

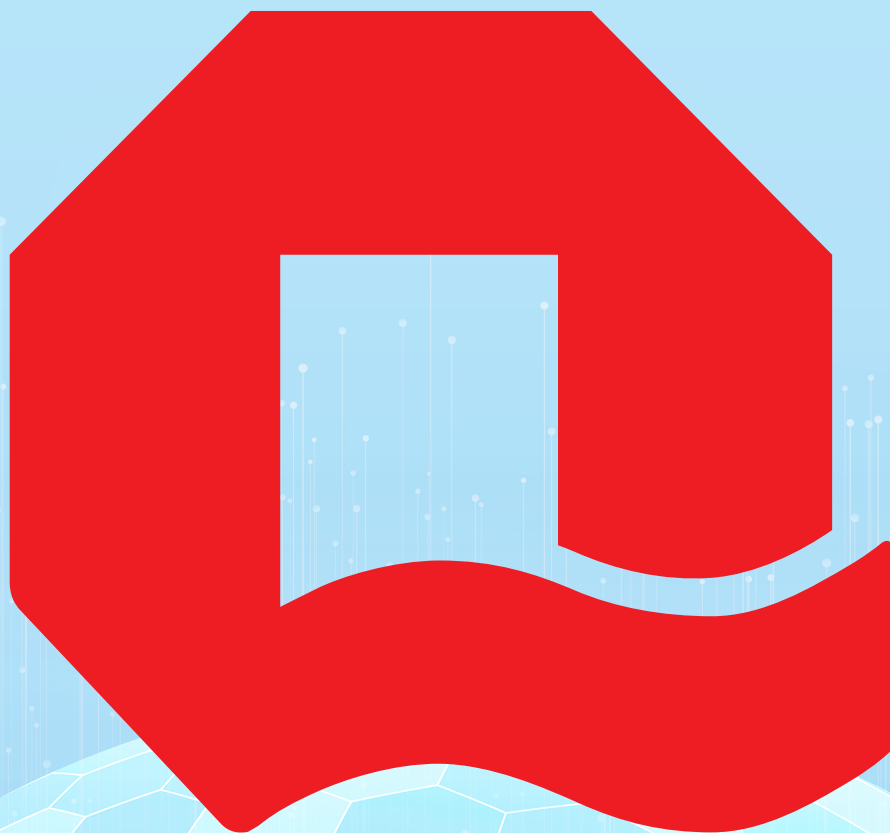
BQD  青岛银行

BANK OF QINGDAO CO., LTD.

(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)



2020 ANNUAL REPORT

Contents

Section I	Important Notice, Contents and Definitions	2
Section II	Corporate Information and Key Financial Highlights	5
Section III	Chairman's Statement	12
Section IV	President's Statement	14
Section V	Business Overview	17
Section VI	Operation Discussion and Analysis	21
Section VII	Significant Events	86
Section VIII	Changes in Shareholdings and Information on Shareholders	102
Section IX	Preference Shares	114
Section X	Directors, Supervisors, Senior Management and Employees	116
Section XI	Corporate Governance	129
Section XII	Report of the Board of Directors	153
Section XIII	Report of the Board of Supervisors	160
Section XIV	Independent Auditor's Report	161
Section XV	Financial Statements and Notes	168
Section XVI	Unaudited Supplementary Financial Information	286

Section I Important Notice, Contents and Definitions

1. The Board of Directors, Board of Supervisors, Directors, Supervisors and senior management of the Bank assure that the information in this annual report contains no false records, misleading statements or material omissions, and severally and jointly take full responsibility for the authenticity, accuracy and completeness of the information in this annual report.
2. The proposals on the 2020 Annual Report of Bank of Qingdao Co., Ltd., its summary and the results announcement were considered and approved at the 44th meeting of the seventh session of the Board of Directors of the Bank held on 30 March 2021. There were 14 Directors eligible for attending the meeting, and 14 Directors actually attended the meeting.
3. The Bank's chairman Mr. GUO Shaoquan, president Mr. WANG Lin and head of planning and finance department Mr. MENG Dageng assure the authenticity, accuracy and completeness of the financial reports in this annual report.
4. The 2020 financial statements of the Company prepared in accordance with the Accounting Standards for Business Enterprises have been audited by KPMG Huazhen LLP, with standard unqualified auditor's report issued; the 2020 financial statements of the Company prepared in accordance with the International Financial Reporting Standards have been audited by KPMG, with unqualified auditor's report issued.
5. Unless otherwise specified, the currency of the amounts referred to in this annual report is RMB.
6. Profit distribution proposal has been considered and approved by the Board of Directors of the Bank to distribute cash dividend of RMB1.80 (tax inclusive) for every 10 shares to all ordinary shareholders of the Bank based on the total number of shares on the record date of the equity distribution, instead of distributing bonus shares and increasing share capital with provident fund. The profit distribution proposal will be submitted to the general meeting of the Bank for consideration.
7. This report contains certain forward-looking statements about the financial conditions, operating results and business developments of the Company. The report uses the words "will", "may", "strive", "plan", "hope", "endeavor", "expect", "aim" and similar wordings to express forward-looking statements. These statements are made based on current plans, estimates and projections, and although the Company believes that the expectations reflected in these forward-looking statements are reasonable, the Company cannot assure that these expectations will be attained or confirmed to be correct and therefore they do not constitute substantive undertakings of the Company. Investors and relevant individuals should maintain sufficient risk awareness in this regard and understand the difference between plans, forecasts and commitments, and should not unduly rely on such statements, and should be aware of investment risks. Please note that these forward-looking statements are related to future events or future financial, business or other performance of the Company, and are subject to certain uncertainties which may cause the actual results to differ substantially.
8. The Company invites investors to read the full text of this annual report carefully. The Company has described in detail the major risks and countermeasures in this report. For details, please refer to the content related to risk management set out in "Section VI Operation Discussion and Analysis".

Definitions

Term	Definition
Company	Bank of Qingdao Co., Ltd. and its subsidiaries and branches
Bank, parent company	Bank of Qingdao Co., Ltd. and its branches
CBIRC	China Banking and Insurance Regulatory Commission
CSRC	China Securities Regulatory Commission (中國證券監督管理委員會)
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
SZSE	the Shenzhen Stock Exchange
Qingdao Office of CBIRC	Qingdao office of the China Banking and Insurance Regulatory Commission
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Company Law	Company Law of the People's Republic of China
Articles of Association	Articles of Association of the Bank of Qingdao Co., Ltd.
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Reporting Period	from 1 January 2020 to 31 December 2020 (both days inclusive)
RMB	the lawful currency of the PRC
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
Director(s)	director(s) of the Bank
Supervisor(s)	supervisor(s) of the Bank
Board of Directors or Board	the board of Directors of the Bank
Board of Supervisors	the board of Supervisors of the Bank
Hong Kong	The Hong Kong Special Administrative Region of the PRC

Definitions

Interface Banking	a strategic model which facilitates the systematic integration between the business platforms of the Bank and the service platforms of our partners. Our partners comprise the corporate customers of the Bank, financial institutions and other third-party platforms. Under such model, our partners can satisfy their demands for financial services, while the Bank can identify the business of our partners and acquire their customer resources through systematic integration.
Green Credit	the Bank commenced energy saving and environmental protection project and service loans as well as loans that comply with Catalog of Projects Backed by Green Bonds (2015 version) issued by the Green Finance Professional Committee of the China Society for Finance and Banking (中國金融學會綠色金融專業委員會). “Energy saving and environmental protection project and service loans” refers to the Notice on Submitting Statistical Table on Green Credit issued by General Office of the CBIRC (Yin Jian Ban Fa [2013] No. 185).
Small and Micro Enterprises	including small and micro enterprises, individual business owners, and the owners of small and micro enterprises.
IFRSs	the International Financial Reporting Standards issued by the International Accounting Standards Board; the International Financial Reporting Standards includes the International Accounting Standards.

Section II Corporate Information and Key Financial Highlights

I. CORPORATE INFORMATION

Stock abbreviation (A Shares)	BQD	Stock code (A Shares)	002948
Listing stock exchange of A Shares	SZSE		
Stock abbreviation (H Shares)	BQD	Stock code (H Shares)	3866
Listing stock exchange of H Shares	The Stock Exchange of Hong Kong Limited		
Stock abbreviation (offshore preference shares)	BQD 17USDPRF	Stock code (offshore preference shares)	4611
Listing stock exchange of offshore preference shares	The Stock Exchange of Hong Kong Limited		
Company name in Chinese	青島銀行股份有限公司		
Abbreviation in Chinese	青島銀行		
Company name in English	BANK OF QINGDAO CO., LTD.		
Abbreviation in English	BANK OF QINGDAO		
Legal representative	GUO Shaoquan		
Authorized representatives	GUO Shaoquan, LU Lan		
Joint Company secretaries	LU Lan, YU Wing Sze		
Registered address	Building 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC		
Postal code of registered address	266061		
Office address	No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC		
Postal code of office address	266061		
Registered office address in Hong Kong	31st Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong		
Company website	http://www.qdccb.com/		
Email	ir@qdbankchina.com		

II. CONTACT PERSONS AND CONTACT INFORMATION

Item	Secretary to the Board	Securities Affairs Representative
Name	LU Lan	LU Zhenzhen
Address	No.6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC	No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC
Tel	+86 40066 96588 ext. 6	+86 40066 96588 ext. 6
Fax	+86 (532) 85783866	+86 (532) 85783866
Email	ir@qdbankchina.com	ir@qdbankchina.com

III. INFORMATION DISCLOSURE AND PLACE OF INSPECTION

**Medias designated by the Bank
for information disclosure**

Domestic

the website of the SZSE (<http://www.szse.com.cn/>), CNINFO website (<http://www.cninfo.com.cn/>), China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily and the website of the Bank (<http://www.qdccb.com/>)

Overseas

HKEXnews website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk/>) and the website of the Bank (<http://www.qdccb.com/>)

**Website designated by the CSRC
for publication of annual reports**

CNINFO website (<http://www.cninfo.com.cn/>)

**Place for inspection of annual reports
of the Company**

office of the Board of Directors and the Board of Supervisors of the Bank

IV. CHANGE OF REGISTRATION

Unified social credit code

91370200264609602K

**Change in principal business
of the Bank since its listing**

None

**Successive changes in controlling
shareholder**

The Bank has no controlling shareholders

V. OTHER RELEVANT INFORMATION

(I) Accounting firms engaged by the Bank

Domestic accounting firm	KPMG Huazhen LLP
Office address of the domestic accounting firm	8th Floor, KPMG Tower, Oriental Plaza, 1 East Chang An Avenue, Dongcheng District, Beijing
Signing accountants	CHENG Hailiang, MA Xin
Overseas accounting firm	KPMG
Office address of overseas accounting firm	8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

(II) The sponsor engaged by the Bank to perform continuous supervision duties during the Reporting Period

Name of sponsor	Office address of sponsor	Sponsor representatives	Continuous supervision period
CITIC Securities Co., Ltd.	North Tower, Excellence Times Plaza II, No. 8 Zhong Xin San Road, Futian District, Shenzhen, Guangdong Province	WANG Chen, SONG Jianhong	From 16 January 2019 to 31 December 2021

(III) During the Reporting Period, the Bank did not need to engage a financial advisor to perform continuous supervision duties.

