042**	819
Discretionary bonuses	**701**	1,069
Contributions to pension schemes	**107**	148
Total	**1,850**	2,036

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

	2020	2019
HKD nil-1,000,000	**–**	–
HKD 1,000,001-1,500,000	**–**	–
HKD 1,500,001-2,000,000	**–**	–
HKD 2,000,001-2,500,000	**1**	1

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

11 CREDIT LOSSES

	2020	2019
Loans and advances to customers	**2,974,836**	3,026,604
Deposits with banks and other financial institutions	**334**	(98)
Placements with banks and other financial institutions	**(16,568)**	4,945
Financial assets held under resale agreements	**7,698**	820
Financial investments measured at amortised cost	**927,234**	401,784
Financial investments at FVOCI		
– debt instruments	**21,776**	61,177
Long-term receivables	**206,123**	130,299
Credit commitments	**2,548**	(5,249)
Others	**19,775**	6,510
Total	**4,143,756**	3,626,792

12 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

	Note	**2020**	2019
Current tax		**952,605**	957,172
Deferred tax	*27(2)*	**(677,607)**	(464,139)
Total		**274,998**	493,033

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

	2020	2019
Profit before taxation	**2,728,296**	2,828,555
Statutory tax rate	**25%**	25%
Income tax calculated at statutory tax rate	**682,074**	707,139
Tax effect of non-deductible expenses for tax purpose		
– Entertainment expenses	**3,566**	3,663
– Annuity	**–**	1,494
– Others	**6,617**	6,175
Sub-total	**10,183**	11,332
Tax effect of non-taxable income for tax purpose *(Note (i))*	**(417,259)**	(225,438)
Income tax	**274,998**	493,033

Note:

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

13 BASIC AND DILUTED EARNINGS PER SHARE

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

	Note	**2020**	2019
Weighted average number of ordinary shares (in thousands)	*13(1)*	**4,509,690**	4,472,109
Net profit attributable to equity shareholders of the Bank		**2,394,072**	2,284,815
Less: dividends on preference shares declared		**496,907**	519,999
Net profit attributable to ordinary shareholders of the Bank		**1,897,165**	1,764,816
Basic and diluted earnings per share (in RMB)		**0.42**	0.39

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

	2020	2019
Number of ordinary shares as at 1 January	**4,509,690**	4,058,713
Increase in weighted average number of ordinary shares	**–**	413,396
Weighted average number of ordinary shares	**4,509,690**	4,472,109

14 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	**31 December 2020**	31 December 2019
Cash on hand		**565,606**	520,460
Deposits with central bank			
– Statutory deposit reserves	*14(1)*	**21,879,514**	19,327,597
– Surplus deposit reserves	*14(2)*	**24,566,884**	19,723,270
– Fiscal deposits		**196,923**	122,862
Sub-total		**46,643,321**	39,173,729
Accrued interest		**10,470**	10,651
Total		**47,219,397**	39,704,840

(1) **The Bank places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at 31 December 2020, the statutory deposit reserve ratios for RMB deposits applicable to the Bank were 8.0% (31 December 2019: 9.5%). As at 31 December 2020, the statutory deposit reserve ratios for foreign currency deposits applicable to the Bank were 5.0% (31 December 2019: 5.0%). The Bank's subsidiary places statutory deposit reserves with the PBOC in accordance with relevant regulations.**

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

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

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2020	31 December 2019
In Mainland China		
– Banks	**2,111,834**	946,722
– Other financial institutions	**74,540**	9,079
Outside Mainland China		
– Banks	**382,509**	355,234
Accrued interest	**945**	2,008
Sub-total	**2,569,828**	1,313,043
Less: Provision for impairment losses	**(909)**	(575)
Total	**2,568,919**	1,312,468

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2020	31 December 2019
In Mainland China		
– Other financial institutions	**–**	3,247,840
Accrued interest	**–**	82,331
Sub-total	**–**	3,330,171
Less: Provision for impairment losses	**–**	(16,568)
Total	**–**	3,313,603

17 DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2020			31 December 2019		
	Nominal amount	**Fair value of assets**	**Fair value of liabilities**	Nominal amount	Fair value of assets	Fair value of liabilities
Interest rate swap contracts and others	**76,567,494**	**286,400**	**(288,347)**	33,896,438	12,436	(8,805)
Total	**76,567,494**	**286,400**	**(288,347)**	33,896,438	12,436	(8,805)

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2020	31 December 2019
In Mainland China		
– Banks	**8,934,700**	2,326,600
– Other financial institutions	**799,880**	–
Accrued interest	**536**	113
Sub-total	**9,735,116**	2,326,713
Less: Provision for impairment losses	**(8,640)**	(942)
Total	**9,726,476**	2,325,771

(2) Analysed by type of security held

	31 December 2020	31 December 2019
Debt securities	**9,734,580**	2,326,600
Accrued interest	**536**	113
Sub-total	**9,735,116**	2,326,713
Less: Provision for impairment losses	**(8,640)**	(942)
Total	**9,726,476**	2,325,771

19 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	31 December 2020	31 December 2019
Measured at amortised cost:		
Corporate loans and advances		
– Corporate loans	**138,776,966**	112,036,804
Sub-total	**138,776,966**	112,036,804
Personal loans and advances		
– Residential mortgage	**40,588,284**	36,762,232
– Personal business loans	**10,768,653**	8,276,374
– Personal consumption loans	**9,398,159**	9,470,211
Sub-total	**60,755,096**	54,508,817
Accrued interest	**899,064**	772,480
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost		
– 12-month ECL	**(2,113,757)**	(1,523,023)
– lifetime ECL		
– not credit-impaired loans	**(923,214)**	(1,177,375)
– credit-impaired loans	**(2,250,830)**	(1,709,234)
Total provision for impairment losses	**(5,287,801)**	(4,409,632)
Measured at FVOCI:		
Corporate loans and advances		
– Discounted bills	**7,215,159**	6,249,822
Net loans and advances to customers	**202,358,484**	169,158,291

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

	31 December 2020	31 December 2019
Unsecured loans	**42,739,296**	27,881,658
Guaranteed loans	**50,477,538**	46,794,567
Loans secured by mortgages	**84,180,163**	75,145,703
Pledged loans	**29,350,224**	22,973,515
Gross loans and advances to customers	**206,747,221**	172,795,443

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

	31 December 2020				
	Overdue within three months (inclusive)	**Overdue more than three months to one year (inclusive)**	**Overdue more than one year to three years (inclusive)**	**Overdue more than three years**	**Total**
Unsecured loans	**138,236**	**72,263**	**6,458**	**416**	**217,373**
Guaranteed loans	**254,508**	**801,149**	**615,140**	**54,041**	**1,724,838**
Loans secured by mortgages	**193,896**	**123,061**	**132,659**	**141,906**	**591,522**
Total	**586,640**	**996,473**	**754,257**	**196,363**	**2,533,733**
As a percentage of gross loans and advances to customers	**0.30%**	**0.48%**	**0.36%**	**0.09%**	**1.23%**

	31 December 2019				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	63,393	18,294	1,604	199	83,490
Guaranteed loans	505,564	861,815	505,595	13,305	1,886,279
Loans secured by mortgages	142,134	180,941	56,667	145,939	525,681
Total	711,091	1,061,050	563,866	159,443	2,495,450
As a percentage of gross loans and advances to customers	0.41%	0.61%	0.33%	0.09%	1.44%

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

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

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

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

	31 December 2020			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired** *(Note (i))*	**Total**
Gross loans and advances to customers measured at amortised cost (including accrued interest)	**194,027,629**	**3,210,345**	**3,193,152**	**200,431,126**
Less: Provision for impairment losses	**(2,113,757)**	**(923,214)**	**(2,250,830)**	**(5,287,801)**
Net loans and advances to customers measured at amortised cost	**191,913,872**	**2,287,131**	**942,322**	**195,143,325**

	31 December 2019			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired *(Note (i))*	Total
Gross loans and advances to customers measured at amortised cost (including accrued interest)	158,231,731	6,184,059	2,902,311	167,318,101
Less: Provision for impairment losses	(1,523,023)	(1,177,375)	(1,709,234)	(4,409,632)
Net loans and advances to customers measured at amortised cost	156,708,708	5,006,684	1,193,077	162,908,469

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

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

	31 December 2019			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired *(Note (i))*	Total
Gross/net loans and advances to customers at FVOCI	6,249,822	–	–	6,249,822
Provision for impairment losses through other comprehensive income	(12,917)	–	–	(12,917)

Note:

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

(5) Movements of provision for impairment losses

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

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

	2020			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2020	**1,523,023**	**1,177,375**	**1,709,234**	**4,409,632**
Transfer to				
– 12-month ECL	**51,560**	**(43,574)**	**(7,986)**	**–**
– Lifetime ECL				
– not credit-impaired loans	**(19,830)**	**22,120**	**(2,290)**	**–**
– credit-impaired loans	**(21,223)**	**(1,294,564)**	**1,315,787**	**–**
Charge for the year	**580,227**	**1,061,857**	**1,330,888**	**2,972,972**
Write-offs and transfer out	**–**	**–**	**(2,372,532)**	**(2,372,532)**
Recoveries of loans and advances written off	**–**	**–**	**325,385**	**325,385**
Other changes	**–**	**–**	**(47,656)**	**(47,656)**
As at 31 December 2020	**2,113,757**	**923,214**	**2,250,830**	**5,287,801**

	2019			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2019	1,276,373	1,277,670	987,186	3,541,229
Transfer to				
– 12-month ECL	18,848	(18,525)	(323)	–
– Lifetime ECL				
– not credit-impaired loans	(29,175)	29,175	–	–
– credit-impaired loans	(5,696)	(1,187,479)	1,193,175	–
Charge for the year	262,673	1,076,534	1,691,057	3,030,264
Write-offs and transfer out	–	–	(2,251,771)	(2,251,771)
Recoveries of loans and advances written off	–	–	146,481	146,481
Other changes	–	–	(56,571)	(56,571)
As at 31 December 2019	1,523,023	1,177,375	1,709,234	4,409,632

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

	2020			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2020	**12,917**	**–**	**–**	**12,917**
Charge for the year	**1,864**	**–**	**–**	**1,864**
As at 31 December 2020	**14,781**	**–**	**–**	**14,781**

	2019			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2019	16,577	–	–	16,577
Release for the year	(3,660)	–	–	(3,660)
As at 31 December 2019	12,917	–	–	12,917

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

In addition, in 2020 and 2019, the Group and the Bank transferred loans and advances to customers to independent third parties with principal amount of RMB134 million and RMB105 million respectively, and with the transfer price (including overdue interest, penalty interest, etc.) of RMB73 million and RMB96 million respectively.

20 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2020	31 December 2019
Financial investments held for trading	**–**	–
Financial investments designated as at FVTPL	**–**	–
Other debt investments measured at FVTPL		
Debt investments issued by the following institutions in Mainland China		
– Banks and other financial institutions	**704,792**	676,304
– Corporate entities	**178,160**	124,557
Sub-total	**882,952**	800,861
Investment funds	**24,363,870**	9,008,256
Asset management plans	**9,998,794**	9,240,047
Trust fund plans	**2,004,789**	2,829,424
Wealth management products	**–**	1,033,973
Total	**37,250,405**	22,912,561
Listed	**260,796**	100,000
Of which: listed outside Hong Kong	**260,796**	100,000
Unlisted	**36,989,609**	22,812,561
Total	**37,250,405**	22,912,561

21 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	31 December 2020	31 December 2019
Debt securities issued by the following institutions in Mainland China			
– Government		**15,330,316**	12,412,488
– Policy banks		**6,437,969**	4,776,962
– Banks and other financial institutions		**11,039,796**	8,027,292
– Corporate entities		**26,338,440**	20,848,475
Sub-total		**59,146,521**	46,065,217
Asset management plans		**5,680,647**	7,128,140
Other investments		**703,121**	705,543
Equity investments	*21(1)*	**23,250**	23,250
Accrued interest		**1,274,463**	1,051,631
Total		**66,828,002**	54,973,781
Listed	*21(2)*	**26,027,905**	11,739,536
Of which: listed outside Hong Kong		**26,027,905**	11,739,536
Unlisted		**40,800,097**	43,234,245
Total		**66,828,002**	54,973,781

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

	2020					
Investees	**Balance at the beginning of the year**	**Increase during the year**	**Decrease during the year**	**Balance at the end of the year**	**Percentage of shareholding in investees (%)**	**Cash dividend for the year**
China UnionPay Co., Ltd.	**13,000**	**–**	**–**	**13,000**	**0.34**	**1,800**
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	**10,000**	**–**	**–**	**10,000**	**2.15**	**–**
Clearing Center for City Commercial Banks	**250**	**–**	**–**	**250**	**0.81**	**–**
Total	**23,250**	**–**	**–**	**23,250**		**1,800**

	2019					
Investees	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Percentage of shareholding in investees (%)	Cash dividend for the year
China UnionPay Co., Ltd.	13,000	–	–	13,000	0.34	1,500
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	10,000	–	–	10,000	2.15	–
Clearing Center for City Commercial Banks	250	–	–	250	0.81	–
Total	23,250	–	–	23,250		1,500

For the year ended 31 December 2020 and 31 December 2019, the Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earnings.

(2) Only includes bonds traded on stock exchanges.