(IV) Legal advisors engaged by the Bank

Legal advisor as to PRC law	King & Wood Mallesons Beijing
Legal advisor as to Hong Kong law	Clifford Chance

(V) Share registrars of the Bank

A share registrar	China Securities Depository and Clearing Corporation Limited (Shenzhen Branch)
Address of A share registrar	22-28/F, Shenzhen Stock Exchange Building, 2012 Shennan Blvd, Futian District, Shenzhen, Guangdong Province
H share registrar	Computershare Hong Kong Investors Services Limited
Address of H share registrar	Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

VI. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS

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

Section II Corporate Information and Key Financial Highlights

Item	31 December 2020	31 December 2019	Year-on-year Change (%)	31 December 2018	31 December 2017	31 December 2016
Scale indicators (RMB' 000)						
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)						
Net assets per share attributable to ordinary shareholders of the Bank ⁽⁵⁾	4.97	4.89	1.64	4.71	4.38	4.35

Section II Corporate Information and Key Financial Highlights

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 ratio	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 impairment losses” reflect the credit loss recognized by the provision for credit losses of financial instruments as required. “Provision for loan impairment” includes “provision for impairment on loans and advances to customers measured at 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 ordinary shareholders of the Bank” and the effect from preference shares has been deducted from the “weighted average net assets”.

Section II Corporate Information and Key Financial Highlights

- (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 VI Operation Discussion and Analysis of this annual report.
- (5) Net assets per share attributable to ordinary shareholders of the Bank = (equity attributable to equity shareholders of the Bank - other equity instruments)/the number of ordinary shares at the end of the period.
- (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.

VII. ACCOUNTING DATA DIFFERENCE UNDER DOMESTIC AND FOREIGN ACCOUNTING STANDARDS

The net profit for the Reporting Period and the equity attributable to shareholders as at the end of the Reporting Period as disclosed in the financial statements of the Company prepared in accordance with the PRC Accounting Standards for Business Enterprises are consistent with those prepared in accordance with the IFRSs.

VIII. SUPPLEMENTARY INDICATORS

Major indicators (%)	Regulatory standard	31 December 2020	31 December 2019	31 December 2018
Single largest customer loan ratio	≤10	6.93	5.86	4.16
Ten largest customers loan ratio	≤50	48.69	38.26	29.06

Migration rate (%)	31 December 2020	31 December 2019	31 December 2018
Normal loan migration rate	0.88	1.29	3.06
Special mention loan migration rate	31.07	52.47	44.53
Substandard loan migration rate	74.64	88.01	36.28
Doubtful loan migration rate	21.91	10.91	21.41

Section III Chairman's Statement



Section III Chairman's Statement

2020 was an uncommon year. In the face of the unprecedented COVID-19 pandemic, the Bank of Qingdao sought for opportunities amid challenges and made progress in an adverse environment, thus successfully reporting outstanding results under the strong leadership of the Party Central Committee.

Operating performance enhanced significantly. The total assets of the Company maintained rapid growth, reaching nearly RMB460 billion at the end of the Reporting Period. The Bank has developed itself into a medium-sized regional commercial banks. The operating income broke through the RMB10 billion mark for the first time; the asset quality was significantly improved, and the non-performing loan ratio and the proportion of special mention loans dropped significantly.

Operating capability continued to improve. It is more important to have a significant improvement in operation management capability rather than recording excellent financial data. In 2020, BQD Wealth Management commenced its operation. The operations of BQD Leasing, BQD Wealth Management and Bank of Qingdao were complementary with each other. Hence, the integrated coordination development trend of the Group has gradually established. In 2020, we deepened our business enhancement, and fully facilitated customer base building. Striving to expand our customer base, we continued to optimize our customer portfolio, and strengthen our business operation for long-term sustainable development. In 2020, in response to higher requirements for business development, we comprehensively initiated the management improvement program, aiming to improve management standards to a level that is in line with business enhancement, and facilitate business enhancement through management improvement.

We actively performed our social responsibilities. In 2020, we adhered to our primary position of financial services, secured payment and financing, as well as fought against the pandemic together with the society. We firmly implemented the "Stability in Six Areas" and "Six Priorities" requirements, adhered to reduce fee and surrender partial of profits, and fully facilitated work and production resumption. We strictly implemented the "Two Tools" and inclusive finance, and fully supported the real economy.

2021 marks the 100 anniversary of the establishment of the Chinese Communist Party, as well as the starting year of the 14th Five-Year Plan. As a "A+H" dual listing bank, Bank of Qingdao shall consider and plan its future development direction and path under the background of new era, aiming to set up higher development goals.

We will continue to deepen business improvement. We will also continue to fully facilitate customer base establishment plan, fully enhance our market influence, and aim to achieve higher development goals.

We will fully facilitate management enhancement plan. There is a multitude of things for management enhancement. However, as we facilitate our works by grasping key areas, we will focus on the development of our three core capabilities on technology empowerment, risk management and procedure optimization.

Facing the new journey of the "14th Five-Year Plan", the Bank of Qingdao will join the force of new era development, fully open a new chapter for high quality development, thus aiming to achieve better operating results and creating greater value for the society and our shareholders!



GUO Shaoquan
Chairman of Bank of Qingdao Co., Ltd.

Section IV President's Statement



Section IV President's Statement

In 2020, in the face of the dual impact of the COVID-19 pandemic and the slowdown of economic growth, the Bank of Qingdao adhered to the strategic guidance of the Board and closely surrounded its operating guiding principle, namely "adapting to changing times, strengthening characteristics, overcoming challenges and developing steadily". Strength was accumulated in adverse circumstances, and opportunities were sought in the time of peril. The growth of each business was steady. Our corporate governance and comprehensive operational ability advanced significantly.

In a year filled with uncertainties, the Bank of Qingdao focused on the main area of financial services. We implemented the "Stability in Six Areas" and "Six Priorities" requirements to help difficult private enterprises and small, medium and micro-sized enterprises with all-out efforts in order to ensure regional economic stability. A total of 253 loans amounting to RMB16.675 billion were issued to enterprises suffering hardship and enterprises related to pandemic prevention during the whole year. As a listed bank, the Bank of Qingdao made donations amounting to over RMB10 million, sharing our "care culture" to society and showing our sense of responsibility.

This year was full of changes and challenges. The Bank of Qingdao unwaveringly integrated its corporate development into the national strategy and local planning, focused on improving our ability to accurately serve the real economy, and helped Shandong reach a new height of opening up. We initiated the establishment of the "Jiaodong economic circle financial cooperation alliance" to comprehensively enhance the financial service ability of the Jiaodong economic circle, actively implemented the strategy of rural revitalization, and signed contracts with 1,168 comprehensive service stations for agricultural support; gradually went into the midst of communities, and 5 new forms of retail community branches were being prepared to establish in communities.

This year was filled with ambition and hope. The Bank advanced a dual improvement in its business and management. We persisted in the principle of technology empowerment and innovative development, and breakthroughs in various fields were made. In November, a wholly-owned wealth management subsidiary of the Bank was established successfully and commenced operation. We successfully launched the first direct marketing application in China and released the brand "Bright Life (璀璨人生)". Over 2 million credit cards were issued. Our mobile banking was upgraded to 5.0 version after several upgrades. All bank outlets had access to 5G network. The first intelligent bank in Shandong Province was launched glamorously. As at the end of 2020, the total assets of the Bank of Qingdao reached RMB459.8 billion. Our total deposits and total loans were RMB272.2 billion and RMB206.7 billion, respectively, representing significant growth.

We are entering a new year brimming over with vigor and vitality. 2021 is not only the very beginning of the 14th Five-Year Plan of the nation, but it is also the 25th anniversary of the Bank of Qingdao. All the staff of the Bank of Qingdao will adhere to the concept of high-quality development, maintain our enthusiasm for innovation, advance and taking on responsibilities, accumulate strength, think in depth and plan carefully and integrate into the "dual circulation" new development pattern in a comprehensive fashion. The Bank will sail through wind and waves to achieve excellence in business by all the aforementioned measures.



WANG Lin
President of Bank of Qingdao Co., Ltd.

Chief Supervisor



Section V Business Overview

I. PRINCIPAL BUSINESS

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

The Bank mainly offers several services and products such as corporate and personal deposits, loans, payment and settlement to its customers, and its development is driven by three major business segments including retail banking, corporate banking and financial markets, which have formed a stronger customer base and shaped new financial business model of distinctive and high-quality development. The Bank’s business is based in Qingdao with a footprint extending to other regions of Shandong Province. As at the end of the Reporting Period, there were 15 branches in major cities of Shandong Province such as Jinan, Yantai and Weihai. The total number of branch offices reached 147. The Bank has two subsidiaries. In February 2017, the Bank initiated the establishment of BQD Financial Leasing Company Limited (“**BQD Financial Leasing**”), which was owned as to 51% by the Bank. In September 2020, the Bank initiated the establishment of Qingyin Wealth Management Company Limited (“**Qingyin Wealth Management**”), which was wholly owned by the Bank. As at the end of the Reporting Period, the Bank had more than 4,000 employees.

As at the end of the Reporting Period, various operating indicators of the Company were ranked in the forefront of the banking industry in Shandong Province, and total assets amounted to RMB459.828 billion, total liabilities amounted to RMB428.921 billion, capital adequacy ratio was 14.11%, and non-performing loan ratio was 1.51%, down by 0.14 percentage point as compared with that at the end of the previous year. During the Reporting Period, the accumulated net profit was RMB2.453 billion, representing an increase of 5.04% over the same period of last year.

II. SIGNIFICANT CHANGES IN MAJOR ASSETS

2.1 Significant changes in major assets

During the Reporting Period, there was no significant change in major assets of the Company. For details in relation to changes in assets, please refer to “Section VI Operation Discussion and Analysis – 4. Analysis of Major Items of the Statement of Financial Position” in this annual report.

2.2 Major offshore assets

N/A.

III. ANALYSIS OF THE CORE COMPETITIVENESS

Development vision: Innovative Finance, Brilliant Banking

Strategic goal: being a bank that offers new quality financial products with “advanced technology, lean management and outstanding features”

Development strategy:

1. Consolidating the foundation for development: being customer-oriented, we will expand our customer base in a continuous fashion and take our basic customer base to the next level. We will keep on exploring deeply and improving our ability in integrated finance services, as well as optimizing our product lines continuously and improve our basic service capabilities.
2. Serving the real economy: we earnestly implement the spirit of the Central Government and serve the real economy. We will insist on serving the local economy and deeply explore the market in Shandong, as well as upholding a steady development and increase our influence on the market in a continuous manner.
3. Strengthening the management and control of risks: paying close attention to the lurking risk that might be brought about by the epidemic, we will deal with the risks in relation to local bonds and debenture bonds with caution and strictly control new non-performing assets. We will improve our ability in dealing with the existing risks to ensure a steady development of asset quality.
4. Promoting a comprehensive development: keeping on enhancing our business, we will take our leading businesses to the next level and create our own characteristics. We will forge ahead with the overall management and technology empowerment to optimize our risk control system and business procedures.

Core Competitiveness:

1. **The high-quality and diversified shareholder structure and market-oriented management team have laid a solid foundation for corporate governance and business development.** After years of careful layout, the Bank has gradually formed a diversified shareholding structure covering private enterprises, overseas investors, professional institutional investors, state-owned enterprises and public shareholders, which is a typical representative of mixed ownership. The Bank's major shareholders have a balanced shareholding ratio and are all stable long-term investors who can act in a scientific and reasonable manner in accordance with the laws to support the Bank's long-term development. The senior management team of the Bank is hired through market-oriented recruitment and has a strong industry knowledge and market-oriented management philosophy.
2. **By adhering to its distinctive development features of "attentive service", the Bank optimizes customer journey and achieves value appreciation.** The Bank's service strategy of focusing on high-quality services forms its core competitiveness, and the Bank continues to carry out experience-based service management centering on the concepts of "customer-centric" and "market-oriented". The management of our services consists of "more interaction, well-established procedures and strong experience", with coordination taken as its guiding principle, thus constantly improving both the procedures and essence of our service management. Taking "analyzing data, enhancing intelligence and improving management" as our development goal, we consolidate our smart AI technological application soft power in relation to online services, and establish an active customer satisfaction and recommendation index management platform, thereby improving customer experience with technological innovation. Enhancing our service brand, we create a reputable and reliable brand image to maximize its influence and vitality, so as to make the service brand a leading brand in the industry and bring the extensibility and uniqueness of the Bank's intangible assets into full blossom.
3. **The Bank improves the overall risk management mechanism and establishes a reliable risk management system.** With the "prudent and steady" risk appetite, the Bank sticks to its bottom line: prohibiting new non-performing assets. In this regard, the Bank has tightened credit-granting, strengthened risk investigation in key sections and enhanced risk prevention and mitigation relief measures. We improve the efficiency of risk management and control continuously by reshaping processes, optimizing procedures and perfecting relevant mechanism, and we explore the unification of credit granting, risk preference and loan approval standards to improve the Group's risk control capability. With proactive risk management thinking and professional risk management model, the Bank has ensured stable and sound asset quality. The risk resilience is in good condition.

4. **We energize our development with mobile, online and digital technologies.** We adopt the new finance concept featuring “Finance + Technology + Scenarios” and enhance mobile, online and digital technologies to facilitate business development. We perfect the construction of information technology systems continuously and explore the application of new technologies vigorously in terms of platform empowerment, ecosystem reshaping, data advancement and 5G orientation. We deepen the value transformation of applying mobile interconnection, big data, and cloud computing in various kinds of scenarios and enhance the strategic supporting ability of sciences and technologies to lead business development and risk prevention to a higher level in a sustained manner. We build a professional team with technology talents continuously. By promoting the establishment of professional talent array, perfecting the channels for talents introduction and creating a nimble organization, we strengthen the construction of a team of technology talents in an all-round way.
5. **We deepen our relationship with retail finance customers and constantly promote digitalization.** The Bank adheres to the concept of “customer-centric”. In respect of retail banking, we also promote the application of FinTech continuously. The Bank continues to optimize credit card business models to innovate an online and offline customer soliciting service mode. Establishing an intelligent bank featuring “5G + Ecosystem” and setting up intelligent branches extensively, we advance an intelligent transformation of our retail business constantly. We create a unique retail banking brand, concentrating on rural and community finance and enhancing the coverage and quality of retail banking ecosystem.
6. **We consolidate the foundation of corporate finance and improve our ability to serve customer group continuously.** Focusing on the “dual-base strategy”, the corporate banking business of the Bank continues to improve the contribution of basic customer groups and customer service capabilities. Through hierarchical operations, the Bank has achieved “refined” management and continued to consolidate the basic customer groups. By pushing forward the “network construction” as well as improving basic products and basic services, the Bank innovates its corporate banking product system so as to improve customer service capabilities and customer stickiness.
7. **We strengthen the synergy of financial markets to foster on-going business development.** The Bank has been promoting the synergy effect of its business in the financial market. By optimizing its investment portfolio and reducing risk-weighted assets, we have achieved saving capital appropriation while maintaining total investment and enhancing investment returns. Our development in asset securitization can revitalize existing assets, thus boosting the development of the Bank’s businesses. At the same time, the Bank established the wholly-owned wealth management subsidiary which has successfully commenced operations, which will help the Bank expand its business scope and types of business and is a key step for the Bank’s comprehensive operations.

IV. HONORS AND AWARDS

In June 2020, the Bank was awarded the “Most Influential Company in Qingdao” at the “Qingdao Annual Economic Achievement Award” ceremony organized by Qingdao Enterprise Confederation, Qingdao Enterprise Directors Association, Qingdao Publishing Group, Qingdao Broadcasting System and Qingdao Daily.

In July 2020, the Bank took the 298th place in the “Top 1000 World Banks in the Year of 2020” released by The Banker magazine of the United Kingdom, ranking in the top 300 world banks for three consecutive years.

In August 2020, the co-branded credit card issued by the Bank in association with Meituan was awarded the “Best Co-branded Credit Card Product in China” in the “China Awards Plan in the Year of 2020” published by the Asian Banker magazine of Singapore.

In August 2020, the Bank won the “Best Inclusive Finance Performance Award” in the “2019 List of China Banking Industry Social Responsibility Evaluation Top 100 Winners” announced by the China Banking Association.

In August 2020, the Bank was the only financial enterprise selected as one of the new “Qingdao Golden Flower” enterprises to be fostered in the 2020 list of new “Qingdao Golden Flower” enterprises to be fostered jointly released by the Qingdao Municipal Bureau of Industry and Information Technology, Municipal Development and Reform Commission and Municipal Bureau of Agriculture and Rural Affairs.

Section V Business Overview

In August 2020, in the selection campaign for the 2019 “Gold Bull Wealth Management Product” held by China Securities Journal and jnlc.com, 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”.

In October 2020, the Bank was awarded the “Top Ten Competitive Banks in China’s Local Finance” at the 24th National Regional Finance Forum (2020) held by the Financial News, the China Academy of Regional Finance and the Office of China Local Financial Forums.

In November 2020, the Bank’s “Eagle Eye 360 Intelligent Risk Monitoring Platform” was rated as the “Top 10 Outstanding Cases in Expert Review (First Place)” and “Top 10 Network Influential Bank Cases”, and the Bank’s “5G + Ecological” Smart Banking was rated as the “Innovative and Excellent Cases in Channel Building” in the case selection campaign for the “First City Commercial Banks with Digital Innovation and Payment Innovation” held by City Commercial Banks Clearing Co., Ltd.

In December 2020, the Bank entered the selection campaign for the “China Financial Institutions Gold Medal – Golden Dragon Award Contest” held by the Financial News for ten consecutive years, and won two awards of the “Most Competitive Small and Medium Banks of the Year” and the “Best Fintech Innovation Small and Medium Banks of the Year” for the period.

In December 2020, the Bank was granted the “Five-Star Diamond Award” by the World Brand Laboratory, and became the only city commercial bank in the PRC receiving this award for five consecutive years.



Section VI Operation 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.



Chairman GUO Shaoquan at the opening ceremony of the flagship branch of the Bank's intelligent bank featuring "5G + Ecosystem" in July 2020.

Section VI Operation Discussion and Analysis

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 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

Item	2020		2019		Percentage changes (percentage point)
	Amount	Percentage (%)	Amount	Percentage (%)	
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 gains, net gains arising from investments and other operating income, net	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

Item	Average balance	2020 Interest income/ expense	Average yield/ cost rate	Average balance	2019 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.

Section VI Operation Discussion and Analysis

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

Unit: RMB' 000

Item	2020 vs. 2019		
	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



President WANG Lin giving a speech at the Bank's promotion meeting on making good use of the "two policy tools" for inclusive loans to Small and Micro Enterprises within the Bank in October 2020.

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

Item	Average balance	2020	Average yield	Average balance	2019	Average yield
		Interest income			Interest income	
Corporate loans	128,798,862	6,880,335	5.34%	93,398,927	4,917,025	5.26%
Discounted bills	55,744,560	3,163,664	5.68%	46,440,488	2,382,842	5.13%
Personal loans	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

Item	2020			2019		
	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%

Section VI Operation Discussion and Analysis

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

Section VI Operation Discussion and Analysis

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	/



The first anti-coronavirus loan in Qingdao to a manufacturer of COVID-19 supplies by the Bank in January 2020.

Section VI Operation Discussion and Analysis

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* (抗疫贴)" 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.

Section VI Operation Discussion and Analysis

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		31 December 2019	
	Amount	% of total	Amount	% 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

Section VI Operation Discussion and Analysis

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

Section VI Operation Discussion and Analysis

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



Chairman GUO Shaoquan as a representative of local financial institutions at the 2020 Sino-European Entrepreneurs Summit Qingdao Forum in September 2020.

Section VI Operation Discussion and Analysis

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

Section VI Operation Discussion and Analysis

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

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
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

Section VI Operation Discussion and Analysis

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

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 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.

Section VI Operation Discussion and Analysis

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 annual report.

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

Item	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 swaps and others	76,567,494	286,400	(288,347)	33,896,438	12,436	(8,805)

Notes: 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 annual report.