(3) Movements of the provision for impairment losses on debt instruments of financial investments at FVOCI are as follows:

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

	2019			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2019	32,672	19,122	–	51,794
Transfer to				
– 12-month ECL				
– Lifetime ECL				
– not credit-impaired	(1,601)	1,601	–	–
– credit-impaired	–	(1,246)	1,246	–
Charge for the year	3,798	36,595	20,784	61,177
As at 31 December 2019	34,869	56,072	22,030	112,971

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

22 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

	Note	**31 December 2020**	31 December 2019
Debt securities issued by the following institutions in Mainland China			
– Government		**26,717,042**	11,196,072
– Policy banks		**11,799,924**	13,143,054
– Banks and other financial institutions		**18,552,129**	11,288,474
– Corporate entities		**1,823,781**	2,475,729
Sub-total		**58,892,876**	38,103,329
Asset management plans		**7,585,510**	16,285,720
Trust fund plans		**1,434,700**	5,052,516
Other investments		**6,150,000**	4,800,000
Sub-total		**15,170,210**	26,138,236
Accrued interest		**1,191,036**	1,118,779
Less: Provision for impairment losses	*22(1)*	**(1,096,520)**	(869,286)
Total		**74,157,602**	64,491,058
Listed	*22(2)*	**20,497,542**	11,566,752
Of which: listed outside Hong Kong		**20,497,542**	11,566,752
Unlisted		**53,660,060**	52,924,306
Total		**74,157,602**	64,491,058

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

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

	2019			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2019	398,696	68,806	–	467,502
Transfer to				
– Lifetime ECL				
– not credit-impaired	(15,581)	15,581	–	–
Charge for the year	98,184	303,600	–	401,784
As at 31 December 2019	481,299	387,987	–	869,286

(2) Only includes bonds traded on stock exchanges.

23 INVESTMENT IN SUBSIDIARY

	31 December 2020	31 December 2019
BQD Financial Leasing Company Limited	**510,000**	510,000
BQD Wealth Management Company Limited	**1,000,000**	–
Total	**1,510,000**	510,000

The subsidiaries are as follows:

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

Notes:

(i) BQD Financial Leasing Company Limited was co-established by the Bank, Qingdao Hanhe Cable Co., Ltd., Qingdao Port International Co., Ltd. and Qingdao Qianwan Container Terminal Co., Ltd. on 15 February 2017, with a registered capital of RMB1.00 billion.

(ii) BQD Wealth Management Company Limited, a limited liability company wholly owned by the Bank, was established on 16 September 2020, with a registered capital of RMB1.00 billion.

24 LONG-TERM RECEIVABLES

	31 December 2020	31 December 2019
Minimum finance lease receivables	**12,125,172**	10,172,304
Less: Unearned finance lease income	**(930,753)**	(952,548)
Present value of finance lease receivables	**11,194,419**	9,219,756
Accrued interest	**94,343**	85,729
Sub-total	**11,288,762**	9,305,485
Less: Provision for impairment losses		
– 12-month ECL	**(192,063)**	(175,027)
– Lifetime ECL		
– not credit-impaired	**(59,446)**	(90,217)
– credit-impaired	**(36,075)**	(2,422)
Net balance	**11,001,178**	9,037,819

Movements of the provision for impairment losses on long-term receivable are as follows:

	2020			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2020	**175,027**	**90,217**	**2,422**	**267,666**
Transfer to				
– Lifetime ECL				
– not credit-impaired	**(5,313)**	**5,313**	**–**	**–**
– credit-impaired	**(2,180)**	**(57,931)**	**60,111**	**–**
Charge for the year	**24,529**	**21,847**	**159,747**	**206,123**
Others	**–**	**–**	**(186,205)**	**(186,205)**
As at 31 December 2020	**192,063**	**59,446**	**36,075**	**287,584**

	2019			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2019	137,367	–	–	137,367
Transfer to				
– Lifetime ECL				
– not credit-impaired	(10,629)	10,629	–	–
– credit-impaired	(224)	–	224	–
Charge for the year	48,513	79,588	2,198	130,299
As at 31 December 2019	175,027	90,217	2,422	267,666

Minimum finance lease receivables, unearned finance lease income and present value of finance lease receivables analysed by remaining period are listed as follows:

	31 December 2020			31 December 2019		
	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Repayable on demand	29,679	(4,092)	25,587	51,938	(5,227)	46,711
Less than 1 year (inclusive)	5,842,581	(562,697)	5,279,884	3,950,432	(480,408)	3,470,024
1 year to 2 years (inclusive)	4,024,894	(265,342)	3,759,552	3,243,597	(300,965)	2,942,632
2 years to 3 years (inclusive)	1,842,646	(79,363)	1,763,283	2,048,164	(125,549)	1,922,615
3 years to 5 years (inclusive)	316,025	(12,653)	303,372	865,077	(39,074)	826,003
Indefinite	69,347	(6,606)	62,741	13,096	(1,325)	11,771
Total	12,125,172	(930,753)	11,194,419	10,172,304	(952,548)	9,219,756

25 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	Construction in progress	Total
Cost						
As at 1 January 2019	2,935,512	566,408	62,955	86,132	210,203	3,861,210
Increase	9,741	67,981	5,480	7,022	–	90,224
Decrease	(27,405)	(17,213)	(3,887)	(6,018)	–	(54,523)
As at 31 December 2019	2,917,848	617,176	64,548	87,136	210,203	3,896,911
Increase	285,368	77,621	5,123	14,728	16,605	399,445
Decrease	(52,419)	(18,747)	(2,532)	(4,610)	–	(78,308)
As at 31 December 2020	3,150,797	676,050	67,139	97,254	226,808	4,218,048
Accumulated depreciation						
As at 1 January 2019	(297,371)	(336,089)	(46,032)	(57,363)	–	(736,855)
Increase	(60,336)	(62,421)	(5,455)	(8,614)	–	(136,826)
Decrease	–	16,186	3,692	5,705	–	25,583
As at 31 December 2019	(357,707)	(382,324)	(47,795)	(60,272)	–	(848,098)
Increase	(60,601)	(72,715)	(4,904)	(8,227)	–	(146,447)
Decrease	–	17,528	2,405	4,332	–	24,265
As at 31 December 2020	(418,308)	(437,511)	(50,294)	(64,167)	–	(970,280)
Net book value						
As at 31 December 2020	2,732,489	238,539	16,845	33,087	226,808	3,247,768
As at 31 December 2019	2,560,141	234,852	16,753	26,864	210,203	3,048,813

As at 31 December 2020 and 31 December 2019, the Group did not have significant property and equipment which were temporarily idle.

As at 31 December 2020, the carrying amount of premises with incomplete title deeds of the Group was RMB12 million (31 December 2019: RMB12 million). Management is in the opinion that the incomplete title deeds would not affect the rights to these assets of the Group.

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

	31 December 2020	31 December 2019
Held in Mainland China		
– Long-term leases (over 50 years)	**16,695**	17,086
– Medium-term leases (10-50 years)	**2,713,504**	2,540,578
– Short-term leases (less than 10 years)	**2,290**	2,477
Total	**2,732,489**	2,560,141

26 RIGHT-OF-USE ASSETS

	Premises	**Others**	**Total**
Cost			
As at 1 January 2019	892,651	4,114	896,765
Additions	46,566	–	46,566
Decrease	(213)	–	(213)
As at 31 December 2019	939,004	4,114	943,118
Additions	162,455	–	162,455
Decrease	(19,803)	–	(19,803)
As at 31 December 2020	1,081,656	4,114	1,085,770
Accumulated amortisation			
As at 1 January 2019	–	–	–
Additions	(123,609)	(651)	(124,260)
Decrease	70	–	70
As at 31 December 2019	(123,539)	(651)	(124,190)
Additions	(140,550)	(651)	(141,201)
Decrease	6,442	–	6,442
As at 31 December 2020	(257,647)	(1,302)	(258,949)
Net value			
As at 31 December 2020	824,009	2,812	826,821
As at 31 December 2019	815,465	3,463	818,928

27 DEFERRED INCOME TAX ASSETS

(1) Analysed by nature

	31 December 2020		31 December 2019	
	Deductible/ (taxable) temporary differences	**Deferred income tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Provision for impairment losses	**8,866,008**	**2,216,502**	6,435,256	1,608,814
Deferred interest income from discounted bills	**100,848**	**25,212**	85,700	21,425
Change in fair value	**544,920**	**136,230**	(549,020)	(137,255)
Others	**360,292**	**90,073**	355,684	88,921
Total	**9,872,068**	**2,468,017**	6,327,620	1,581,905

(2) Analysed by movement

	Provision for impairment losses	**Deferred interest income from discounted bills** *Note (i)*	**Change in fair value**	**Others** *Note (ii)*	**Total**
As at 1 January 2019	1,103,855	35,760	(58,976)	72,139	1,152,778
Recognised in profit or loss	519,338	(14,335)	(57,096)	16,232	464,139
Recognised in other comprehensive income	(14,379)	–	(21,183)	550	(35,012)
As at 31 December 2019	1,608,814	21,425	(137,255)	88,921	1,581,905
Recognised in profit or loss	613,598	3,787	59,270	952	677,607
Recognised in other comprehensive income	(5,910)	–	214,215	200	208,505
As at 31 December 2020	2,216,502	25,212	136,230	90,073	2,468,017

Notes:

(i) Pursuant to the requirement issued by the local tax authority, tax obligations arise when the Group receives discounted bills. The deductible temporary difference, which arises from the interest income recognised in profit or loss using the effective interest method, forms deferred tax assets.

(ii) Others mainly include supplementary retirement benefits accrued, contingent liabilities, and other accrued expenses, which are deductible against taxable income when actual payment occurs.

28 OTHER ASSETS

	Note	**31 December 2020**	31 December 2019
Continuously involved assets		**583,720**	–
Long-term deferred expense		**256,939**	186,590
Intangible assets	*28(1)*	**252,518**	194,243
Prepayments		**221,964**	167,775
Precious metals		**112,656**	113,223
Repossessed assets *(Note (i))*		**50,090**	111,345
Interest receivable *(Note (ii))*	*28(2)*	**18,675**	16,825
Deferred expense		**2,355**	9,563
Others		**399,232**	131,317
Sub-total		**1,898,149**	930,881
Less: Provision for impairment losses		**(10,013)**	(1,005)
Total		**1,888,136**	929,876

Notes:

(i) Repossessed assets mainly included premises, etc. As at 31 December 2020 and 2019, there is no need to recognise provision for impairments losses of repossessed assets.

(ii) As at 31 December 2020, the book value of the group's interest receivable after deducting the provision for impairment is RMB7,359.7 thousand.

(1) Intangible assets

	2020	2019
Cost		
As at 1 January	**518,914**	419,222
Additions	**152,982**	100,036
Decrease	**(12,020)**	(344)
As at 31 December	**659,876**	518,914
Accumulated amortisation		
As at 1 January	**(324,671)**	(254,069)
Additions	**(82,999)**	(70,651)
Decrease	**312**	49
As at 31 December	**(407,358)**	(324,671)
Net value		
As at 31 December	**252,518**	194,243
As at 1 January	**194,243**	165,153

Intangible assets of the Group mainly include software.

(2) Interests receivable

	31 December 2020	31 December 2019
Interest receivable arising from:		
– Loans and advances to customers	**18,042**	16,825
– Long-term receivables	**633**	–
Total	**18,675**	16,825

29 BORROWINGS FROM CENTRAL BANK

	31 December 2020	31 December 2019
Borrowings	**7,337,774**	4,900,000
Re-discounted bills	**3,864,679**	607,454
Accrued interest	**4,616**	29,196
Total	**11,207,069**	5,536,650

30 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2020	31 December 2019
In Mainland China		
– Banks	**313,382**	1,402,959
– Other financial institutions	**16,623,431**	14,933,833
Accrued interest	**87,919**	125,735
Total	**17,024,732**	16,462,527

31 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2020	31 December 2019
In Mainland China		
– Banks	**12,850,606**	9,831,839
Accrued interest	**96,969**	84,418
Total	**12,947,575**	9,916,257

32 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2020	31 December 2019
In Mainland China		
– Central Bank	**17,810,000**	–
– Banks	**14,783,748**	15,525,502
– Other financial institutions	**–**	500,000
Outside Mainland China		
– Banks	**499,691**	–
Accrued interest	**5,910**	1,580
Total	**33,099,349**	16,027,082

(2) Analysed by types of collaterals

	31 December 2020	31 December 2019
Debt securities	**31,618,091**	14,918,780
Discounted bills	**1,475,348**	1,106,722
Accrued interest	**5,910**	1,580
Total	**33,099,349**	16,027,082

33 DEPOSITS FROM CUSTOMERS

	31 December 2020	31 December 2019
Demand deposits		
– Corporate deposits	**111,491,369**	92,593,934
– Personal deposits	**22,899,499**	20,622,060
Sub-total	**134,390,868**	113,215,994
Time deposits		
– Corporate deposits	**71,955,873**	55,286,883
– Personal deposits	**65,439,816**	44,174,283
Sub-total	**137,395,689**	99,461,166
Outward remittance and remittance payables	**428,585**	100,697
Fiscal deposits to be transferred	**16,342**	13,052
Accrued interest	**3,519,226**	2,634,494
Total	**275,750,710**	215,425,403
Including:		
Pledged deposits	**11,767,939**	11,768,173

34 DEBT SECURITIES ISSUED

	31 December 2020	31 December 2019
Debt securities issued *(Note (i))*	**22,487,484**	24,681,106
Certificates of interbank deposit issued *(Note (ii))*	**50,009,437**	51,739,653
Accrued interest	**337,587**	438,140
Total	**72,834,508**	76,858,899

Notes:

(i) Financial debts with fixed interest rates were issued by the Group. The details are as follows:

(a) Ten-year tier-two capital bonds were issued with an interest rate of 5.59% per annum and with a nominal amount of RMB2.2 billion in March 2015. The debts will mature on 5 March 2025 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount, and has redeemed the debts during the first half year of 2020. As at 31 December 2019, the fair value of the debts was RMB2.310 billion.

(b) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB0.5 billion in March 2016. The debts will mature on 14 March 2021 with annual interest payments. As at 31 December 2020, the fair value of the debts was RMB501 million (31 December 2019: RMB502 million).

(c) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB1.0 billion in November 2016. The debts will mature on 24 November 2021 with annual interest payments. As at 31 December 2020, the fair value of the debts was RMB1.002 billion (31 December 2019: RMB1.003 billion).