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

Item	31 December 2020		31 December 2019	
	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				31 December 2019			
	Amount of loans	% of Total	Amount of non-performing loans	Non-performing loan ratio %	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				31 December 2019			
	Amount of loans	% of Total	Amount of non-performing loans	Non-performing loan ratio %	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				31 December 2019			
	Amount of loans	% of Total	Amount of non-performing loans	Non-performing loan ratio %	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				31 December 2019			
	Amount of loans	% of Total	Amount of non-performing loans	Non-performing loan ratio %	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		31 December 2019	
	Amount of loans	% of Total	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.

Section VI Operation Discussion and Analysis

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.



Commencement of education and promotion activities on consumer right protection by the Bank in May 2020.

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

Item	31 December 2020		31 December 2019	
	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 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.

Section VI Operation Discussion and Analysis

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.

Section VI Operation Discussion and Analysis

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 Bank in the “Top 500 Asian Brands” for four consecutive years as the only city commercial bank in the PRC in September 2020.

Section VI Operation Discussion and Analysis

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%

Section VI Operation Discussion and Analysis

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 others. The following table shows a summary of the operating performance of each business segment of the Company during the periods presented.

Unit: RMB' 000

Item	2020		2019	
	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		2019	
	Segment profit before taxation	Ratio (%)	Segment profit before taxation	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 annual report.

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 annual report.

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
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

Section VI Operation Discussion and Analysis

Unit: RMB' 000

Item	For the year 2020	For the year 2019	Changes (%)	Main reasons
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
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 statement of financial position 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 VI Operation Discussion and Analysis of this annual report.

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 VI Operation Discussion and Analysis of this annual report.

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	4.56	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 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.



The meeting on the celebration of the 71st anniversary of the founding of the People's Republic of China and the commendation to the winners of “Artisan of Bank of Qingdao” held by the Bank in September 2020.

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 22.01% 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.

Section VI Operation Discussion and Analysis

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.



The grand opening ceremony of BQD Wealth Management at Qingdao International Convention Centre in November 2020.

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.



The Bank at the “Sino-Singapore (Suzhou) FinTech EXPO” in September 2020.

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 VI Operation Discussion and Analysis of this annual report.

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 decline, 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.

Section VI Operation Discussion and Analysis

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.

Item of net stable funding ratio (RMB' 000)	31 December 2020		30 September 2020	
	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 Increase/ (Decrease)	31 December 2019 Increase/ (Decrease)
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.

Section VI Operation Discussion and Analysis

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.

Section VI Operation Discussion and Analysis

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.



The final of the 4th operation knowledge competition held by the Bank in September 2020.

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 VII Significant Events

I. PROFIT DISTRIBUTION FOR ORDINARY SHARES AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL

1.1 Profit distribution policy for ordinary shares and implementation thereof

The resolution on the amendments to the Articles of Association of the Bank of Qingdao Co., Ltd. was considered and approved at the 2016 second extraordinary general meeting of the Bank held on 14 October 2016. The amended Articles of Association provide that the Bank shall implement a consistent and stable profit distribution policy that gives priority to investors' reasonable investment returns while having regard to the Bank's sustainable development. The Bank shall give preference to cash dividend distribution on the premise of ensuring sustaining profitability and compliance with regulatory requirements as well as the normal operation and long-term development of the Bank. The Bank's annual profit distributed to shareholders of ordinary shares in cash shall not be less than 20% of the distributable profits attributable to ordinary shareholders of the Bank in the relevant year.

Particulars of Cash Dividend Policy

Whether in compliance with the requirements of the Articles of Association and the resolutions of the general meeting:	Yes
Whether the dividend distribution criteria and proportion were well-defined and clear:	Yes
Whether the related decision-making process and mechanism were in place:	Yes
Whether independent Directors fulfilled their duties and played their roles:	Yes
Whether the minority shareholders had the opportunities to sufficiently express their opinions and appeals and the legal interests of the minority shareholders were fully protected:	Yes
Whether the conditions and procedures were legal and transparent in respect of the adjustments and changes in cash dividend policy:	N/A

1.2 Dividend distribution for ordinary shares for the last three years

The 2020 proposal for dividend distribution of ordinary shares: the Board of the Bank has proposed a final cash dividend 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 dividend is calculated based on the total number of shares on the record date of equity distribution. The dividend distribution plan will be submitted to the 2020 annual general meeting for consideration. The Bank will not issue bonus shares, or perform capital conversion from capital reserve for the year 2020.

The 2019 dividend distribution plan for ordinary shares: pursuant to the relevant resolutions considered and approved at the 2019 annual general meeting held 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 to 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 million (tax inclusive), according to the dividend distribution plan to distribute cash dividend of RMB2.00 per 10 shares (tax inclusive) on 2 July 2020.

The 2018 dividend distribution plan for ordinary shares: pursuant to the relevant resolutions considered and approved at the 2018 annual general meeting held on 17 May 2019, the Bank distributed to holders of A Shares, whose names appeared on the A-share register of the Bank on 15 July 2019, and to holders of H Shares, whose names appeared on the H-share register of the Bank on 28 May 2019, dividends in cash for 2018 in an aggregate amount of RMB902 million (tax inclusive), according to the dividend distribution plan to distribute cash dividend of RMB2.00 per 10 shares (tax inclusive) on 16 July 2019.

Unit: RMB' 000

Year of distribution	Amount of cash dividends (tax inclusive)	Net profit attributable to ordinary shareholders of the listed company in the consolidated financial statements during the year of distribution	Amount of cash dividends as a percentage of net profit attributable to ordinary shareholders of the listed company in the consolidated financial statements	Amount of cash dividends distribution through other means (such as repurchase of shares)	Amount of cash dividends distribution through other means as a percentage of net profit attributable to ordinary shareholders of the listed company in the consolidated financial statements
2020	811,744	1,897,165	42.79%	—	—
2019	901,938	1,764,816	51.11%	—	—
2018	901,938	1,519,256	59.37%	—	—

Notes: 1. The amount of cash dividend for 2020 (tax inclusive) in the above table is calculated based on the total number of 4,509,690,000 shares at the time when the proposal for the distribution of ordinary shares of the Bank was considered and approved by the Board of Directors of the Bank. The actual amount shall be calculated based on the total number of shares as at the record date for the distribution of interest.

2. During the past three years (including the Reporting Period), the Bank had no proposal (plan) for issuing bonus shares and performing conversion of capital reserves into share capital.

II. PROFIT DISTRIBUTION AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL DURING THE REPORTING PERIOD

Number of bonus share per 10 shares (share(s))	—
Dividend distribution per 10 shares (RMB) (tax inclusive)	1.80
Scrip shares per 10 shares (share(s))	—
Share base of the distribution proposal (shares)	4,509,690,000
Amount of cash dividend (RMB) (tax inclusive)	811,744,200
Amount of cash dividends distribution through other means (such as repurchase of shares) (RMB)	—
Total cash dividend (including other means) (RMB)	811,744,200
Distributable profits (RMB)	3,384,108,636
Percentage of total cash dividend (including other means) to total profit distribution	100%

Cash dividend

If the Company's development is in maturity stage without substantial capital expenditure arrangement, the proportion of cash dividends shall not be less than 80% in the profit distribution.

Particulars of profit distribution and capital conversion from capital reserve plans

Taking into account the profit of the Bank, and in compliance with the Articles of Association of the Bank and relevant regulatory requirements, the proposal for profit distribution of the Bank for 2020 is as follows:

1. 10% of net profit, equivalent to RMB233 million, will be appropriated to statutory reserve fund;
2. RMB581 million will be appropriated to general reserve;
3. RMB497 million of dividend has been distributed to the offshore preference shareholders on 19 September 2020;
4. RMB1.80 (tax inclusive) per 10 shares of cash dividend will be distributed to all ordinary shareholders on a basis of the total number of shares on the record date of equity distribution. Dividends of H Shares shall be paid in Hong Kong dollars. The applicable exchange rate of RMB to Hong Kong dollars shall be the average of the central parity rates in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends at the annual general meeting (including the day the annual general meeting to be held) as announced by the People's Bank of China;
5. The retained profit will be carried forward to the next year.

Note: The share base of distribution proposal, amount of cash dividend (tax inclusive) and total cash dividend in the above table are stated and calculated based on a total number of 4,509,690,000 shares outstanding at the time when the proposal for dividend distribution of ordinary shares was considered and approved by the Board of the Bank. The actual data shall depend on the total number of shares on the record date of equity distribution and be calculated accordingly.

III. FULFILLMENT OF UNDERTAKINGS

Undertakings fulfilled during the Reporting Period and not fulfilled as at the end of the Reporting Period by the Bank, shareholders, related parties of the Bank or other parties involved in undertaking are as follows:

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
Undertaking made on initial public offering or refinancing	Qingdao Conson Industrial Co., Ltd.	Undertaking on voluntary lockup of shares held	Qingdao Conson Industrial Co., Ltd., a shareholder holding more than 5% of the total share capital of the Bank, undertook not to transfer nor entrust others to manage the shares of the Bank held directly or indirectly by it prior to the issuance of the A Shares within 36 months from the date of the listing of A Shares of the Bank on the stock exchange and not to sell back the above shares to the Bank.	16 January 2019	36 months	In progress
	Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd., Haier Smart Home Co., Ltd., Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Haier Robot Co., Ltd., Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd.	Undertaking on voluntary lockup of shares held	Eight enterprises including Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd., Haier Smart Home Co., Ltd., Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Haier Robot Co., Ltd., Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd. respectively undertook not to transfer nor entrust others to manage the shares of the Bank held directly or indirectly by them prior to the issuance of the A Shares within 36 months from the date of the listing of A Shares of the Bank on the stock exchange and not to sell back the above shares to the Bank (except for the transfers between a company and its related party if the transfer is in compliance with the relevant laws and regulations and the transferee agrees to fulfill the undertaking on lock-up of shares by the transferor).	16 January 2019	36 months	In progress
	Shandong Sanliyu Economics and Trade Co., Ltd., Qingdao Hairen Investment Co., Ltd., Qingdao Jifa Group Co., Ltd., Shanghai Jiacheng Investment Management Co., Ltd., Beijing International Trust Co., Ltd. (北京國際信託有限公司), Guosen Securities Company Limited (國信證券股份有限公司), Qingdao Bright Mountain Industries Co., Ltd. (青島貝蒙特實業有限公司), Qingdao New Hongfang Group Co., Ltd. (青島新紅紡集團有限公司), United Ventures Group Co., Ltd. (聯合創業集團有限公司), Hundsun Technologies Inc. (恒生電子股份有限公司), Qingdao Kingking Applied Chemistry Co., Ltd., Qingjian Group Co., Ltd. (青建集團股份公司) and Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	Undertaking on voluntary lockup of shares held	Shandong Sanliyu Economics and Trade Co., Ltd., Qingdao Hairen Investment Co., Ltd., Qingdao Jifa Group Co., Ltd., Shanghai Jiacheng Investment Management Co., Ltd., Beijing International Trust Co., Ltd. (北京國際信託有限公司), Guosen Securities Company Limited (國信證券股份有限公司), Qingdao Bright Mountain Industries Co., Ltd. (青島貝蒙特實業有限公司), Qingdao New Hongfang Group Co., Ltd. (青島新紅紡集團有限公司), United Ventures Group Co., Ltd. (聯合創業集團有限公司), Hundsun Technologies Inc. (恒生電子股份有限公司), Qingdao Kingking Applied Chemistry Co., Ltd., Qingjian Group Co., Ltd. (青建集團股份公司) and Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. respectively undertook not to transfer nor entrust others to manage the shares of the Bank held directly or indirectly by them prior to the issuance of the A Shares within 36 months from the date of the listing of A Shares of the Bank on the stock exchange and not to sell back the above shares to the Bank.	16 January 2019	36 months	In progress