(d) Ten-year debts were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB3.0 billion in June 2017. The debts will mature on 29 June 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2020, the fair value of the debts was RMB2.964 billion (31 December 2019: RMB3.027 billion).

(e) Ten-year debts were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB2.0 billion in July 2017. The debts will mature on 14 July 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2020, the fair value of the debts was RMB1.976 billion (31 December 2019: RMB2.018 billion).

(f) Three-year Financial Bonds were issued with an interest rate of 3.65% per annum and with a nominal amount of RMB3.0 billion in May 2019. The debts will mature on 22 May 2022 with annual interest payments. As at 31 December 2020, the fair value of the debts was RMB3.009 billion (31 December 2019: RMB3.023 billion).

(g) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB1.0 billion in May 2019. The debts will mature on 22 May 2024 with annual interest payments. As at 31 December 2020, the fair value of the debts was RMB1.010 billion (31 December 2019: RMB1.007 billion).

(h) Three-year Financial Bonds were issued with an interest rate of 3.70% per annum and with a nominal amount of RMB3.0 billion in May 2019. The debts will mature on 31 May 2022 with annual interest payments. As at 31 December 2020, the fair value of the debts was RMB3.011 billion (31 December 2019: RMB3.026 billion).

(i) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB1.0 billion in May 2019. The debts will mature on 31 May 2024 with annual interest payments. As at 31 December 2020, the fair value of the debts was RMB1.010 billion (31 December 2019: RMB1.007 billion).

(j) Three-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.45% per annum and with a nominal amount of RMB3.0 billion in December 2019. The debts will mature on 5 December 2022 with annual interest payments. As at 31 December 2020, the fair value of the debts was RMB2.997 billion (31 December 2019: RMB3.009 billion).

(k) Five-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.84% per annum and with a nominal amount of RMB1.0 billion in December 2019. The debts will mature on 5 December 2024 with annual interest payments. As at 31 December 2020, the fair value of the debts was RMB1.004 billion (31 December 2019: RMB1.000 billion).

(l) Three-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.42% per annum and with a nominal amount of RMB3.0 billion in December 2019. The debts will mature on 16 December 2022 with annual interest payments. As at 31 December 2020, the fair value of the debts was RMB2.995 billion (31 December 2019: RMB3.006 billion).

(m) Five-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.80% per annum and with a nominal amount of RMB1.0 billion in December 2019. The debts will mature on 16 December 2024 with annual interest payments. As at 31 December 2020, the fair value of the debts was RMB1.002 billion (31 December 2019: RMB0.998 billion).

(ii) The Group issued a number of certificates of interbank deposit with duration between 1 month and 1 year. As at 31 December 2020 and 2019, the outstanding fair value of certificates of interbank deposit was RMB50.023 billion and RMB51.789 billion respectively.

35 LEASE LIABILITIES

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

	31 December 2020	31 December 2019
Less than 1 year (inclusive)	**123,746**	107,526
1 year to 2 years (inclusive)	**102,486**	93,941
2 years to 3 years (inclusive)	**80,705**	77,565
3 years to 5 years (inclusive)	**121,661**	149,731
More than 5 years	**73,593**	29,917
Total undiscounted cash flows of lease liabilities	**502,191**	458,680
Lease liabilities on statement of financial position	**453,671**	427,429

36 OTHER LIABILITIES

	Note	**31 December 2020**	31 December 2019
Payable raising from fiduciary activities		**1,608,948**	73,516
Employee benefits payable	*36(1)*	**864,886**	827,256
Risk guarantee deposits for leasing business		**728,835**	534,194
Continuously involved liabilities		**583,720**	–
Settlement payable		**266,424**	117,378
Taxes payable	*36(2)*	**166,877**	143,884
ECL on credit commitments	*36(3)*	**102,263**	99,715
Dividend payable		**17,765**	16,548
Others		**543,147**	481,662
Total		**4,882,865**	2,294,153

(1) Employee benefits payable

	31 December 2020	31 December 2019
Salaries, bonuses and allowances payable	**675,187**	663,139
Social insurance and housing allowances payable	**103**	184
Staff welfare expenses	**58,920**	45,600
Staff education expenses	**20,709**	16,135
Labor union expenses	**17,179**	20,834
Post-employment benefits-defined contribution plans	**10,678**	164
Supplementary retirement benefits *(note (i))*	**82,110**	81,200
Total	**864,886**	827,256

Note:

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

Early retirement plan

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

Supplementary retirement plan

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

(2) Taxes payable

	31 December 2020	31 December 2019
Value added tax payable	**140,169**	124,039
Urban construction tax and surcharges payable	**25,205**	19,076
Others	**1,503**	769
Total	**166,877**	143,884

(3) Expected credit loss on credit commitments

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

	2020			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2020	**94,738**	**4,922**	**55**	**99,715**
Transfer to				
– 12-month ECL	**2,574**	**(2,574)**	**–**	**–**
Charge/(Release) for the year	**4,852**	**(2,249)**	**(55)**	**2,548**
As at 31 December 2020	**102,164**	**99**	**–**	**102,263**

	2019			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2019	103,845	1,101	18	104,964
Transfer to				
– Lifetime ECL				
– not credit-impaired	(252)	252	–	–
(Release)/Charge for the year	(8,855)	3,569	37	(5,249)
As at 31 December 2019	94,738	4,922	55	99,715

37 SHARE CAPITAL

Authorised and issued share capital

	31 December 2020	31 December 2019
Number of shares authorised, issued and fully paid at nominal value (in thousands)	**4,509,690**	4,509,690

In January 2019, the Bank issued 451 million ordinary shares with a nominal value of RMB1 at RMB4.52 per share. After deducting the issuance costs, the premium arising from the issuance of new shares amounting to RMB1.512 billion was recorded in capital reserve. After the above issuance, the balance of the share capital was RMB4.510 billion, and the balance of the capital reserve was RMB8.338 billion.

38 PREFERENCE SHARES

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

Financial instrument outstanding	Issue date	Accounting classification	Dividend rate	Issue price	Amount *(in thousands of shares)*	In original currency *(in thousands)*	In RMB *(in thousands)*	Maturity	Conversion
Overseas Preference Shares	19 Sept 2017	Equity	5.5%	USD20/Share	60,150	1,203,000	7,883,259	None	None
Total							7,883,259		
Less: Issue fees							(29,295)		
Book value							7,853,964		

(2) Main Clauses

(a) Dividend

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

(b) Conditions to distribution of dividends

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

(c) Dividend stopper

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

(d) Order of distribution and liquidation method

The USD preference shareholders will rank equally for payment. The preference shareholders will be subordinated to the depositors, ordinary creditors and holders of Tier 2 capital bonds, but will be senior to the ordinary shareholders.

(e) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier 1 Capital Trigger Event (Core Tier 1 Capital Adequacy Ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert all or part of the preference shares into H shares, having notified and obtained the consent of regulatory authority but without the need for the consent of preference shareholders or ordinary shareholders, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Bank to above 5.125%; If preference shares were converted to H shares, it could not be converted to preference shares again.

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

(f) Redemption

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

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

(g) Dividend setting mechanism

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

(3) Changes in preference shares outstanding

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

1 January 2019		Increase during the year		31 December 2019	
Amount (in thousands of shares)	*Book value (in thousands of RMB)*	*Amount (in thousands of shares)*	*Book value (in thousands of RMB)*	*Amount (in thousands of shares)*	*Book value (in thousands of RMB)*
60,150	7,853,964	–	–	60,150	7,853,964

(4) Interests attribute to equity instruments' holders

Item	**31 December 2020**	31 December 2019
Total equity attribute to equity holders of the Bank	**30,285,174**	29,915,460
– Equity attribute to ordinary shareholders of the Bank	**22,431,210**	22,061,496
– Equity attribute to preference shareholders of the Bank	**7,853,964**	7,853,964
Total equity attribute to non-controlling interests	**621,684**	562,458
– Equity attribute to non-controlling interests of ordinary shares	**621,684**	562,458

39 RESERVES

(1) Capital reserve

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

(2) Surplus reserve

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

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

(3) General reserve

From 1 July 2012, pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the MOF in March 2012, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets within five years.

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

The Bank set aside a general reserve upon approval by the board of directors. The general reserve balance of the Bank as at 31 December 2020 amounted to RMB4.981 billion, which has reached 1.5% of the year ending balance of the Bank's gross risk-bearing assets.

(4) Other comprehensive income

		2020				
Item	**Balance at the beginning of the year**	**Before-tax amount**	**Less: Previously recognised amount transferred to profit or loss**	**Less: Income tax expense**	**Net-of-tax amount**	**Balance at the end of the year**
Items that will not be reclassified to profit or loss						
Including: Remeasurements of defined benefit plan	**(7,591)**	**(800)**	**–**	**200**	**(600)**	**(8,191)**
Items that may be reclassified to profit or loss						
Including: Changes in fair value from debt investments measured at FVOCI	**571,405**	**(285,652)**	**(571,206)**	**214,215**	**(642,643)**	**(71,238)**
Credit losses of debt investments measured at FVOCI	**94,416**	**72,189**	**(48,549)**	**(5,910)**	**17,730**	**112,146**
Total	**658,230**	**(214,263)**	**(619,755)**	**208,505**	**(625,513)**	**32,717**

Item	Balance at the beginning of the year	2019 Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Balance at the end of the year
Items that will not be reclassified to profit or loss						
Including: Remeasurements of defined benefit plan	(5,941)	(2,200)	–	550	(1,650)	(7,591)
Items that may be reclassified to profit or loss						
Including: Changes in fair value from debt investments measured at FVOCI	507,856	496,813	(412,081)	(21,183)	63,549	571,405
Credit losses of debt investments measured at FVOCI	51,278	95,759	(38,242)	(14,379)	43,138	94,416
Total	553,193	590,372	(450,323)	(35,012)	105,037	658,230

(5) Movements in components of equity

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

	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
Balance at 1 January 2020		4,509,690	7,853,964	8,337,869	1,626,662	4,400,258	658,230	2,452,203	29,838,876
Profit for the year		–	–	–	–	–	–	2,330,752	2,330,752
Other comprehensive income		–	–	–	–	–	(625,513)	–	(625,513)
Total comprehensive income		–	–	–	–	–	(625,513)	2,330,752	1,705,239
Appropriation of profit:									
– Appropriation to surplus reserve	*40*	–	–	–	233,075	–	–	(233,075)	–
– Appropriation to general reserve	*40*	–	–	–	–	581,005	–	(581,005)	–
– Dividends	*40*	–	–	–	–	–	–	(1,398,845)	(1,398,845)
Balance at 31 December 2020		4,509,690	7,853,964	8,337,869	1,859,737	4,981,263	32,717	2,570,030	30,145,270

	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
Balance at 1 January 2019		4,058,713	7,853,964	6,826,276	1,403,575	3,969,452	553,193	2,297,164	26,962,337
Profit for the year		–	–	–	–	–	–	2,230,867	2,230,867
Other comprehensive income		–	–	–	–	–	105,037	–	105,037
Total comprehensive income		–	–	–	–	–	105,037	2,230,867	2,335,904
Ordinary shares issuance		450,977	–	1,511,593	–	–	–	–	1,962,570
Appropriation of profit:									
– Appropriation to surplus reserve	40	–	–	–	223,087	–	–	(223,087)	–
– Appropriation to general reserve	40	–	–	–	–	430,806	–	(430,806)	–
– Dividends	40	–	–	–	–	–	–	(1,421,935)	(1,421,935)
Balance at 31 December 2019		4,509,690	7,853,964	8,337,869	1,626,662	4,400,258	658,230	2,452,203	29,838,876

40 PROFIT APPROPRIATION

(1) At the Bank's board of directors meeting held on 30 March 2021, the directors approved the following profit appropriation for the year ended 31 December 2020:

– Appropriated RMB233 million to surplus reserve;

– Appropriated RMB581 million to general reserve;

– Declared cash dividends to all ordinary shareholders of approximately RMB812 million representing RMB1.80 per 10 shares (before tax).

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

(2) At the Bank's board of directors meeting held on 28 August 2020. According to the terms of issuance of the offshore preference shares and related authorization, the chairman, the president and the secretary to the board of directors of the Bank jointly signed the Decision on Full Distribution of Dividends on Offshore Preference Shares of Bank of Qingdao Co., Ltd. Dividend for overseas preference shares to be distributed amounts to USD73.5167 million (before tax), calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date is 19 September 2020, and the amount of dividend is equivalent to approximately RMB497 million (before tax).

(3) At the Bank's 2019 annual general meeting held on 7 May 2020, the shareholders approved the following profit appropriation for the year ended 31 December 2019:

– Appropriated RMB223 million to surplus reserve;

– Appropriated RMB431 million to general reserve;

– Declared cash dividends to all ordinary shareholders of approximately RMB902 million representing RMB2.00 per 10 shares (before tax).

(4) At the Bank's board of directors meeting held on 23 August 2019. According to the terms of issuance of the offshore preference shares and related authorization, the chairman, the president and the secretary to the board of directors of the Bank jointly signed the Decision on Full Distribution of Dividends on Offshore Preference Shares of Bank of Qingdao Co., Ltd. Dividend for overseas preference shares to be distributed amounts to USD73.5167 million (before tax), calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date is 19 September 2019, and the amount of dividend is equivalent to approximately RMB520 million (before tax).

(5) At the 2018 annual general meeting held on 17 May 2019, the shareholders approved the following profit appropriation for the year ended 31 December 2018:

- Appropriated RMB200 million to surplus reserve;

- Declared cash dividends to all ordinary shareholders of approximately RMB902 million representing RMB2.00 per 10 shares (before tax).

41 Notes to consolidated statement of cash flows

(1) Cash and cash equivalents:

	31 December 2020	31 December 2019
Cash	**565,606**	520,460
Surplus deposit reserves with central bank	**24,566,884**	19,723,270
Original maturity within three months:		
– Deposits with banks and other financial institutions	**2,568,883**	1,311,035
– Placements with banks and other financial institutions	**–**	446,477
– Debt securities investments	**1,578,108**	499,507
Total	**29,279,481**	22,500,749

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

	Debt securities issued	**Interest payable arising from debt securities issued**	**Lease liabilities**	**Total**
Balance at 1 January 2020	**76,420,759**	**438,140**	**427,429**	**77,286,328**
Changes from financing cash flows:				
– Net proceeds from debt securities issued	**60,472,387**	**–**	**–**	**60,472,387**
– Interest paid on debt securities issued	**(1,729,382)**	**(1,006,580)**	**–**	**(2,735,962)**
– Repayment of debt securities issued	**(64,300,618)**	**–**	**–**	**(64,300,618)**
– Repayment of lease liabilities	**–**	**–**	**(150,363)**	**(150,363)**
Total changes from financing cash flows	**(5,557,613)**	**(1,006,580)**	**(150,363)**	**(6,714,556)**
Other changes:				
– Increase in lease liabilities	**–**	**–**	**158,970**	**158,970**
– Interest expense	**1,633,775**	**906,027**	**17,635**	**2,557,437**
Balance at 31 December 2020	**72,496,921**	**337,587**	**453,671**	**73,288,179**

	Debt securities issued	Interest payable arising from debt securities issued	Lease liabilities	Total
Balance at 1 January 2019	64,896,661	343,846	458,964	65,699,471
Changes from financing cash flows:				
– Net proceeds from debt securities issued	83,798,288	–	–	83,798,288
– Interest paid on debt securities issued	–	(638,284)	–	(638,284)
– Repayment of debt securities issued	(74,130,000)	–	–	(74,130,000)
– Repayment of lease liabilities	–	–	(96,505)	(96,505)
Total changes from financing cash flows	9,668,288	(638,284)	(96,505)	8,933,499
Other changes:				
– Increase in lease liabilities	–	–	47,728	47,728
– Interest expense	1,855,810	732,578	17,242	2,605,630
Balance at 31 December 2019	76,420,759	438,140	427,429	77,286,328

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

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

Major shareholders' information

Company name	Number of ordinary shares of the Bank held by the Company *(in thousands)*	Proportion of ordinary shares of the Bank held by the Company: 31 December 2020	Proportion of ordinary shares of the Bank held by the Company: 31 December 2019	Registered location	Business	Legal form	Legal representative
Intesa Sanpaolo S.p.A. ("ISP")	624,754	**13.85%**	13.85%	Italy	Commercial banking	Joint stock limited company	Gian Maria GROS-PIETRO
Qingdao Conson Industrial Co., Ltd. ("Qingdao Conson")	503,556	**11.17%**	11.17%	Qingdao	State-owned assets operation and investment, import and export of goods and technology	Limited liability company	WANG Jianhui
Qingdao Haier Investment and Development Co., Ltd. ("Haier Investment")	409,693	**9.08%**	9.08%	Qingdao	Outbound investment	Limited liability company	ZHANG Ruimin
AMTD Strategic Investment Limited ("AMTD")	196,882	**4.37%**	6.69%	Hong Kong	Outbound investment	Limited company	WONG Yui Keung Marcellus

Changes in ordinary shares of the Bank held by major shareholders

	ISP		Qingdao Conson		Haier Investment		AMTD	
	Number	**Percentage**	**Number**	**Percentage**	**Number**	**Percentage**	**Number**	**Percentage**
As at 1 January 2019	624,754	15.39%	503,556	12.41%	409,693	10.09%	301,800	7.44%
Decrease	–	(1.54%)	–	(1.24%)	–	(1.01%)	–	(0.75%)
As at 31 December 2019	624,754	13.85%	503,556	11.17%	409,693	9.08%	301,800	6.69%
Decrease	–	–	–	–	–	–	(104,918)	(2.32%)
As at 31 December 2020	624,754	13.85%	503,556	11.17%	409,693	9.08%	196,882	4.37%

Changes in registered capital of major shareholders

	Currency	**31 December 2020**	31 December 2019
ISP	EUR	**10,084 Million**	9,086 Million
Qingdao Conson	RMB	**2,000 Million**	2,000 Million
Haier Investment	RMB	**111 Million**	111 Million

(b) Subsidiary of the Bank

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

(c) Other related parties

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

(2) Related party transactions and balances

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

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

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

	ISP and its group	Qingdao Conson and its group	Haier Investment and its group	AMTD and its group	Other corporate related parties	Other individual related parties	Total	Proportion to gross amount/ balance of similar transactions
As at 31 December 2019								
On-balance sheet items:								
Loans and advances to customers *(Note(i))*	–	878,451	316,642	–	549,584	15,315	1,759,992	1.01%
Financial investments measured at amortised cost *(Note(ii))*	–	–	701,045	–	–	–	701,045	1.07%
Financial investments at FVOCI	–	–	–	–	213,184	–	213,184	0.39%
Financial investments at FVTPL	–	–	–	2,456,323	–	–	2,456,323	10.72%
Deposits with banks and other financial institutions	5,675	–	–	–	–	–	5,675	0.43%
Placements with banks and other financial institutions	–	–	825,856	–	–	–	825,856	24.80%
Deposits from customers	194,167	378,209	445,786	–	521,864	56,259	1,596,285	0.74%
Deposits from banks and other financial institutions	–	259	1,529	–	–	–	1,788	0.01%
Off-balance sheet items:								
Letters of guarantees *(Note(iv))*	–	–	18	–	–	–	18	0.00%
2019								
Interest income	–	94,557	73,332	–	60,130	611	228,630	1.58%
Interest expense	6,697	31,060	11,918	–	7,972	1,231	58,878	0.77%
Fee and commission income	–	–	16,948	–	54,772	–	71,720	5.33%
Net gains arising from investments	–	–	–	94,179	–	–	94,179	6.82%
Operating expenses	–	566	–	–	–	–	566	0.02%
Other operating losses	–	–	–	–	8,948	–	8,948	34.06%

Notes:

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

	31 December 2020	31 December 2019
Qingdao Haichen real estate development Co., Ltd.	**371,600**	315,800
Qingdao Conson Financial Holdings Co., Ltd.	**–**	875,380
Qingdao Baheal Medical INC.	**–**	28,748
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. *(Note)*	**Not Applicable**	498,500
Qingdao Huatong Military Industry Investment Co., Ltd. *(Note)*	**Not Applicable**	10,000
Qingdao Yangfan Shipbuilding Co., Ltd. *(Note)*	**Not Applicable**	10,000
Individuals	**11,866**	15,283
Total	**383,466**	1,753,711

Note:

As at 31 December 2020, these entities were no longer related parties of the Group.

(ii) Financial investments measured at amortised cost (excluding accrued interest) with related parties

	31 December 2020	31 December 2019
Qingdao Changyuan Land Co., Ltd.	**–**	700,000
Total	**–**	700,000

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

	31 December 2020	31 December 2019
Qingdao Haier Global Innovation Model Research Co., Ltd.	**300,000**	–
Total	**300,000**	–

(iv) Letters of guarantees with related parties

	31 December 2020	31 December 2019
Qingdao Haier Home Integration Co., Ltd.	**–**	18
Total	**–**	18

(b) Transactions with subsidiary

	31 December 2020	31 December 2019
Balances at the end of the year:		
On-balance sheet items:		
Deposits from banks and other financial institutions	**280,450**	330,113
Placements with banks and other financial institutions	**–**	202,605

	2020	2019
Transactions during the year:		
Interest income	**3,712**	2,605
Interest expense	**4,330**	2,909
Fee and commission income	**21**	24
Fee and commission expense	**19,691**	–
Other operating income	**2,416**	2,548

(3) Key management personnel

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

	2020	2019
Remuneration of key management personnel	**19,468**	22,880

The total compensation package for certain key management personnel for the year ended 31 December 2020 have not yet been finalized. The difference in emoluments is not expected to have significant impact on the Group's financial statements for the year ended 31 December 2020.

As at 31 December 2020, the credit card overdraft balance of the Bank to the key management personnel amounted to RMB37.6 thousand (31 December 2019: RMB219.7 thousand), which have been included in loans and advances to related parties stated in Note 42(2).

(4) Plan and transaction of annuity

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

43 SEGMENT REPORTING

Segment reporting is disclosed in accordance with the accounting policy set out in Note 2(24).

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

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

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

Corporate banking

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

Retail banking

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

Financial market business

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

Un-allocated items and others

This segment contains related business of the subsidiary, head office assets, liabilities, income and expenses that are not directly attributable to a segment.

	2020				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	**4,835,303**	**1,227,472**	**1,805,044**	**278,712**	**8,146,531**
Internal net interest income/(expense)	**968,532**	**482,628**	**(1,451,160)**	**–**	**–**
Net interest income	**5,803,835**	**1,710,100**	**353,884**	**278,712**	**8,146,531**
Net fee and commission income	**152,075**	**373,392**	**993,360**	**172,797**	**1,691,624**
Net trading losses	**(179,736)**	**(133,621)**	**(254,071)**	**–**	**(567,428)**
Net gains arising from investments	**19,717**	**–**	**1,228,883**	**–**	**1,248,600**
Other operating income	**507**	**769**	**32**	**27,439**	**28,747**
Operating income	**5,796,398**	**1,950,640**	**2,322,088**	**478,948**	**10,548,074**
Operating expenses	**(1,946,391)**	**(1,157,615)**	**(468,405)**	**(103,611)**	**(3,676,022)**
Credit losses	**(2,958,130)**	**(188,100)**	**(791,081)**	**(206,445)**	**(4,143,756)**
Profit before taxation	**891,877**	**604,925**	**1,062,602**	**168,892**	**2,728,296**
Other segment information					
– Depreciation and amortisation	**(162,566)**	**(246,086)**	**(10,213)**	**(10,005)**	**(428,870)**
– Capital expenditure	**179,821**	**272,209**	**11,297**	**266,609**	**729,936**

	31 December 2020				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	**176,838,852**	**76,223,628**	**192,141,453**	**12,155,655**	**457,359,588**
Deferred tax assets					**2,468,017**
Total assets					**459,827,605**
Segment liabilities/Total liabilities	**199,348,948**	**92,056,367**	**127,234,526**	**10,280,906**	**428,920,747**
Credit commitments	**30,230,165**	**6,292,802**	**–**	**–**	**36,522,967**

	2019				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	3,889,936	1,057,916	1,691,044	207,159	6,846,055
Internal net interest income/(expense)	1,064,241	384,366	(1,448,607)	–	–
Net interest income	4,954,177	1,442,282	242,437	207,159	6,846,055
Net fee and commission income	248,387	608,523	247,158	112,812	1,216,880
Net trading gains	44,294	32,809	75,361	–	152,464
Net gains arising from investments	18,268	–	1,362,169	–	1,380,437
Other operating income	1,343	1,933	112	22,885	26,273
Operating income	5,266,469	2,085,547	1,927,237	342,856	9,622,109
Operating expenses	(1,531,216)	(1,090,201)	(480,864)	(64,481)	(3,166,762)
Credit losses	(2,876,532)	(355,890)	(264,071)	(130,299)	(3,626,792)
Profit before taxation	858,721	639,456	1,182,302	148,076	2,828,555
Other segment information					
– Depreciation and amortisation	(161,450)	(232,628)	(13,478)	(2,103)	(409,659)
– Capital expenditure	119,227	171,791	9,953	380	301,351

	31 December 2019				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	153,736,679	69,101,737	140,151,823	9,050,006	372,040,245
Deferred tax assets					1,581,905
Total assets					373,622,150
Segment liabilities/Total liabilities	155,586,703	67,322,911	112,133,742	8,100,876	343,144,232
Credit commitments	24,612,840	5,045,541	–	–	29,658,381

44 RISK MANAGEMENT

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

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

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

Each department within the Group implements risk management policies and procedures in accordance with their respective management functions and is responsible for their own risk management in their respective business areas.

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

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

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

(1) Credit risk

(a) Definition and scope

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

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

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

(b) Credit risk assessment method

Stage of financial instruments

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

The three risk stages are defined as follows:

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

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

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

Significant increases in credit risk

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

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

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

The Group compares the risk of default of a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics as at the end of the reporting period and its risk of default at the date of initial application to determine changes in the risk of default during the lifetime of a financial instrument or a portfolio of financial instruments.

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

Definition of default

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

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

Credit impairment assessment

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

– significant financial difficulty of the borrower or issuer;

– A breach of contract, such as a default or delinquency in interest or principal payments for over 90 days;

– For economic or contractual reasons relating to the borrower's financial difficulty, the Group having granted to the borrower a concession that would not otherwise consider;

– It is probable that the borrower will enter bankruptcy or other financial reorganization; or

– The disappearance of an active market for that financial asset because of financial difficulties.

Measuring ECL – the parameters, assumptions and valuation techniques

Based on whether there is significant increase in credit risk and whether the asset has suffered credit impairment, the Group measures provision for loss of different assets with 12-month ECL or lifetime ECL respectively. The expected credit loss is the result of the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account the time value of the currency. The definitions of these terms are as follows:

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan.

- EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan.

- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies due to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The assumptions underlying the ECL calculation, such as how the PDs and LGDs of different maturity profiles change are monitored and reviewed on a quarterly basis by the Group.

During the year ended 31 December 2020, there has been no significant changes in the estimate techniques and key assumptions of the Group.

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

- The sustainability of the borrower's business plan;

- The borrower's ability to improve performance once a financial difficulty has arisen;

- The estimated recoverable cash flows from projects and liquidation;

- The availability of other financial support and the realisable value of collateral; and

- The timing of the expected cash flows.