Section VII Significant Events

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Qingdao Collective Enterprise Cooperative Society	Undertaking on voluntary lockup of shares held	Qingdao Collective Enterprise Cooperative Society undertook not to transfer nor entrust others to manage the 2,829,795 shares held by it within 36 months from the date of the listing of A Shares of the Bank on the stock exchange and not to sell back the above shares to the Bank.	16 January 2019	36 months	In progress
	Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	Undertaking on voluntary lockup of shares held	Pursuant to the Interim Measures for the Equity Management of Commercial Banks 《商業銀行股權管理暫行辦法》, Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. undertook not to transfer the share equity held by it within five years from the date of obtaining the share equity of the Bank (29 June 2018).	29 June 2018	60 months	In progress
	The Directors, Supervisors and senior management holding shares of the Bank	Undertaking on voluntary lockup of shares held	The Directors, Supervisors and senior management holding shares of the Bank undertook not to transfer nor entrust others to manage the shares of the Bank held by them within 36 months from the listing date of the Bank and the above shares are not to be repurchased by the Bank; upon the expiration of such lockup period, they shall also report their shareholdings in the Bank and changes thereof to the Bank according to the laws in a timely manner, the number of shares transferred by each of them through concentrated bidding, block trade and share transfer by agreement during their terms of office every year will not exceed 15% of the total number of shares of the Bank held by each of them, the total number of shares transferred by each of them within 5 years shall not exceed 50% of the total number of shares of the Bank held by each of them, and they shall not purchase the shares of the Bank within 6 months after they have sold their shares and shall not sell the shares of the Bank within 6 months after they have bought the shares. Within 6 months after their dismissal, they shall not transfer the shares of the Bank held by them. The above undertakings on lock-up of shares shall not be terminated due to changes in their posts and dismissal.	16 January 2019	Please see the details of undertakings	In progress
	The individuals holding more than 50,000 shares of internal staff shares	Undertaking on voluntary lockup of shares held	Pursuant to the Notice on the Regulation of Internal Staff Shares in Financial Enterprises (Caijin [2010] No. 97) 《關於規範金融企業內部職工持股的通知》(財金[2010]97號), the individuals holding more than 50,000 shares of internal staff shares undertook that the lock-up period of the share transfer shall not be less than 3 years from the date of listing and trading of the A Shares of the Bank on the stock exchange. Upon the expiration of lock-up period of shareholding, the number of shares available for sale every year shall not exceed 15% of the total number of the shares held, and the number of shares available for sale within 5 years shall not exceed 50% of the total number of shares held.	16 January 2019	Please see the details of undertakings	In progress

Section VII Significant Events

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Qingdao Conson Industrial Co., Ltd.	Undertakings on the intention of shareholding and intention of reduction of shareholding	<p>Prior to the issuance of the A Shares, Qingdao Conson Industrial Co., Ltd., a shareholder holding more than 5% of the total share capital of the Bank, undertook that upon the listing of A Shares of the Bank, if it is necessary to transfer the shares of the Bank held by it, upon the satisfaction of the four conditions on reduction of shareholding, namely expiration of the lock-up period as stipulated by laws, regulations and regulatory documents, expiration of lock-up period undertaken, there being no circumstance where the share transfer is prohibited as stipulated in laws and regulations and regulatory documents and the announcement on the intention of reduction in shareholding being published 3 trading days before the reduction in shareholding, Qingdao Conson Industrial Co., Ltd. can reduce its shareholding through concentrated bidding system, block trade system of the stock exchange, share transfer by agreement or other methods as permitted by the laws and regulations within six months from the publication of the announcement on the intention of reduction in shareholding. If Qingdao Conson Industrial Co., Ltd. intends to reduce its shareholding within two years after the expiration of the lock-up period, the number of shares reduced each year shall not exceed 25% of the number of the shares held, and the price shall not be lower than the issue price (In case of any ex-rights or ex-dividend activities such as dividend distribution, bonus shares, capital conversion from capital reserve, allotment and share subdivision, the above price shall be adjusted for such ex-rights and ex-dividends activities); after two years from the expiration of the lock-up period, if it intends to reduce its shareholding, the number of shares to be reduced shall be announced 3 trading days before the reduction. If Qingdao Conson Industrial Co., Ltd. fails to fulfill the above undertakings regarding the reduction of shareholding, its gains from the reduction of shares of the Bank shall be forfeited by the Bank. If the gains of the illegal reduction or the illegal transfer are not delivered to the Bank, the Bank shall be entitled to withhold cash dividends payable to it at an amount that is equivalent to the gains of the illegal reduction or the illegal transfer.</p>	16 January 2019	Please see the details of undertakings	In progress

Section VII Significant Events

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	The Directors and senior management holding shares of the Bank	Undertakings on the intention of shareholding and intention of reduction of shareholding	The Directors and senior management holding shares of the Bank undertook that if they reduce the shares of the Bank held by them within 2 years from the expiration of the lock-up period, the price shall not be lower than the issue price; if the closing prices of the shares of the Bank are lower than the issue price for 20 consecutive trading days during the 6 months after the listing of the Bank, or the closing price of the shares of the Bank at the end of the 6 months after listing is lower than the issue price, the lockup period of shares of the Bank held by them shall be extended for 6 months automatically. The above undertakings on the price of shareholding reduction shall not be terminated due to changes in their posts or dismissal. The above issue price refers to the issue price of the initial public offering of the A Shares of the Bank. If the Bank has any ex-rights and ex-dividend issues due to cash dividend, bonus issue, capital conversion and issue of new shares after its listing, such issues shall be handled in accordance with the relevant provisions of the stock exchange.	16 January 2019	Please see the details of undertakings	In progress
Other undertakings	Haier Group, Intesa Sanpaolo S.p.A. and Qingdao Conson Industrial Co., Ltd.	Undertaking by major shareholders	In June 2011, in accordance with the relevant requirements of the Notice of the General Office of China Banking and Insurance Regulatory Commission on Strengthening the Review of Qualifications of Major Shareholders of Small and Medium-sized Commercial Banks, Haier Group, Intesa Sanpaolo S.p.A. and Qingdao Conson Industrial Co., Ltd., shareholders of the Bank with shareholding of more than 5%, respectively undertook: not to seek related party transactions with terms more favorable than those of other shareholders; not to intervene in the daily business affairs of the Bank; not to transfer the new shares subscribed for within five years from the date of completion of the change of business registration, and transfer of shares upon the expiry of the said period and the qualification of the transferee as shareholder shall be subject to the consent of regulatory authorities; to continue to provide the Bank with additional capital as the main capital sources of the shareholding bank; not to impose undue pressure on the Bank by setting indicators.	7 June 2011	Please see the details of undertakings	In progress

Section VII Significant Events

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Qingdao Hairen Investment Co., Ltd.	Undertaking by major shareholder	In accordance with the Interim Measures for the Equity Management of Commercial Banks (Order of The China Banking Regulatory Commission [2018] No. 1), the Notice of the General Office of the China Banking Regulatory Commission on Strengthening the Review of Qualifications of Major Shareholders of Small and Medium-sized Commercial Banks (Yin Jian Ban Fa [2010] No. 115), the Notice of the China Banking Regulatory Commission on Issuing the Guidelines for the Corporate Governance of Commercial Banks (Yin Jian Fa [2013] No. 34), Qingdao Hairen Investment Co., Ltd., as a major shareholder of the Bank, hereby undertakes that it will: comply with the laws and regulations, regulatory requirements and the Articles of Association of the Bank; not transfer their equity interests in the Bank within five years from the date of acquiring the equity interests in the Bank; not seek related party transactions with terms more favorable than those of other shareholders, and provide explanations on the bank loans and loan quality as confirmed by the lending bank; not to intervene in the daily business affairs of the Bank; continue to replenish the Bank's capital when necessary and report its capital replenishment capability to the regulatory authorities through the Bank on an annual basis; avoid imposing undue pressure arising from reference on the Bank; disclose the information of related parties to the Board of Directors of the Bank truthfully, accurately and completely, and report to the Board of Directors of the Bank in a timely manner on any change in the related party relationship. It also undertakes that in case shares of the Bank held by it is pledged, the pledge will be in compliance with the regulatory policy orientation and the requirements of the Articles of Association and relevant equity interest management system of the Bank.	20 November 2019	Please see the details of undertakings	In progress
	Qingdao Conson Industrial Co., Ltd., six companies under the Haier Group (including Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Haier Robot Co., Ltd., Haier Smart Home Co., Ltd. (海爾智家股份有限公司), Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd.) and Intesa Sanpaolo S.p.A.	Undertaking on the private placement	In June 2014, Qingdao Conson Industrial Co., Ltd., six companies under Haier Group (including Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Haier Robot Co., Ltd., Haier Smart Home Co., Ltd. (海爾智家股份有限公司), Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd.) and Intesa Sanpaolo S.p.A., which participated in the subscription for the shares of the Bank under the private placement, respectively undertook not to transfer 95,179,773 shares, 145,018,723.97 shares and 111,111,187 shares subscribed for in the above subscription within five years from 28 February 2015 (being the date of completion of business registration of the relevant subscription). In addition, Intesa Sanpaolo S.p.A. further undertook not to transfer the other equity interest held by it within a period of three years from the date of listing of H Shares of the Bank.	9 June 2014	Please see the details of undertakings	Fulfilled during the Reporting Period
Whether undertaking was fulfilled on time			Yes			

- Notes: 1. During the Reporting Period, there was no situation where the profit forecast for the Bank's assets or projects existed or the Reporting Period still fell within the period of profit forecast.
2. On 20 June 2019, "Qingdao Haier Co., Ltd." was renamed as "Haier Smart Home Co., Ltd.".