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

Forward-looking information included in the ECL measurement model

Both the assessment of significant increase in credit risk and the measurement of ECL involve forward-looking information. Based on the analysis on historical data, the Group identified key economic indicators that affect the credit risk and ECL of asset portfolios, including consumer price index (CPI), industrial added value (IAV), and monetary aggregates (M2) etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting future economic indicators.

In 2020, the Group has taken into account different macroeconomic scenarios, combined with the impact of other factors such as COVID-19 pandemic on economic development trends, and made forward-looking forecasts of key economic indicators, including the average forecasted year-on-year growth rate of CPI, used to estimate ECL, which is about 3% in the neutral scenario for 2021.

The Group has carried out sensitivity analysis of key economic variables, used in forward-looking measurement. As at 31 December 2020, when the key economic indicators in the neutral scenario move up or down by 5%, the ECL will not change by more than 1.5%.

When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of scenarios, and considers the qualitative and maximum indicators.

Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.

Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the ECL were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

Write-off policy

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

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

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

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

(d) Collaterals and other credit enhancements

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

– Real estate and land use rights

– Machinery and equipment

– Right to receive payments and accounts receivable

– Financial instruments such as time deposits, debt securities and equities

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

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

(e) Maximum credit risk exposure

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

The Group

	31 December 2020	31 December 2019
Deposits with central bank	**46,653,791**	39,184,380
Deposits with banks and other financial institutions	**2,568,919**	1,312,468
Placements with banks and other financial institutions	**–**	3,313,603
Derivative financial assets	**286,400**	12,436
Financial assets held under resale agreements	**9,726,476**	2,325,771
Loans and advances to customers	**202,358,484**	169,158,291
Financial investments		
– Financial investments measured at FVTPL	**12,886,535**	13,904,305
– Financial investments measured at FVOCI	**66,804,752**	54,950,531
– Financial investments measured at amortised cost	**74,157,602**	64,491,058
Long-term receivables	**11,001,178**	9,037,819
Others	**398,303**	147,137
Subtotal	**426,842,440**	357,837,799
Off-balance sheet credit commitments	**36,522,967**	29,658,381
Total maximum credit risk exposure	**463,365,407**	387,496,180

(f) Risk concentrations

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

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

	31 December 2020		31 December 2019	
	Amount	**Percentage**	Amount	Percentage
Manufacturing	**27,657,606**	**13.37%**	23,033,775	13.32%
Construction	**24,704,927**	**11.95%**	19,902,351	11.52%
Renting and business activities	**21,806,775**	**10.55%**	11,228,367	6.50%
Real estate	**20,970,449**	**10.14%**	19,673,198	11.39%
Water, environment and public utility management	**19,600,238**	**9.48%**	12,287,741	7.11%
Wholesale and retail trade	**15,003,646**	**7.26%**	11,628,689	6.73%
Production and supply of electric and heating power, gas and water	**3,797,074**	**1.84%**	4,443,352	2.57%
Transportation, storage and postal services	**3,082,904**	**1.49%**	3,247,547	1.88%
Scientific Research and Technical Services Industries	**2,241,260**	**1.08%**	2,305,828	1.33%
Others	**7,127,246**	**3.45%**	10,535,778	6.10%
Subtotal for corporate loans and advances	**145,992,125**	**70.61%**	118,286,626	68.45%
Subtotal for personal loans and advances	**60,755,096**	**29.39%**	54,508,817	31.55%
Total for loans and advances to customers	**206,747,221**	**100.00%**	172,795,443	100.00%

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

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

	31 December 2020					
	Unrated	**AAA**	**AA**	**A**	**Below A**	**Total**
Debt securities (analysed by type of issuers):						
Government	**–**	**42,043,464**	**–**	**–**	**–**	**42,043,464**
Policy banks	**–**	**18,236,685**	**–**	**–**	**–**	**18,236,685**
Banks and other financial institutions	**–**	**28,848,403**	**1,024,690**	**–**	**418,859**	**30,291,952**
Corporate entities	**49,379**	**10,886,302**	**12,345,129**	**162,340**	**4,895,424**	**28,338,574**
Total	**49,379**	**100,014,854**	**13,369,819**	**162,340**	**5,314,283**	**118,910,675**

	31 December 2019					
	Unrated	AAA	AA	A	Below A	Total
Debt securities (analysed by type of issuers):						
Government	–	23,606,665	–	–	–	23,606,665
Policy banks	–	17,918,702	–	–	–	17,918,702
Banks and other financial institutions	–	18,276,243	588,001	500,391	625,750	19,990,385
Corporate entities	250,025	6,777,490	9,385,573	501,151	6,531,987	23,446,226
Total	250,025	66,579,100	9,973,574	1,001,542	7,157,737	84,961,978

(g) Analysis on the credit quality of financial instruments

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

The Group

	31 December 2020							
Financial assets measured at amortised cost	**Book balance**				**Provision for expected credit losses**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and balances with central banks	**47,219,397**	**–**	**–**	**47,219,397**	**–**	**–**	**–**	**–**
Deposits with banks and other financial institutions	**2,569,828**	**–**	**–**	**2,569,828**	**(909)**	**–**	**–**	**(909)**
Financial assets held under resale agreements	**9,735,116**	**–**	**–**	**9,735,116**	**(8,640)**	**–**	**–**	**(8,640)**
Loans and advances to customers								
– General corporate loans and advances	**133,689,112**	**2,978,016**	**2,862,647**	**139,529,775**	**(1,861,218)**	**(862,231)**	**(2,021,614)**	**(4,745,063)**
– Personal loans and advances	**60,338,517**	**232,329**	**330,505**	**60,901,351**	**(252,539)**	**(60,983)**	**(229,216)**	**(542,738)**
Financial investments	**73,294,008**	**1,626,202**	**333,912**	**75,254,122**	**(282,041)**	**(541,384)**	**(273,095)**	**(1,096,520)**
Long-term receivables	**10,848,974**	**377,392**	**62,396**	**11,288,762**	**(192,063)**	**(59,446)**	**(36,075)**	**(287,584)**
Total	**337,694,952**	**5,213,939**	**3,589,460**	**346,498,351**	**(2,597,410)**	**(1,524,044)**	**(2,560,000)**	**(6,681,454)**

	31 December 2020							
	Book balance				**Provision for expected credit losses**			
Financial assets measured at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers								
– Discounted bills	**7,215,159**	**–**	**–**	**7,215,159**	**(14,781)**	**–**	**–**	**(14,781)**
Financial investments	**65,610,916**	**1,143,302**	**50,534**	**66,804,752**	**(51,291)**	**(20,935)**	**(62,521)**	**(134,747)**
Total	**72,826,075**	**1,143,302**	**50,534**	**74,019,911**	**(66,072)**	**(20,935)**	**(62,521)**	**(149,528)**
Off-balance sheet credit commitments	**36,514,860**	**8,057**	**50**	**36,522,967**	**(102,164)**	**(99)**	**–**	**(102,263)**

Financial assets measured at amortised cost	31 December 2019							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central banks	39,704,840	–	–	39,704,840	–	–	–	–
Deposits with banks and other financial institutions	1,313,043	–	–	1,313,043	(575)	–	–	(575)
Placements with banks and other financial institutions	3,330,171	–	–	3,330,171	(16,568)	–	–	(16,568)
Financial assets held under resale agreements	2,326,713	–	–	2,326,713	(942)	–	–	(942)
Loans and advances to customers								
– General corporate loans and advances	104,427,425	5,597,701	2,651,312	112,676,438	(1,281,247)	(1,135,766)	(1,569,797)	(3,986,810)
– Personal loans and advances	53,804,306	586,358	250,999	54,641,663	(241,776)	(41,609)	(139,437)	(422,822)
Financial investments	63,840,812	1,519,532	–	65,360,344	(481,299)	(387,987)	–	(869,286)
Long-term receivables	8,891,003	406,598	7,884	9,305,485	(175,027)	(90,217)	(2,422)	(267,666)
Total	277,638,313	8,110,189	2,910,195	288,658,697	(2,197,434)	(1,655,579)	(1,711,656)	(5,564,669)

Financial assets measured at FVOCI	31 December 2019							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers								
– Discounted bills	6,249,822	–	–	6,249,822	(12,917)	–	–	(12,917)
Financial investments	52,243,475	2,675,825	31,231	54,950,531	(34,869)	(56,072)	(22,030)	(112,971)
Total	58,493,297	2,675,825	31,231	61,200,353	(47,786)	(56,072)	(22,030)	(125,888)
Off-balance sheet credit commitments	29,575,025	82,987	369	29,658,381	(94,738)	(4,922)	(55)	(99,715)

Note:

(i) As simplified approach of impairment allowance is applied to other financial assets measured at amortised cost, three-stage model is not applicable.

(2) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, exchange rates, commodity prices, stock prices and other prices.

The Group has constructed a market risk management system that formulates procedures to identify, measure, supervise and control market risks. This system aims to limit market risk to an acceptable level through examining and approving new products and quota management.

The Group employs sensitivity analysis, interest repricing gap analysis and foreign currency gap analysis to measure and monitor market risks. The Group classifies the transactions as banking book and trading book transactions, and applies different approaches based on the nature and characteristics of these books to monitor the risks.

Interest rate risk and currency risk are major market risks that confront the Group.

(a) Interest rate risk

The Group's interest rate exposures mainly comprise the mismatching of interest-earning assets and interest-bearing liabilities' repricing dates, as well as the effect of interest rate volatility on trading positions.

The Group primarily uses gap analysis to assess and monitor its repricing risk and adjusts the ratio of floating and fixed rate accounts, the loan repricing cycle, as well as optimises the term structure of its deposits according to the gap status.

The Group implements various methods, such as sensitivity analysis and scenario simulation to measure and monitor interest risk exposure; risk exposure limits, such as interest rate sensitivity and risk exposure are set regularly, and the relevant implementation of these limits is also supervised, managed and reported on a regular basis.

The following tables indicate the assets and liabilities analysis as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	31 December 2020					
	Total	Non-interest bearing	Less than Three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	47,219,397	772,999	46,446,398	–	–	–
Deposits with banks and other financial institutions	2,568,919	945	2,567,974	–	–	–
Financial assets held under resale agreements	9,726,476	536	9,725,940	–	–	–
Loans and advances to customers *(Note (i))*	202,358,484	780,189	44,812,630	123,282,741	32,059,405	1,423,519
Financial investments *(Note (ii))*	178,236,009	2,433,932	28,892,907	23,985,340	57,862,325	65,061,505
Long-term receivables	11,001,178	92,202	4,618,966	2,749,007	3,541,003	–
Others	8,717,142	8,717,142	–	–	–	–
Total assets	459,827,605	12,797,945	137,064,815	150,017,088	93,462,733	66,485,024
Liabilities						
Borrowings from central bank	11,207,069	4,616	3,425,475	7,776,978	–	–
Deposits from banks and other financial institutions	17,024,732	87,919	11,974,813	4,962,000	–	–
Placements from banks and other financial institutions	12,947,575	96,969	6,087,107	6,763,499	–	–
Financial assets sold under repurchase agreements	33,099,349	5,910	33,093,439	–	–	–
Deposits from customers	275,750,710	3,964,154	168,676,139	44,435,723	58,477,093	197,601
Debt securities issued	72,834,508	337,587	14,850,629	36,658,605	15,992,125	4,995,562
Others	6,056,804	5,603,133	36,271	80,909	279,542	56,949
Total liabilities	428,920,747	10,100,288	238,143,873	100,677,714	74,748,760	5,250,112
Asset-liability gap	30,906,858	2,697,657	(101,079,058)	49,339,374	18,713,973	61,234,912

	31 December 2019					
	Total	Non-interest bearing	Less than Three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	39,704,840	653,973	39,050,867	–	–	–
Deposits with banks and other financial institutions	1,312,468	2,008	1,310,460	–	–	–
Placements with banks and other financial institutions	3,313,603	82,331	944,727	2,286,545	–	–
Financial assets held under resale agreements	2,325,771	113	2,325,658	–	–	–
Loans and advances to customers *(Note (i))*	169,158,291	772,480	44,674,471	105,982,468	16,079,017	1,649,855
Financial investments *(Note (ii))*	142,377,400	2,193,661	13,402,331	27,738,081	58,535,322	40,508,005
Long-term receivables	9,037,819	85,729	6,756,565	2,195,525	–	–
Others	6,391,958	6,391,958	–	–	–	–
Total assets	373,622,150	10,182,253	108,465,079	138,202,619	74,614,339	42,157,860
Liabilities						
Borrowings from central bank	5,536,650	29,196	462,688	5,044,766	–	–
Deposits from banks and other financial institutions	16,462,527	125,735	10,186,792	6,150,000	–	–
Placements from banks and other financial institutions	9,916,257	84,418	4,288,217	5,465,633	77,989	–
Financial assets sold under repurchase agreements	16,027,082	1,580	16,025,502	–	–	–
Deposits from customers	215,425,403	2,735,191	142,197,240	37,524,419	32,572,152	396,401
Debt securities issued	76,858,899	438,140	13,477,677	38,261,976	17,489,383	7,191,723
Others	2,917,414	2,489,986	1,338	17,628	181,960	226,502
Total liabilities	343,144,232	5,904,246	186,639,454	92,464,422	50,321,484	7,814,626
Asset-liability gap	30,477,918	4,278,007	(78,174,375)	45,738,197	24,292,855	34,343,234

Notes:

(i) For the Group's loans and advances to customers, the category "Less than three months" as at 31 December 2020 includes overdue loans and advances (net of provision for impairment losses) of RMB837 million (31 December 2019: RMB1,269 million).

(ii) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI, and financial investments measured at amortised cost.

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth the results of the Group's interest rate sensitivity analysis at the end of the reporting period.

Changes in annualized net interest income	**31 December 2020 (Decrease)/ Increase**	31 December 2019 (Decrease)/ Increase
Interest rates increase by 100 bps	**(640,745)**	(438,707)
Interest rates decrease by 100 bps	**640,745**	438,707

This sensitivity analysis is based on a static interest rate risk profile of the Group's assets and liabilities and certain simplified assumptions. The analysis measures only the impact of changes in the interest rates within one year, showing how annualized interest income would have been affected by the repricing of the Group's assets and liabilities within the one-year period. The analysis is based on the following assumptions:

(i) All assets and liabilities that are repriced or mature within three months and after three months but within one year are repriced or mature at the beginning of the respective periods (i.e., all the assets and liabilities that are repriced or mature within three months are repriced or mature immediately, and all the assets and liabilities that are repriced or mature after three months but within one year are repriced or mature immediately after three months);

(ii) There is a parallel shift in the yield curve and in interest rates; and

(iii) There are no other changes to the portfolio and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

(b) Currency risk

The Group's currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The currency exposures of the Group's assets and liabilities as at the end of the reporting period are as follows:

	31 December 2020			
	RMB	**USD** *(RMB Equivalent)*	**Others** *(RMB Equivalent)*	**Total** *(RMB Equivalent)*
Assets				
Cash and deposits with central bank	**47,060,885**	**154,237**	**4,275**	**47,219,397**
Deposits with banks and other financial institutions	**2,095,761**	**444,813**	**28,345**	**2,568,919**
Financial assets held under resale agreements	**9,726,476**	**–**	**–**	**9,726,476**
Loans and advances to customers	**200,428,758**	**1,929,726**	**–**	**202,358,484**
Financial investments *(Note (i))*	**167,537,884**	**10,698,125**	**–**	**178,236,009**
Long-term receivables	**11,001,178**	**–**	**–**	**11,001,178**
Others	**8,714,915**	**2,227**	**–**	**8,717,142**
Total assets	**446,565,857**	**13,229,128**	**32,620**	**459,827,605**
Liabilities				
Borrowings from central bank	**11,207,069**	**–**	**–**	**11,207,069**
Deposits from banks and other financial institutions	**17,024,727**	**5**	**–**	**17,024,732**
Placements from banks and other financial institutions	**11,723,203**	**1,224,372**	**–**	**12,947,575**
Financial assets sold under repurchase agreements	**32,599,411**	**499,938**	**–**	**33,099,349**
Deposits from customers	**272,876,962**	**2,851,152**	**22,596**	**275,750,710**
Debt securities issued	**72,834,508**	**–**	**–**	**72,834,508**
Others	**6,052,421**	**4,383**	**–**	**6,056,804**
Total liabilities	**424,318,301**	**4,579,850**	**22,596**	**428,920,747**
Net position	**22,247,556**	**8,649,278**	**10,024**	**30,906,858**
Off-balance sheet credit commitments	**36,265,560**	**198,199**	**59,208**	**36,522,967**

	31 December 2019			
	RMB	USD *(RMB Equivalent)*	Others *(RMB Equivalent)*	Total *(RMB Equivalent)*
Assets				
Cash and deposits with central bank	39,602,889	97,595	4,356	39,704,840
Deposits with banks and other financial institutions	809,420	452,943	50,105	1,312,468
Placements with banks and other financial institutions	2,865,118	448,485	–	3,313,603
Financial assets held under resale agreements	2,325,771	–	–	2,325,771
Loans and advances to customers	168,216,824	938,318	3,149	169,158,291
Financial investments *(Note (i))*	130,889,596	11,487,804	–	142,377,400
Long-term receivables	9,037,819	–	–	9,037,819
Others	6,389,347	573	2,038	6,391,958
Total assets	360,136,784	13,425,718	59,648	373,622,150
Liabilities				
Borrowings from central bank	5,536,650	–	–	5,536,650
Deposits from banks and other financial institutions	16,392,762	69,765	–	16,462,527
Placements from banks and other financial institutions	7,564,633	2,351,624	–	9,916,257
Financial assets sold under repurchase agreements	16,027,082	–	–	16,027,082
Deposits from customers	213,253,693	2,131,380	40,330	215,425,403
Debt securities issued	76,858,899	–	–	76,858,899
Others	2,872,014	36,589	8,811	2,917,414
Total liabilities	338,505,733	4,589,358	49,141	343,144,232
Net position	21,631,051	8,836,360	10,507	30,477,918
Off-balance sheet credit commitments	29,166,790	374,804	116,787	29,658,381

Note:

(i) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI, and financial investment measured at amortised cost.

Changes in annualized net profit	**31 December 2020 Increase/ (Decrease)**	31 December 2019 Increase/ (Decrease)
Foreign exchange rate increase by 100 bps	**9,953**	9,511
Foreign exchange rate decrease by 100 bps	**(9,953)**	(9,511)

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

(i) the foreign exchange sensitivity is the gain or loss recognised as a result of 100 basis point fluctuation in the foreign currency exchange rates against RMB;

(ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously;

(iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net foreign exchange gain or loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

(3) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business even if a bank's solvency remains strong. Liquidity risk management is to ensure that the Group has sufficient cash flow to meet payment obligations and fund business operations on a timely basis. To achieve this, the Group should have the ability to make full payment due on demand deposits or early withdrawal of term deposits, make full repayment of placement upon maturity, or meet other payment obligations. The bank also needs to comply with statutory requirements on liquidity ratios, and actively carry out lending and investment business. The Group monitors the future cash flow according to its liquidity management policies, and keeps its high liquidity assets at an appropriate level.

Under the guidance of the Asset and Liability Management Committee, the Financial Planning Department performs daily management of liquidity risk in accordance with the liquidity management objectives, and to ensure payment of the business.

The Group holds an appropriate amount of liquid assets (such as deposits with central bank, other short-term deposits and securities) to ensure liquidity needs and unpredictable demand for payment in the ordinary course of business. A substantial portion of the Group's assets are funded by deposits from customers. As a major source of funding, customer deposits have been growing steadily in recent years and are widely diversified in terms of type and duration.

The Group principally uses liquidity gap analysis to measure liquidity risk. Stress testing is also adopted to assess the impact of liquidity risk.

(a) Maturity analysis

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	31 December 2020							
	Indefinite *(Note (ii))*	**Repayable on demand** *(Note (ii))*	**Within one month**	**Between one month and three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**	**Total**
Assets								
Cash and deposits with central bank	22,076,437	25,142,960	–	–	–	–	–	47,219,397
Deposits with banks and other financial institutions	–	2,568,919	–	–	–	–	–	2,568,919
Financial assets held under resale agreements	–	–	9,726,476	–	–	–	–	9,726,476
Loans and advances to customers	980,712	160,477	10,215,835	11,268,647	50,329,217	70,898,797	58,504,799	202,358,484
Financial investments *(Note (i))*	392,299	24,783	18,884,477	6,965,259	23,642,091	61,915,282	66,411,818	178,236,009
Long-term receivables	55,128	22,186	437,613	1,161,694	3,688,618	5,635,939	–	11,001,178
Others	6,965,783	154	20,381	2,592	72,763	446,753	1,208,716	8,717,142
Total assets	30,470,359	27,919,479	39,284,782	19,398,192	77,732,689	138,896,771	126,125,333	459,827,605
Liabilities								
Borrowings from central bank	–	–	758,662	2,671,429	7,776,978	–	–	11,207,069
Deposits from banks and other financial institutions	–	7,847,471	2,220,299	1,963,637	4,993,325	–	–	17,024,732
Placements from banks and other financial institutions	–	–	2,872,838	3,270,838	6,803,899	–	–	12,947,575
Financial assets sold under repurchase agreements	–	–	32,599,411	499,938	–	–	–	33,099,349
Deposits from customers	–	135,345,742	16,521,262	18,015,568	45,682,640	59,986,805	198,693	275,750,710
Debt securities issued	–	–	3,012,339	11,868,597	36,965,885	15,992,125	4,995,562	72,834,508
Others	116,849	307,271	1,964,668	153,995	831,206	1,960,036	722,779	6,056,804
Total liabilities	116,849	143,500,484	59,949,479	38,444,002	103,053,933	77,938,966	5,917,034	428,920,747
Net position	30,353,510	(115,581,005)	(20,664,697)	(19,045,810)	(25,321,244)	60,957,805	120,208,299	30,906,858

	31 December 2019							
	Indefinite *(Note (ii))*	Repayable on demand *(Note (ii))*	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central bank	19,450,458	20,254,382	–	–	–	–	–	39,704,840
Deposits with banks and other financial institutions	–	1,312,468	–	–	–	–	–	1,312,468
Placements with banks and other financial institutions	–	–	162,798	806,359	2,344,446	–	–	3,313,603
Financial assets held under resale agreements	–	–	2,325,771	–	–	–	–	2,325,771
Loans and advances to customers	1,201,992	349,749	10,501,076	9,329,210	49,927,301	48,045,398	49,803,565	169,158,291
Financial investments *(Note (i))*	23,250	–	3,749,714	5,619,933	28,885,764	60,970,135	43,128,604	142,377,400
Long-term receivables	8,877	41,196	305,697	758,246	2,402,866	5,520,937	–	9,037,819
Others	5,552,527	8,066	5,588	283	4,253	194,456	626,785	6,391,958
Total assets	26,237,104	21,965,861	17,050,644	16,514,031	83,564,630	114,730,926	93,558,954	373,622,150
Liabilities								
Borrowings from central bank	–	–	400,375	62,314	5,073,961	–	–	5,536,650
Deposits from banks and other financial institutions	–	4,937,212	3,091,712	2,221,296	6,212,307	–	–	16,462,527
Placements from banks and other financial institutions	–	–	2,954,285	1,364,186	5,519,684	78,102	–	9,916,257
Financial assets sold under repurchase agreements	–	–	16,027,082	–	–	–	–	16,027,082
Deposits from customers	–	113,653,274	15,175,036	14,145,017	38,337,207	33,718,468	396,401	215,425,403
Debt securities issued	–	–	2,171,262	11,329,858	38,676,673	17,489,383	7,191,723	76,858,899
Others	114,271	120,041	539,476	135,578	197,957	1,502,389	307,702	2,917,414
Total liabilities	114,271	118,710,527	40,359,228	29,258,249	94,017,789	52,788,342	7,895,826	343,144,232
Net position	26,122,833	(96,744,666)	(23,308,584)	(12,744,218)	(10,453,159)	61,942,584	85,663,128	30,477,918

Notes:

(i) Financial investments include financial assets measured at FVTPL, financial investment measured at FVOCI, and financial investment measured at amortised cost.

(ii) For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers, financial investments and long-term receivables, the "indefinite" period amount represents the balance being credit-impaired or not credit-impaired but overdue for more than one month, and the balance not credit-impaired but overdue within one month is included in "repayable on demand".

(b) Analysis on contractual undiscounted cash flows of non-derivative financial liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities at the end of the reporting period:

	31 December 2020								
	Indefinite	**Repayable on demand**	**Within one month**	**Between one month and three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**	**Contractual undiscounted cash flow**	**Carrying Amount**
Borrowings from central bank	**–**	**–**	**759,411**	**2,717,444**	**7,855,080**	**–**	**–**	**11,331,935**	**11,207,069**
Deposits from banks and other financial institutions	**–**	**7,847,471**	**2,223,114**	**1,971,487**	**5,082,140**	**–**	**–**	**17,124,212**	**17,024,732**
Placements from banks and other financial institutions	**–**	**–**	**2,876,667**	**3,308,604**	**6,954,249**	**–**	**–**	**13,139,520**	**12,947,575**
Financial assets sold under repurchase agreements	**–**	**–**	**32,606,741**	**500,563**	**–**	**–**	**–**	**33,107,304**	**33,099,349**
Deposits from customers	**–**	**135,345,742**	**16,536,469**	**18,101,525**	**46,360,362**	**66,111,333**	**237,474**	**282,692,905**	**275,750,710**
Debt securities issued	**–**	**–**	**3,023,542**	**11,964,083**	**38,135,975**	**17,894,600**	**5,500,000**	**76,518,200**	**72,834,508**
Others	**116,849**	**307,271**	**1,929,661**	**151,622**	**838,391**	**1,733,762**	**739,423**	**5,816,979**	**5,768,457**
Total	**116,849**	**143,500,484**	**59,955,605**	**38,715,328**	**105,226,197**	**85,739,695**	**6,476,897**	**439,731,055**	**428,632,400**

	31 December 2019								
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central bank	–	–	400,599	85,875	5,150,899	–	–	5,637,373	5,536,650
Deposits from banks and other financial institutions	–	4,937,212	3,096,417	2,232,040	6,321,381	–	–	16,587,050	16,462,527
Placements from banks and other financial institutions	–	–	2,956,700	1,387,920	5,659,189	78,102	–	10,081,911	9,916,257
Financial assets sold under repurchase agreements	–	–	16,029,968	–	–	–	–	16,029,968	16,027,082
Deposits from customers	–	113,653,274	15,187,568	14,211,282	39,058,190	36,454,046	478,312	219,042,672	215,425,403
Debt securities issued	–	–	2,150,000	11,529,980	39,896,600	20,520,120	7,200,000	81,296,700	76,858,899
Others	114,271	120,041	557,855	145,680	257,361	1,594,232	150,419	2,939,859	2,908,609
Total	114,271	118,710,527	40,379,107	29,592,777	96,343,620	58,646,500	7,828,731	351,615,533	343,135,427

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

(c) Analysis on contractual undiscounted cash flows of derivatives

The following tables provide an analysis of the contractual undiscounted cash flow of derivative financial instruments at the end of the reporting period:

The Group

	31 December 2020							
	Indefinite	**Repayable on demand**	**Within one month**	**Between one month and three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**	**Contractual undiscounted cash flow**
Derivative cash flows:								
Derivative financial instruments settled on net basis	**–**	**–**	**(276)**	**(620)**	**(4,316)**	**(685)**	**–**	**(5,897)**
Derivative financial instruments settled on gross basis								
Including: Cash inflow	**–**	**–**	**41,170**	**–**	**54,169**	**–**	**–**	**95,339**
Cash outflow	**–**	**–**	**(41,164)**	**–**	**(54,164)**	**–**	**–**	**(95,328)**
	–	**–**	**6**	**–**	**5**	**–**	**–**	**11**

	31 December 2019							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow
Derivative cash flows:								
Derivative financial instruments settled on net basis	–	–	–	(13)	(2,941)	(2,350)	–	(5,304)
Derivative financial instruments settled on gross basis								
Including: Cash inflow	–	–	270,751	–	–	–	–	270,751
Cash outflow	–	–	(263,534)	–	–	–	–	(263,534)
	–	–	7,217	–	–	–	–	7,217

(4) Operational risk

Operational risk refers to the risk arising from inadequate or failed internal control procedures, personnel and information technology systems, or external events. The primary operational risks the Group face include internal and external frauds, worksite safety failures, business interruptions and failure in the information technology system.