IV. APPROPRIATION OF THE LISTED COMPANY'S FUNDS BY THE CONTROLLING SHAREHOLDER AND ITS RELATED PARTIES FOR NON-OPERATING PURPOSES

During the Reporting Period, there was no appropriation of funds of the Bank by the controlling shareholder and its related parties for non-operating purposes. KPMG Huazhen LLP, the auditor of the Bank, has issued the Special Report of Bank of Qingdao Co., Ltd. on Appropriation of Funds for Non-operating Purposes and the Flow Funds involving Related Parties for 2020 (《關於青島銀行股份有限公司2020年度非經營性資金佔用及其他關聯資金往來情況的專項說明》).

V. EXPLANATION FROM THE BOARD OF DIRECTORS, THE BOARD OF SUPERVISORS AND THE INDEPENDENT DIRECTORS (IF ANY) ON "NON-STANDARD AUDIT REPORT" OF THE ACCOUNTING FIRM DURING THE REPORTING PERIOD

N/A.

VI. EXPLANATION ON CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHODS AS COMPARED TO THE FINANCIAL REPORT FOR THE PREVIOUS YEAR

During the Reporting Period, there were no changes in the accounting policies, accounting estimates and auditing methods.

VII. EXPLANATION ON RETROSPECTIVE RESTATEMENT TO CORRECT MAJOR ACCOUNTING ERRORS DURING THE REPORTING PERIOD

During the Reporting Period, the Bank did not have major accounting errors correction and did not need to make retrospective restatement.

VIII. EXPLANATION ON CHANGES IN THE SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS AS COMPARED TO THE FINANCIAL REPORT FOR THE PREVIOUS YEAR

The wholly-owned subsidiary of the Bank Qingyin Wealth Management was established in 16 September 2020, and it has been incorporated into the 2020 consolidated statements of the Bank.

IX. ENGAGEMENT OR DISMISSAL OF ACCOUNTING FIRMS

9.1 Current accounting firm engaged

Name of the domestic accounting firm	KPMG Huazhen LLP
Continued term of audit service of the domestic accounting firm	11 years
Name of certified public accountants of the domestic accounting firm	CHENG Hailiang, MA Xin
Continued term of audit service of certified public accountants of the domestic accounting firm	2 years, 1 year
Name of the international accounting firm (if any)	KPMG
Continued term of audit service of the overseas accounting firm (if any)	6 years
Name of certified public accountants of the overseas accounting firm (if any)	LEE Lok Man
Continued term of audit service of certified public accountants of the overseas accounting firm (if any)	4 years

Note: During the Reporting Period, the Bank did not change the accounting firm. Certified public accountants of the domestic accounting firm changed from CHENG Hailiang, TANG Yinghui to CHENG Hailiang, MA Xin.

For the year ended 31 December 2020, RMB5.5160 million of the total audit fee was agreed to be paid by the Company (including subsidiaries) to KPMG Huazhen LLP and KPMG for the annual audit of financial statement, the interim review, the quarterly implementation of agreed-upon procedures and internal control audit, etc. and it was agreed to pay RMB835,000 of the non-audit fee to them. The above fees include related taxes, travel, office expenses and other sundry expenses.

9.2 Particulars on the recruitment of accounting firms for internal control audit, financial advisors or sponsors

The Bank engaged KPMG Huazhen LLP as the internal control audit institution for 2020 and the internal control audit fee payable is RMB600,000.

The Bank engaged CITIC Securities Co., Ltd. as the sponsor of the offering of A Shares and the sponsor of continuous supervision. No fee was paid for continuous supervision service.

During the Reporting Period, the Bank did not engage any financial advisor.

X. SUSPENSION IN TRADING OR DELISTING UPON PUBLICATION OF ANNUAL REPORT

N/A.

XI. MATTERS RELATED TO BANKRUPTCY AND REORGANIZATION

There was no matter related to bankruptcy and reorganization during the Reporting Period.

XII. MATERIAL LITIGATION, ARBITRATION AND MATERIAL CASES

There was no significant litigation, arbitration and material cases during the Reporting Period. The Bank is involved in several litigations in the daily operation due to loan collection and other reasons. The Bank does not anticipate that these litigations will have a material adverse impact on our financial or business results. As at the end of the Reporting Period, the Bank was the defendant in seven pending litigations with total amount of claims at RMB2,487,600, which would not have material adverse impact on the financial or operating results of the Bank, and no provision has been made.

XIII. PUNISHMENT AND RECTIFICATION

As far as the Bank is aware, during the Reporting Period, none of the following circumstances happened to the Bank and Directors, Supervisors or senior management of the Bank, including being investigated by competent authorities, imposed coercive measures by a judiciary authority or disciplinary department, transferred to a judicial authority or held criminally liable, investigated or imposed administrative penalties by the CSRC, imposed coercive measure and banned from access to market, identified as an unsuitable person, imposed significant administrative penalties by other administrative authorities such as environmental protection, safety supervision and taxation, or publicly condemned by a stock exchange.

XIV. CREDIBILITY OF THE BANK, ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

There was no controlling shareholder or de facto controllers of the Bank. As far as the Bank is aware, during the Reporting Period, the Bank, the largest shareholder of the Bank and its de facto controller do not have any failure to comply with any effective court judgement or settle any material debts that have fallen due.

XV. IMPLEMENTATION OF THE EQUITY INCENTIVE PLAN, EMPLOYEE SHAREHOLDING PLAN OR OTHER EMPLOYEE INCENTIVE MEASURE OF THE BANK

There was no implementation of the equity incentive plan, employee shareholding plan or other employee incentive measure of the Bank during the Reporting Period.

XVI. SIGNIFICANT RELATED PARTY TRANSACTIONS

16.1 Related party transactions during the ordinary course of business

The Bank conducted related party transactions by strictly following the relevant regulations of the regulatory authorities and the Administrative Measures for the Related Party Transactions of Bank of Qingdao Co., Ltd. 《青島銀行股份有限公司關聯交易管理辦法》 and the Implementation Provisions of the Related Party Transactions of Bank of Qingdao Co., Ltd. 《青島銀行股份有限公司關聯交易管理實施細則》 formulated by the Bank.

According to the requirements of the CBIRC, the Bank reviews and approves related party transactions based on commercial principles and on terms no more favorable than similar transactions with non-related parties. The terms of such transactions are fair and reasonable and in the interests of all shareholders and the Bank as a whole, and there is no negative impact on the operating results and financial position of the Bank. Among which, all credit-related related party transactions were conducted in accordance with relevant laws and regulations, credit granting conditions and the review procedures, and the amount of all the loans was recovered normally with no non-performing loans.

Section VII Significant Events

According to the requirements of the CBIRC, during the Reporting Period, there were 3 proposals on material related party transactions approved by the Board, which were related transactions with 3 related enterprises of Haier Group. As at the end of the Reporting Period, the Bank's balance of credit-related significant related party transactions was RMB1,688 million, the details of which are as follows:

Unit: RMB in 100 million

Name of Related Party	Type of Business	Way of Guarantee	Balance of Credit-related Significant Related Party Transactions	Net Credit after Deducting Margin	Percentage of the Net Capital as at the End of the Reporting Period
Haier Consumer Finance Co., Ltd.	Interbank borrowing	Guarantee	8.00	8.00	2.11%
Qingdao Haichen Real Estate Development Co., Ltd.	Loan	Mortgage	3.72	3.72	0.98%
Qingdao Haili Living Technology Co., Ltd.* (青島海驪住居科技股份有限公司)	Commercial bill financing and letter of guarantee	Pledge and guarantee	1.74	1.74	0.46%
Qingdao Haizhi Weichuang Estate Co., Ltd.	Commercial bill financing	Guarantee	1.06	1.06	0.28%
Haier Group Finance Co., Ltd.	Interbank bill credit	—	0.85	0.85	0.22%
Qingdao Haitang Real Estate Co., Ltd.	Commercial bill financing	Guarantee	0.61	0.61	0.16%
Qingdao Haier Industry and City Innovation Group Co., Ltd.	Factoring and guarantee	—	0.59	0.59	0.16%
Qingdao Haiqi Real Estate Development Co., Ltd.	Commercial bill financing	Guarantee	0.31	0.31	0.08%

According to the provisions of the CSRC and SZSE, the Bank has made a forecast of the daily related party transactions in 2020 and published the Announcement on Estimated Ordinary Related Party Transactions in 2020 (Announcement No.: 2020-008) on CNINFO website dated 16 March 2020. The related party transactions in the Reporting Period have not exceeded the forecast. The details are as follows:

- (1) Haier Group Corporation and its related parties: the balance of credit-related transactions at the end of the Reporting Period was RMB1.988 billion (including the balance of the RMB300 million credit-related transactions carried out by BQD Financial Leasing and the related parties of Haier Group);
- (2) Intesa Sanpaolo S.p.A. and its related parties: there is no balance at the end of the Reporting Period, the actual amount of the non-credit transactions during the Reporting Period was RMB6,537.2 thousand;
- (3) Qingdao Conson Development (Group) Co., Ltd. and its related parties: the balance at the end of the Reporting Period was RMB281 million, the actual amount of the non-credit transactions during the Reporting Period was RMB54.456 million;
- (4) AMTD Group Company Limited and its related parties: the actual amount of the non-credit transactions during the Reporting Period was RMB23,446.9 thousand;
- (5) BQD Financial Leasing Company Limited: there is no balance at the end of the Reporting Period, the actual amount of the non-credit transactions during the Reporting Period was RMB2,082.6 thousand;
- (6) Related natural persons: the balance of credit transactions at the end of the Reporting Period was RMB216 million and the risk exposure was RMB216 million.

16.2 Related party transactions in connection with acquisition or sale of assets or equity interest

There was no related party transaction of the Bank in connection with acquisition or sale of assets or equity interest during the Reporting Period.

16.3 Related party transactions in connection with joint external investment

There was no related party transaction of the Bank in connection with joint external investment during the Reporting Period.

16.4 Related creditors' rights and debts transactions

There was no non-operating related creditors' rights and debts transaction of the Bank during the Reporting Period.

16.5 Other significant related party transactions

There was no other significant related party transaction of the Bank during the Reporting Period.