The board of directors of the Bank is ultimately responsible for the operational risk management, and the Bank's senior management leads the bank-wide operational risk management on a day-to-day basis. The Group has established "three lines of defenses" to manage operational risk on an end-to-end basis. The business lines and functions are the first line of defense against operational risks, taking direct responsibilities for operational risk management. The legal and compliance department is the second line of defense against operational risks, responsible for the establishment of operational risk management policies and procedures and the coordination, support, and supervision of operational risk management. The audit department is the third line of defense against operational risk, responsible for evaluating the adequacy and effectiveness of operational risk management policies and procedures and assessing the internal control system and compliance.

(5) Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management. Among them, capital adequacy ratio management is especially important. The Group calculates capital adequacy ratios in accordance with the guidance issued by the former CBRC. The capital of the Group is divided into three pieces: core tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the core of the capital management of the Group. Capital adequacy ratio reflects the Group's sound operations and risk management capability. The Group's capital management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testing and other measures to forecast, plan and manage capital adequacy ratio. The required information is filed with the regulatory authority by the Group periodically.

As at 31 December 2020 and 2019, the Group calculated the capital adequacy ratios in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) issued by the former CBRC in 2012 and relevant requirements promulgated by the former CBRC as follows:

	31 December 2020	31 December 2019
Total core tier-one capital	**22,846,168**	22,418,940
– Share capital	**4,509,690**	4,509,690
– Qualifying portion of capital reserve	**8,337,869**	8,337,869
– Surplus reserve	**1,859,737**	1,626,662
– General reserve	**5,072,217**	4,400,258
– Retained earnings	**2,618,980**	2,528,787
– Other comprehensive income	**32,717**	658,230
– Qualifying portion of non-controlling interests	**414,958**	357,444
Core tier-one capital deductions	**(461,170)**	(194,243)
Net core tier-one capital	**22,384,998**	22,224,697
Other tier-one capital	**7,909,292**	7,901,623
– Additional tie-one capital instruments and related premium	**7,853,964**	7,853,964
– Valid portion of minority interests	**55,328**	47,659
Net tier-one capital	**30,294,290**	30,126,320
Tier two capital	**7,512,290**	9,126,185
– Qualifying portions of tier-two capital instruments issued	**5,000,000**	7,200,000
– Surplus provision for loan impairment	**2,401,634**	1,830,867
– Qualifying portion of non-controlling interests	**110,656**	95,318
Net capital base	**37,806,580**	39,252,505
Total risk weighted assets	**267,941,143**	265,908,365
Core tier-one capital adequacy ratio	**8.35%**	8.36%
Tier-one capital adequacy ratio	**11.31%**	11.33%
Capital adequacy ratio	**14.11%**	14.76%

45 FAIR VALUE

(1) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group has established policies and internal controls with respect to the measurement of fair value, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

The Group adopts the following methods and assumptions when evaluating fair value:

(a) ***Debt securities investments***

The fair value of debt securities that are traded in an active market is based on their quoted market prices in an active market at the end of the reporting period.

(b) ***Other financial investments and other non-derivative financial assets***

Fair value is estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(c) ***Debt securities issued and other non-derivative financial liabilities***

The fair value of debt securities issued is based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair value of other non-derivative financial liabilities is evaluated at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(d) ***Derivative financial instruments***

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards and swaps, etc. The most frequently applied valuation techniques include discounted cash flow model, etc. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

(2) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

The Group

	31 December 2020			
	Level 1 *Note (i)*	**Level 2** *Note (i)*	**Level 3** *Note (i) ~ (ii)*	**Total**
Financial investments measured at FVTPL				
– Debt securities	**–**	**882,952**	**–**	**882,952**
– Asset management plans	**–**	**–**	**9,998,794**	**9,998,794**
– Trust fund plans	**–**	**–**	**2,004,789**	**2,004,789**
– Investment funds	**–**	**24,313,480**	**50,390**	**24,363,870**
Derivative financial assets	**–**	**285,405**	**995**	**286,400**
Financial investments measured at FVOCI				
– Debt securities	**–**	**60,231,523**	**–**	**60,231,523**
– Asset management plans	**–**	**5,842,695**	**–**	**5,842,695**
– Other investments	**–**	**–**	**730,534**	**730,534**
– Equity investments	**–**	**–**	**23,250**	**23,250**
Loans and advances to customers measured at FVOCI	**–**	**–**	**7,215,159**	**7,215,159**
Total financial assets	**–**	**91,556,055**	**20,023,911**	**111,579,966**
Derivative financial liabilities	**–**	**286,621**	**1,726**	**288,347**
Total financial liabilities	**–**	**286,621**	**1,726**	**288,347**

	31 December 2019			
	Level 1 *Note (i)*	Level 2 *Note (i)*	Level 3 *Note (i) ~ (ii)*	Total
Financial investments measured at FVTPL				
– Debt securities	–	800,861	–	800,861
– Asset management plans	–	–	9,240,047	9,240,047
– Wealth management products	–	–	1,033,973	1,033,973
– Trust fund plans	–	–	2,829,424	2,829,424
– Investment funds	–	8,957,998	50,258	9,008,256
Derivative financial assets	–	6,848	5,588	12,436
Financial investments measured at FVOCI				
– Debt securities	–	46,915,283	–	46,915,283
– Asset management plans	–	7,302,406	–	7,302,406
– Other investments	–	–	732,842	732,842
– Equity investments	–	–	23,250	23,250
Loans and advances to customers measured at FVOCI	–	–	6,249,822	6,249,822
Total financial assets	–	63,983,396	20,165,204	84,148,600
Derivative financial liabilities	–	6,790	2,015	8,805
Total financial liabilities	–	6,790	2,015	8,805

Note:

(i) During the reporting period, there were no significant transfers among each level.

(ii) Movements in Level 3 of the fair value hierarchy

The Group

	As at 1 January 2020	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year: In profit or loss	Total gains or losses for the year: In other comprehensive income	Purchases, issues, disposals and settlements: Purchases	Purchases, issues, disposals and settlements: Issues	Purchases, issues, disposals and settlements: Disposals and settlements	As at 31 December 2020
Financial investments measured at FVTPL									
– Asset management plans	**9,240,047**	**–**	**–**	**249,550**	**–**	**6,145,739**	**–**	**(5,636,542)**	**9,998,794**
– Wealth management products	**1,033,973**	**–**	**–**	**6,727**	**–**	**–**	**–**	**(1,040,700)**	**–**
– Trust fund plans	**2,829,424**	**–**	**–**	**(52,983)**	**–**	**2,000,000**	**–**	**(2,771,652)**	**2,004,789**
– Investment funds	**50,258**	**–**	**–**	**2,321**	**–**	**–**	**–**	**(2,189)**	**50,390**
Derivative financial assets	**5,588**	**–**	**–**	**(4,593)**	**–**	**–**	**–**	**–**	**995**
Financial investments measured at FVOCI									
– Other investments	**732,842**	**–**	**–**	**41,835**	**(2,143)**	**–**	**–**	**(42,000)**	**730,534**
– Equity investments	**23,250**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**23,250**
Loans and advances to customers measured at FVOCI	**6,249,822**	**–**	**–**	**(219,328)**	**11,679**	**30,832,820**	**–**	**(29,659,834)**	**7,215,159**
Total financial assets	**20,165,204**	**–**	**–**	**23,529**	**9,536**	**38,978,559**	**–**	**(39,152,917)**	**20,023,911**
Derivative financial liabilities	**2,015**	**–**	**–**	**(289)**	**–**	**–**	**–**	**–**	**1,726**
Total financial liabilities	**2,015**	**–**	**–**	**(289)**	**–**	**–**	**–**	**–**	**1,726**

	As at 1 January 2019	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year: In profit or loss	Total gains or losses for the year: In other comprehensive income	Purchases, issues, disposals and settlements: Purchases	Purchases, issues, disposals and settlements: Issues	Purchases, issues, disposals and settlements: Disposals and settlements	As at 31 December 2019
Financial investments measured at FVTPL									
– Asset management plans	9,354,611	–	–	280,983	–	5,221,089	–	(5,616,636)	9,240,047
– Wealth management products	2,080,946	–	–	33,973	–	1,000,000	–	(2,080,946)	1,033,973
– Trust fund plans	3,221,359	–	–	112,326	–	270,304	–	(774,565)	2,829,424
– Investment funds	49,684	–	–	574	–	–	–	–	50,258
Derivative financial assets	–	–	–	5,588	–	–	–	–	5,588
Financial investments measured at FVOCI									
– Other investments	–	–	–	27,299	5,543	700,000	–	–	732,842
– Equity investments	23,250	–	–	–	–	–	–	–	23,250
Loans and advances to customers measured at FVOCI	6,772,625	–	–	309,424	(9,022)	22,794,208	–	(23,617,413)	6,249,822
Total financial assets	21,502,475	–	–	770,167	(3,479)	29,985,601	–	(32,089,560)	20,165,204
Derivative financial liabilities	–	–	–	2,015	–	–	–	–	2,015
Total financial liabilities	–	–	–	2,015	–	–	–	–	2,015

(3) Level 2 of the fair value hierarchy

A majority of the financial instruments classified as level 2 of the Group are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

(4) Fair value of financial assets and liabilities not carried at fair value

(i) Cash and deposits with central bank, borrowings from central bank, deposits and placements with/from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements

Given that these financial assets and financial liabilities mainly mature within one year or adopt floating interest rates, their carrying amounts approximate their fair value.

(ii) Loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and long-term receivables

Loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and long-term receivables' estimated fair value represents the amount of estimated future cash flows expected to be received, discounted at current market rates.

(iii) Debt securities financial investments measured at amortised cost

The fair value for debt securities financial investments measured at amortised cost is based on "bid" market prices or brokers'/dealers' price quotations. If relevant market information is not available, the fair value is based on quoted price of security products with similar characteristics such as credit risk, maturities and yield.

(iv) Deposits from customers

The fair value of checking, savings and short-term money market accounts is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices is estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(v) Debt securities issued

The fair value of debt securities issued is based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of debt securities financial instruments measured at amortised cost and debt securities issued:

	31 December 2020				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Financial investments measured at amortised cost (including accrued interest)					
– Debt securities	**59,794,985**	**59,230,899**	**–**	**59,149,398**	**81,501**
Total	**59,794,985**	**59,230,899**	**–**	**59,149,398**	**81,501**
Financial liabilities					
Securities issued (including accrued interest)					
– Debt securities	**22,825,071**	**22,816,947**	**–**	**22,816,947**	**–**
– Certificates of interbank deposit	**50,009,437**	**50,022,903**	**–**	**50,022,903**	**–**
Total	**72,834,508**	**72,839,850**	**–**	**72,839,850**	**–**

	31 December 2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial investments measured at amortised cost (including accrued interest)					
– Debt securities	38,866,579	38,978,313	–	38,895,979	82,334
Total	38,866,579	38,978,313	–	38,895,979	82,334
Financial liabilities					
Securities issued (including accrued interest)					
– Debt securities	25,119,246	25,374,003	–	25,374,003	–
– Certificates of interbank deposit	51,739,653	51,788,903	–	51,788,903	–
Total	76,858,899	77,162,906	–	77,162,906	–

46 COMMITMENTS AND CONTINGENCIES

(1) Credit commitments

The Group's credit commitments take the form of bank acceptances, credit card limits, letters of credit and financial guarantees, etc.

Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from its customers. The contractual amounts of credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

	31 December 2020	31 December 2019
Bank acceptances	**23,968,377**	20,884,567
Unused credit card commitments	**6,292,802**	5,045,541
Letters of credit	**5,024,229**	1,562,969
Letters of guarantees	**1,035,389**	1,891,134
Irrevocable loan commitments	**202,170**	274,170
Total	**36,522,967**	29,658,381

Irrevocable loan commitments only include unused loan commitments granted to syndicated loans.

The Group may be exposed to credit risk in all the above credit businesses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

For details of ECL of credit commitments, please refer to Note 36 (3).

(2) Credit risk-weighted amount

	31 December 2020	31 December 2019
Credit risk-weighted amount of contingent liabilities and commitments	**8,550,965**	10,077,887

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the former CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors.

(3) Capital commitments

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

	31 December 2020	31 December 2019
Contracted but not paid for	**75,802**	82,790
Total	**75,802**	82,790

(4) Outstanding litigations and disputes

A number of outstanding litigation matters against the Group had arisen in the normal course of its operation as at 31 December 2020. With the professional advice from counselors, the Group's management believes such litigation will not have a significant impact on the Group.

(5) Bonds redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the end of the reporting period:

	31 December 2020	31 December 2019
Bonds redemption obligations	**4,565,939**	5,026,883

(6) Pledged assets

	31 December 2020	31 December 2019
Investment securities	**41,511,935**	21,792,317
Discounted bills	**1,475,348**	1,106,722
Total	**42,987,283**	22,899,039

Some of the Group's assets are pledged as collateral under repurchase agreements and borrowings from central bank.

The Group maintains statutory deposit reserves with the PBOC as required (Note 14). These deposits are not available for the Group's daily operations.

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 31 December 2020 and 31 December 2019, the Group did not have these discounted bills under resale agreements. As at 31 December 2020 and 31 December 2019, the Group did not sell or repledge any pledged assets which it has an obligation to repurchase when they are due.

47 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(1) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. The Group does not consolidate these structured entities. Such structured entities include wealth management products, asset management plans, trust fund plans, asset-backed securities and investment funds. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 31 December 2020 and 31 December 2019 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	31 December 2020				
	Financial investments measured at FVTPL	**Financial investments measured at FVOCI**	**Financial investments measured at amortised cost**	**Carrying amount**	**Maximum exposure**
Asset management plans	**9,998,794**	**5,842,695**	**7,202,596**	**23,044,085**	**23,044,085**
Trust fund plans	**2,004,789**	**–**	**864,969**	**2,869,758**	**2,869,758**
Asset-backed securities	**202,415**	**1,366,797**	**583,637**	**2,152,849**	**2,152,849**
Investment funds	**24,363,870**	**–**	**–**	**24,363,870**	**24,363,870**
Total	**36,569,868**	**7,209,492**	**8,651,202**	**52,430,562**	**52,430,562**

	31 December 2019				
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Asset management plans	9,240,047	7,302,406	15,884,877	32,427,330	32,427,330
Trust fund plans	2,829,424	–	4,781,679	7,611,103	7,611,103
Wealth management products	1,033,973	–	–	1,033,973	1,033,973
Asset-backed securities	100,000	1,008,633	–	1,108,633	1,108,633
Investment funds	9,008,256	–	–	9,008,256	9,008,256
Total	22,211,700	8,311,039	20,666,556	51,189,295	51,189,295

The maximum exposures to loss in the above structured entities are the amortised cost or the fair value of the assets held by the Group at the end of the reporting period in accordance with the line items of these assets recognised in the statement of financial position.

(2) Unconsolidated structured entities sponsored by the Group in which the Group holds an interest

The types of unconsolidated structured entities sponsored by the Group mainly include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services to these structured entities. As at 31 December 2020 and 31 December 2019, the carrying amounts of the management fee receivables being recognised are not material in the statement of financial position.

As at 31 December 2020, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB124.123 billion (31 December 2019: RMB100.969 billion).

In addition, the unconsolidated structured entities sponsored by the Group also include asset-backed securities held and initiated by the Group. As at 31 December 2020, the balances of these asset-backed securities was RMB0.208 billion (31 December 2019: Nil).

(3) Structured entities sponsored and issued by the Group after 1 January but matured before 31 December at the end of the reporting period in which the Group no longer holds an interest

During the year ended 31 December 2020, the amount of fee and commission income recognised from the above mentioned structured entities by the Group was RMB0.166 billion (2019: RMB0.213 billion).

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2020 but matured before 31 December 2020 was RMB79.120 billion (2019: RMB95.903 billion).

48 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets in the statement of financial position.

(1) Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may require or be required to pay additional cash collateral in certain circumstances. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

(2) Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors, or carries out trust beneficial rights registration and transfer business in China Credit Assets Registry & Exchange Co., Ltd ("Yindeng Center").

In 2015, the Group transferred a portfolio of customer loans with a book value of RMB2.543 billion to an unconsolidated securitisation vehicle managed by an independent trust company, which issued asset-backed securities to investors. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognized. The trust has completed the liquidation of trust property on 26 March 2020.

In 2017, the Group entrusted a portfolio of customer loans with a book value of RMB2.000 billion to an independent trust company for setting up an unconsolidated securitisation vehicle. The Group obtained the trust beneficiary rights, and subsequently transferred all the initial holding trust beneficiary rights via Yindeng Center. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognised. The trust has completed the liquidation of trust property on 28 August 2019.

In 2020, the Group transferred a portfolio of customer loans with a book value of RMB8.393 billion to an unconsolidated securitisation vehicle managed by an independent trust company, which issued asset-backed securities to investors. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognized.

Under the servicing arrangements with the independent trust company, the Group collects the cash flows of the transferred assets on behalf of the unconsolidated securitisation vehicle. In return, the Group receives a fee that is expected to compensate the Group for servicing the related assets.

49 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in the statements of financial position as they are not the Group's assets.

As at 31 December 2020, the entrusted loans balance of the Group was RMB2.773 billion (31 December 2019: RMB3.145 billion).

50 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2020	31 December 2019
Assets		
Cash and deposits with central bank	**47,173,947**	39,704,840
Deposits with banks and other financial institutions	**1,767,485**	1,307,010
Placements with banks and other financial institutions	**–**	3,515,038
Derivative financial assets	**286,400**	12,436
Financial assets held under resale agreements	**9,726,476**	2,325,771
Loans and advances to customers	**202,358,484**	169,158,291
Financial investments		
– Financial investments measured at fair value through profit or loss	**37,250,405**	22,912,561
– Financial investments measured at fair value through other comprehensive income	**66,828,002**	54,973,781
– Financial investments measured at amortised cost	**74,157,602**	64,491,058
Investment in subsidiary	**1,510,000**	510,000
Property and equipment	**3,007,874**	3,047,926
Right-of-use assets	**814,438**	817,857
Deferred tax assets	**2,357,024**	1,512,501
Other assets	**1,833,325**	925,104
Total assets	**449,071,462**	365,214,174

	31 December 2020	31 December 2019
Liabilities		
Borrowings from central bank	**11,207,069**	5,536,650
Deposits from banks and other financial institutions	**17,305,182**	16,792,558
Placements from banks and other financial institutions	**3,624,918**	2,552,359
Derivative financial liabilities	**288,347**	8,805
Financial assets sold under repurchase agreements	**33,099,349**	16,027,082
Deposits from customers	**275,750,710**	215,425,403
Income tax payable	**375,322**	147,155
Debt securities issued	**72,834,508**	76,858,899
Lease liabilities	**441,849**	427,296
Other liabilities	**3,998,938**	1,599,091
Total liabilities	**418,926,192**	335,375,298
Equity		
Share capital	**4,509,690**	4,509,690
Other equity instrument		
Including: preference shares	**7,853,964**	7,853,964
Capital reserve	**8,337,869**	8,337,869
Surplus reserve	**1,859,737**	1,626,662
General reserve	**4,981,263**	4,400,258
Other comprehensive income	**32,717**	658,230
Retained earnings	**2,570,030**	2,452,203
Total equity	**30,145,270**	29,838,876
Total liabilities and equity	**449,071,462**	365,214,174

Approved and authorised for issue by the board of directors on 30 March 2021.

Guo Shaoquan *Legal Representative (Chairman)*	**Wang Lin** *President*	**Meng Dageng** *Head of the Planning & Finance Department*	*(Company Stamp)*

51 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the IASB has issued a number of new and revised IFRSs. For the purpose of preparing the financial statements, the Group has adopted all the new and revised IFRSs in issue which are relevant to the Group for the reporting period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2020. The revised and new accounting standards and interpretations probably related to the Group, which are issued but not yet effective for the accounting period ended 31 December 2020, are set out below:

	Effective for accounting periods beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to IAS 16, Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IFRS 3, Reference to Conceptual Framework	1 January 2022
Amendments to IAS 37, Onerous Contract – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023

These standards are expected to have no material impact on financial position and financial performance of the Group.

52 THE IMPACT OF COVID-19

The outbreak of the COVID-19 in the beginning of 2020 has brought some uncertainties to the Group's operating environment and impacted on the financial and operational results of the Group to some extent. The Group earnestly implemented the requirements of the "Notice on Further Enhancing Financial Support for Prevention and Control of the COVID-19 (《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》)" and other relevant policies and regulations jointly published the PBOC, the MOF, the CBIRC, the CSRC and the SAFE, to strengthen financial support for epidemic prevention and control. The Group has been closely monitoring the development of the COVID-19 and has taken proactive measures to minimize its impact on the financial condition, operating results and other aspects of the Group.

53 SUBSEQUENT EVENTS

(1) The profit distribution plan

The profit appropriation of the Bank was proposed in accordance with the resolution of the Bank's board of directors meeting as disclosed in Note 40.

(2) Rights issue to shareholders

On 26 March 2021, general meeting of the Bank reviewed and approved relevant proposals on the domestic and offshore rights issue. Total proceeds raised from the rights issue will not exceed RMB5.0 billion. The final total proceeds will be determined based on the rights issue price and the number of rights shares at the time of issuance.

(3) Bond issuance

The ten-year tier-two capital bonds of 2021 were issued with a fixed coupon rate and a nominal amount of RMB4.0 billion on 22 March 2021. The debts will mature on 24 March 2031 with annual interest payments. The Bank has an option to redeem the debts at the end of the fifth year at the nominal amount.

Up to the approval date of the financial statements, except for the above, the Group has no other significant subsequent events for disclosure.

54 COMPARATIVE FIGURES

For financial statements disclosure purpose, the Group made reclassification adjustments to some comparative figures.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the audited financial statements, and is included herein for information purposes only.

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplementary financial information as follows:

1 LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the relevant regulations promulgated by the former CBRC and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises issued by the MOF.

(1) Liquidity coverage ratio

	As at 31 December 2020	As at 31 December 2019
Qualified and high-quality current assets	**84,342,175**	78,152,065
Net cash outflows in next 30 days	**55,334,625**	54,930,790
Liquidity coverage ratio (RMB and foreign currency)	**152.42%**	142.27%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, a minimum liquidity coverage ratio of commercial banks shall reach 100% is required.

(2) Leverage ratio

	As at 31 December 2020	As at 31 December 2019
Leverage ratio	**6.14%**	7.46%

Pursuant to the Leverage Ratio Management of Commercial Banks (Amended) issued by the former CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

(3) Net stable funding ratio

	As at 31 December 2020	As at 31 September 2020
Available stable funding	**255,993,293**	248,287,255
Required stable funding	**243,259,039**	240,250,588
Net stable funding ratio	**105.23%**	103.35%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio of commercial banks 100% is required.

2 CURRENCY CONCENTRATIONS

	31 December 2020			
	US Dollars *(RMB equivalent)*	**HK Dollars** *(RMB equivalent)*	**Others** *(RMB equivalent)*	**Total**
Spot assets	**13,229,127**	**16,731**	**15,890**	**13,261,748**
Spot liabilities	**(4,579,850)**	**(10,194)**	**(12,402)**	**(4,602,446)**
Forward purchases	**52,656**	**–**	**–**	**52,656**
Forward sales	**127,692**	**–**	**–**	**127,692**
Net long position	**8,829,625**	**6,537**	**3,488**	**8,839,650**
Structural position	**(130,498)**	**–**	**–**	**(130,498)**

	31 December 2019			
	US Dollars *(RMB equivalent)*	HK Dollars *(RMB equivalent)*	Others *(RMB equivalent)*	Total
Spot assets	13,425,717	30,125	29,524	13,485,366
Spot liabilities	(4,589,358)	(23,144)	(25,997)	(4,638,499)
Forward purchases	6,976	–	–	6,976
Forward sales	24,417	–	–	24,417
Net long position	8,867,752	6,981	3,527	8,878,260
Structural position	(139,524)	–	–	(139,524)

3 INTERNATIONAL CLAIMS

The Group regards all claims on third parties outside Mainland China and claims dominated in foreign currency on third parties in Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions and financial investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	31 December 2020			
	Public sector entities	**Banks and other financial institutions**	**Non-bank private sector**	**Total**
– Asia Pacific	**151,757**	**5,831,539**	**6,822,701**	**12,805,997**
– of which attributed to Hong Kong	**–**	**5,191,831**	**–**	**5,191,831**
– North and South America	**–**	**367,640**	**–**	**367,640**
– Europe	**–**	**4,463**	**–**	**4,463**
	151,757	**6,203,642**	**6,822,701**	**13,178,100**

	31 December 2019			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	96,805	6,099,621	6,930,484	13,126,910
– of which attributed to Hong Kong	–	3,882,939	–	3,882,939
– North and South America	–	314,471	–	314,471
– Europe	–	19,205	–	19,205
	96,805	6,433,297	6,930,484	13,460,586

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	31 December 2020	31 December 2019
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	**272,235**	561,698
– between 6 months and 1 year (inclusive)	**724,238**	502,752
– over 1 year	**950,620**	723,309
Total	**1,947,093**	1,787,759
As a percentage of total gross loans and advances (excluding accrued interest)		
– between 3 and 6 months (inclusive)	**0.13%**	0.32%
– between 6 months and 1 year (inclusive)	**0.35%**	0.29%
– over 1 year	**0.45%**	0.42%
Total	**0.93%**	1.03%

SECTION 6 RELEASE OF ANNUAL RESULTS ANNOUNCEMENT AND 2020 ANNUAL REPORT ON THE WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE BANK

This results announcement will be published on the HKEXnews website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Bank (www.qdccb.com). The 2020 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders and released on the website of the Hong Kong Stock Exchange and the website of the Bank in due course.

This results announcement was prepared in both Chinese and English versions, where there is a discrepancy between the Chinese and English versions, the Chinese version shall prevail.

By order of the Board
Bank of Qingdao Co., Ltd.*
Guo Shaoquan
Chairman

Qingdao, Shandong, the PRC
30 March 2021

As at the date of this announcement, the Board comprises Mr. Guo Shaoquan, Mr. Wang Lin and Ms. Lu Lan as executive directors; Mr. Zhou Yunjie, Mr. Rosario Strano, Ms. Tan Lixia, Mr. Marco Mussita, Mr. Deng Youcheng and Mr. Choi Chi Kin, Calvin as non-executive directors; Mr. Chen Hua, Ms. Dai Shuping, Mr. Simon Cheung, Ms. Fang Qiaoling and Mr. Tingjie Zhang as independent non-executive directors.

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