XVII. MATERIAL CONTRACTS AND IMPLEMENTATION THEREOF

17.1 Custody, contracting and leasing

In the material contracts entered into by the Bank, there was no matter related to custody, contracting, and leasing of assets of other companies by the Bank, or matter related to custody, contracting, and leasing of assets of the Bank by other companies which was occurred during the Reporting Period or which was occurred in previous periods and continued to the Reporting Period.

17.2 Significant guarantees

The guarantee business is the normal business of the Company. During the Report Period, apart from the financial guarantee business within the business scope approved by the CBIRC, there was no significant guarantee matter that needed to be disclosed.

17.3 Entrusted cash and asset management

During the Reporting Period, the Bank did not have any entrusted wealth management or entrusted loan transactions beyond the Bank's normal scope of business.

17.4 Major contracts of daily operation

The Bank did not sign any major contracts of daily operation that need to be disclosed during the Reporting Period.

17.5 Other material contracts

There was no other material contract of the Bank during the Reporting Period.

XVIII. ACQUISITION, MERGER AND DISPOSAL OF ASSETS DURING THE REPORTING PERIOD

During the Reporting Period, the Bank did not engage in any material acquisition, merger or disposal of assets.

XIX. OTHER MATTERS OF SIGNIFICANCE

During the Reporting Period, save for the disclosed, there was no other matters of significance that needed to be disclosed.

XX. SOCIAL RESPONSIBILITY

20.1 Performance of social responsibility

For details, please refer to the 2020 Social Responsibility Report published on the CNINFO website, HKEXnews website of the Hong Kong Stock Exchange and the website of the Bank.

20.2 Fulfillment of social responsibility for targeted poverty alleviation

(1) Targeted Poverty Alleviation Plan

In accordance with the guidance of government at all levels and financial regulatory authorities on poverty alleviation loans, the Bank proactively focused on its financial targeted poverty alleviation works. According to the financial poverty alleviation target plan formulated by the Bank, the Bank has actively carried out corresponding work. In the 10 economically weak towns, 200 provincial poverty villages and 310 municipal economically weak villages as announced by Qingdao municipal government, the Banks selected citizens who are in need for loans and have employment and entrepreneurship potentials, skills and repayment ability as its target customer.

In accordance with the principles of precise positioning, adjusting measures to local conditions and tailoring, on the basis of giving full play to the advantages of the Bank's existing products, the Bank further developed micro-loan products for poverty alleviation, and improved the pertinence and effectiveness of poverty alleviation in terms of loan amounts, guarantee methods, interest rates, loan terms and repayment methods. For the poverty groups, the threshold and conditions for loan approval should be appropriately streamlined to improve the efficiency of the application of poverty alleviation funds. Poverty alleviation targets shall be motivated to the fullest extent, and they need to push forward by their own efforts instead of relying on our poverty alleviation services.

(2) Summary of targeted poverty alleviation during the year

The Bank took the initiative to contact the poverty alleviation management departments of government at all levels to obtain timely information on poverty alleviation plans and implementation plans, identification of poor towns, villages and households, strengthen the liaison and contact with local departments in charge of agriculture, education, science and technology, social security and others, comprehensively understand information on poverty alleviation through education, science and technology, and obtain and determine target customer groups. We actively connected with local poverty alleviation and development projects, especially key poverty alleviation projects. We should strengthen business cooperation with major financial service institutions for poverty alleviation and development and financial guarantee institutions funded by the government in counties, develop new cooperation models, and broaden channels for financial poverty alleviation.

(3) Effectiveness of targeted poverty alleviation

Indicator	Unit of measurement	Number/Status
I. Overall situation	—	—
Of which: 1. Capital	RMB' 0,000	119
2. Cash converted from materials	RMB' 0,000	—
3. Number of registered poor people being lifted out of poverty	Person	—
II. Project investment	—	—
1. Poverty alleviation by supporting education	—	—
Among: Amount invested for improving educational resources in poor areas	RMB' 0,000	100
2. Social poverty alleviation	—	—
Among: Investment in targeted poverty alleviation programs	RMB' 0,000	19

(4) Targeted poverty alleviation follow-up programs

The Bank will continue to enhance the awareness and publicity of financial targeted poverty alleviation services, further strengthen the innovation of financial products and services, and improve the targeted poverty alleviation of financial services. Riding on special national policies enjoyed by specific regions and its own advantages in risk control system, the Bank will, jointly with local governments and professional financing guarantee companies, carry out batch marketing activities targeting at the customers of specific industries and specific groups of Small and Micro Enterprises. Furthermore, the Bank will vigorously develop innovative financial products, such as online banking, mobile banking, and “Jufuma (聚付碼)”, to provide convenient payment and settlement services through various channels for poor households so that they can pay and transfer funds without leaving their homes.

20.3 Environmental protection

The Bank and its subsidiaries are not key pollutant discharging enterprises as announced by the environmental protection authorities. During the Reporting Period, the Bank and its subsidiaries were not subject to any punishment due to violation of environmental protection laws and regulations. In the monetary and financial service industry, no pollutants specified in the Provisions on the Management of List of Key Sewage Discharging Units 《重點排污單位名錄管理規定》 are produced from the Bank's principal business. The Bank and its subsidiaries will conscientiously implement the Environmental Protection Law of the PRC and other environmental protection laws and regulations in its production and operation activities going forward.

XXI. PROTECTION OF CONSUMER RIGHTS

During the Reporting Period, under the guidance of the operating principle of “adopting to changing times, strengthening characteristics, overcoming and developing steadily”, the Bank closely followed the regulatory trend, and gave full play to the mechanism and system advantages of corporate bodies. With product and service design as the focus, the “Qingxin” service and “Qingcheng” consumer protection brands as the highlight and financial knowledge publicity and education as the innovation point, the Bank continuously optimized its organizational structure, solidified the management foundation, improved its assessment and training, enhanced publicity and education, strengthened its sense of responsibility, and promoted the overall enhancement of consumer protection.

1. Strengthened standardized system management and achieved practical results through centralized management

First, the Bank continued to give full play of the three-level structural management under the coordination between the risk management and consumer right protection committee, the special departments and different branches, thereby ensuring the centralized management and effective implementation of the works on consumer right and interest protection. Second, comprehensive assessment on system management, sales and “double recording” and public financial education was conducted. Every requirement in relation to consumer right and interest protection was met. Third, the Bank gave full play of the functions of departments in charge of the consumer right and interest protection. Both horizontal and vertical procedures were got into shape and optimized to improve work efficiency.

2. Enhanced the value and essence of our services and maintained advanced compliant management

First, the national standard of complaint classification was implemented rigorously to ensure accurate classification of each complaint and the quality and quantity of the submission of complaint monitoring data. Second, the analysis of consumer complaints was conducted through digitalization management. Consumer experience was enhanced through our pre-management model. Third, the Bank improved the management structure of consumer complaints, and established a systematic management mode of consumer complaints covering the entire closed-loop management of consumer complaint handling, system construction and data management, accountability mechanism of responsible departments and rectification at source.

3. Effectively implemented accountability mechanism of responsible departments and promoted financial education quality

First, adhering to the concept of “Sincere Qingcheng consumer protection stays with you”, we created the “3+5” financial consumer protection mode, and actively carried out the 5-in-1 education campaign of “Qingxin + Qingcheng”, “Online + offline”, “Scene + group” and “new media, small classroom, lecturer group, care bridge and Xin service”, so as to establish an excellent brand of financial consumer promotion and education. Second, we carried out themed promotion activities such as “3.15 Consumer Rights Day”, “Financial Knowledge Journey”, “Knowing Finance at home” and “Publicity Month for Preventing Illegal Fund-Raising”, so as to perform our social responsibilities. Third, we strengthened the assessment and evaluation of promotion and education, and incorporated the promotion and education work of various outlets into the rating of consumer rights and interests protection, so as to ensure the effectiveness of promotion and education.

4. Facilitated inclusive business development by making full use of the two policy tools

First, we implemented the postponed payment policy and inclusive credit loan, and enhanced the promotion of the two policy tools so as to ensure everyone knows about the preferential policies of the “two tools”. Second, we responded quickly and acted actively. We have launched a series of inclusive financial policies and products to support Small and Micro Enterprises in fighting the pandemic and resuming work and production. Third, we continuously improved the small and micro credit system, optimized the loan review mechanism, and improved our service capacity.

XXII.SIGNIFICANT EVENTS OF THE COMPANY’ S SUBSIDIARIES

During the Reporting Period, save for the disclosed, there was no other matters of significance for subsidiaries of the Bank.

XXIII.PUBLICATION OF ANNUAL REPORT

This annual report prepared both in Chinese and English by the Company in accordance with the IFRSs and Hong Kong Listing Rules is available at the HKEXnews website of the Hong Kong Stock Exchange and the website of the Company. In case of any discrepancy in interpretation between the Chinese and English versions of the annual report, the Chinese version shall prevail.

This annual report prepared in Chinese by the Company in accordance with the Accounting Standards for Business Enterprises and the Rules for the Preparation of Annual Reports is available at the websites of the SZSE and the Company.

Section VIII Changes in Shareholdings and Information on Shareholders

I. CHANGES IN SHAREHOLDINGS

1.1 Changes in Shareholdings

Unit: share

Item	As at 31 December 2019		New issue	Increase/decrease (+/-)				As at 31 December 2020	
	Number of shares	Percentage		Bonus issue	Conversion from reserves	Others	Sub-total	Number of shares	Percentage
I. Shares with selling restrictions	2,295,678,269	50.91%	–	–	–	-154,075,475	-154,075,475	2,141,602,794	47.49%
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. Shares held by state-owned legal entities	698,009,963	15.48%	–	–	–	-17,445,816	-17,445,816	680,564,147	15.09%
3. Shares held by other domestic investors	1,597,668,306	35.43%	–	–	–	-136,629,659	-136,629,659	1,461,038,647	32.40%
Of which: Shares held by domestic non-state-owned legal entities	1,547,308,144	34.31%	–	–	–	-110,154,957	-110,154,957	1,437,153,187	31.87%
Shares held by domestic natural individuals	50,360,162	1.12%	–	–	–	-26,474,702	-26,474,702	23,885,460	0.53%
4. Shares held by foreign investors	–	–	–	–	–	–	–	–	–
Of which: Shares held by foreign legal entities	–	–	–	–	–	–	–	–	–
Shares held by foreign natural individuals	–	–	–	–	–	–	–	–	–
II. Shares without selling restrictions	2,214,011,731	49.09%	–	–	–	154,075,475	154,075,475	2,368,087,206	52.51%
1. RMB ordinary shares	450,976,751	10.00%	–	–	–	154,075,475	154,075,475	605,052,226	13.42%
2. Domestic listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	1,763,034,980	39.09%	–	–	–	–	–	1,763,034,980	39.09%
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	4,509,690,000	100.00%	–	–	–	–	–	4,509,690,000	100.00%

Notes: 1. For the reasons for the Bank's change of the total number of shares and the approval of the change of shares during the Reporting Period, please refer to "Changes of Shares with Selling Restrictions" in this sub-section. The above changes in shares do not involve regulatory approval and share transfer.

2. The Bank did not conduct share repurchase during the Reporting Period.

3. During the Reporting Period, the total number of shares held by the Bank did not change. The changes in shares presented in the above table do not involve the influence on financial indicators.

Section VIII Changes in Shareholdings and Information on Shareholders

1.2 Changes of Shares with Selling Restrictions

Due to reasons including expiration of the lock-up period of shares subject to selling restrictions before initial offering, during the Reporting Period, a total of 154,075,475 shares of the Bank were released from selling restrictions. The details are set out in the following table:

Unit: share

Name of shareholder	Number of shares with selling restrictions at the beginning of the period	Number of shares released from selling restrictions during the period	Increase in the number of shares with selling restrictions during the period	Number of shares with selling restrictions at the end of the period	Reasons for selling restrictions	Date of release from selling restrictions
Qingdao Victall Equity Investment Co., Ltd.	30,000,000	30,000,000	—	—	Shares subject to selling restrictions before initial offering	16 January 2020
Qingdao Pengli Investment Co., Ltd.	17,540,000	17,540,000	—	—	Shares subject to selling restrictions before initial offering	16 January 2020
Qingdao Chuangxin Property Development Co., Ltd.	10,000,000	10,000,000	—	—	Shares subject to selling restrictions before initial offering	16 January 2020
Qingdao Biwan Marine Products Co., Ltd.	7,481,316	7,481,316	—	—	Shares subject to selling restrictions before initial offering	16 January 2020
BI Changyan (畢常艷)	7,000,000	7,000,000	—	—	Shares subject to selling restrictions before initial offering	16 January 2020
Qingdao Jieneng Steam Turbine Group Co., Ltd.	6,357,449	6,357,449	—	—	Shares subject to selling restrictions before initial offering	16 January 2020
Qingdao Tainuo Investment Group Co., Ltd. (青島泰諾投資集團有限公司)	5,115,146	5,115,146	—	—	Shares subject to selling restrictions before initial offering	16 January 2020
Qingdao Development and Investment Co., Ltd.	4,955,939	4,955,939	—	—	Shares subject to selling restrictions before initial offering	16 January 2020

Section VIII Changes in Shareholdings and Information on Shareholders

Name of shareholder	Number of shares with selling restrictions at the beginning of the period	Number of shares released from selling restrictions during the period	Increase in the number of shares with selling restrictions during the period	Number of shares with selling restrictions at the end of the period	Reasons for selling restrictions	Date of release from selling restrictions
Zhucheng Weishida Machinery Co., Ltd.	3,869,521	3,869,521	–	–	Shares subject to selling restrictions before initial offering	16 January 2020
Qingdao Real Estate Development and Investment Co., Ltd. (青島市房地產開發投資股份有限公司)	3,869,428	3,869,428	–	–	Shares subject to selling restrictions before initial offering	16 January 2020
Total number of other shareholders whose shares have been released from selling restrictions	60,716,846	57,886,676	–	2,830,170	–	–
Total	156,905,645	154,075,475	–	2,830,170	–	–

Note: Please refer to the Initial Public Offering Prospectus (A Shares) issued by the Bank dated 18 January 2019 for details of the shares that have not been released from selling restrictions as of the end of the Reporting Period.

II. SECURITIES ISSUANCE AND THE LISTING

2.1 Issuance of Securities (excluding Preference Shares) during the Reporting Period

During the Reporting Period, the Bank neither issued new ordinary shares nor publicly issued corporate bonds listed on the stock exchange.

2.2 Changes in the Total Number of Shares and the Shareholder Structure of the Bank and the Asset and Liability Structure of the Bank

During the Reporting Period, the total number of the Bank did not change. For more details about the changes in shares subject to selling restrictions before initial offering, internal staff shares and the shareholdings of shareholders and the changes in assets and liability structure, please refer to the relevant parts of this report.

2.3 Existing Internal Staff Shares

As of the listing of the A Shares of the Bank on Shanghai Stock Exchange on 16 January 2019, the Bank totally has 1,008 shareholders of internal staff shares, who hold 38,161,150 domestic shares of the Bank, which complies with the provisions of the “Notice on the Regulation of Internal Staff Shares in Financial Enterprises” (Cai Jin [2010] No. 97). During the Reporting Period, 13,969,056 A Shares held by 869 shareholders were our internal staff members were released from selling restrictions and put on the market.

III. SHAREHOLDERS AND DE FACTO CONTROLLERS

3.1 Number of shareholders and their shareholdings in the Company

Unit: share

Total number of ordinary shareholders at the end of the Reporting Period	93,453	Total number of ordinary shareholders as at the end of the last month before the date of the disclosure of the annual report	84,024	Total number of preferred shareholders whose voting rights were resumed at the end of the Reporting Period	–	Total number of preferred shareholders whose voting rights were resumed as at the end of the last month before the date of the disclosure of the annual report	–
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Shareholdings of ordinary shareholders who hold more than 5% of the shares or shareholdings of the top ten ordinary shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholding	Number of shares held as at the end of the Reporting Period	Increase or decrease during the Reporting Period	Number of shares with selling restrictions held	Number of shares without selling restrictions held	Share pledged or locked-up Status of shares	Number of shares
Hong Kong Securities Clearing Company Nominees Limited	Overseas legal entity	25.23%	1,137,895,380	20,000	–	1,137,895,380	Unknown	Unknown
Intesa Sanpaolo S.p.A. (意大利聯合聖保羅銀行)	Overseas legal entity	13.85%	624,753,980	–	–	624,753,980	–	–
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	State-owned legal entity	11.17%	503,556,341	–	503,556,341	–	–	–
Qingdao Haier Investment and Development Co., Ltd. (青島海爾投資發展有限公司)	Domestic non-state-owned legal entity	9.08%	409,693,339	–	409,693,339	–	–	–
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	Domestic non-state-owned legal entity	4.85%	218,692,010	–	218,692,010	–	–	–
Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	Domestic non-state-owned legal entity	3.37%	152,170,000	–	152,170,000	–	Pledged	151,600,000
Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	Domestic non-state-owned legal entity	3.22%	145,297,405	–	145,297,405	–	–	–
Qingdao Hairan Investment Co., Ltd. (青島海仁投資有限責任公司)	Domestic non-state-owned legal entity	2.97%	133,910,000	–	133,910,000	–	–	–
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	State-owned legal entity	2.11%	94,967,581	–	94,967,581	–	–	–
Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司)	Domestic non-state-owned legal entity	2.02%	90,936,164	–	90,936,164	–	–	–

Section VIII Changes in Shareholdings and Information on Shareholders

Strategic investors or general legal entities becoming one of the top ten ordinary shareholders of the Bank as a result of placing of new shares	N/A
Description of the related relationships or acting in concert among the above shareholders	Among the abovementioned shareholders, Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd. and Haier Smart Home Co., Ltd. are all under Haier Group, and they are persons acting in concert. The Bank is not aware of any other related relationships among other shareholders or whether they are parties acting in concert.
Description of the voting rights entrusted by the above shareholders, the voting rights the above shareholders are entrusted with, the voting the above shareholders abstained from	Among the abovementioned shareholders, Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd. and Haier Smart Home Co., Ltd. have entrusted Haier Smart Home Co., Ltd. to exercise the voting rights of the shareholders corresponding to their shares.

Shareholdings of the top ten shareholders without selling restrictions

Name of shareholder	Number of ordinary shares held without selling restrictions as at the end of the Reporting Period	Types of shares	
		Types of shares	Number
Hong Kong Securities Clearing Company Nominees Limited	1,137,895,380	Overseas listed foreign shares	1,137,895,380
Intesa Sanpaolo S.p.A.	624,753,980	Overseas listed foreign shares	624,753,980
CHEN Liuhan (陳留杭)	7,595,900	RMB ordinary shares	7,595,900
Qingdao Biwan Marine Products Co., Ltd.	7,481,316	RMB ordinary shares	7,481,316
Qingdao Chuangxin Property Development Co., Ltd.	5,500,000	RMB ordinary shares	5,500,000
Qingdao Tainuo Investment Group Co., Ltd. (青島泰諾投資集團有限公司)	5,115,146	RMB ordinary shares	5,115,146
YANG Xin(楊莘)	5,100,000	RMB ordinary shares	5,100,000
Qingdao Development and Investment Co., Ltd.	4,955,939	RMB ordinary shares	4,955,939
Agricultural Bank of China Limited – CSI 500 Index Exchange-Traded Fund	4,948,170	RMB ordinary shares	4,948,170
Hong Kong Securities Clearing Company Limited	4,257,974	RMB ordinary shares	4,257,974

Explanation on the related relationships or acting in concert among the top ten circulating shareholders without selling restrictions and that between the top ten circulating shareholders without selling restrictions and the top ten shareholders	Hong Kong Securities Clearing Company Nominees Limited is a wholly-owned subsidiary of Hong Kong Securities Clearing Company Limited. The Bank is not aware of any related relationships among the remaining top ten ordinary shareholders without selling restrictions and that between the remaining top ten ordinary shareholders without selling restrictions and the top ten ordinary shareholders or whether they are parties acting in concert.
Explanation on the margin trading and securities lending by top ten ordinary shareholders	The Bank is not aware of margin trading and securities lending by holder of shares in which Hong Kong Securities Clearing Company Nominees Limited acts as an agent. As at the end of the Reporting Period, top ten ordinary shareholders did not participate in margin trading and securities lending business and refinancing business.

Section VIII Changes in Shareholdings and Information on Shareholders

- Notes:*
1. Among the total number of ordinary shareholders as at the end of the Reporting Period, there are 93,302 A Share shareholders and 151 H Share shareholders; among the total number of ordinary shareholders as at the end of the month prior to the disclosure date of the annual report, there are 83,874 A Share shareholders and 150 H Share shareholders;
 2. The shares held by Hong Kong Securities Clearing Company Nominees Limited are the total number of shares in the Bank's H shareholders accounts traded on the trading platform of Hong Kong Securities Clearing Company Nominees Limited by it as an agent. Hong Kong Securities Clearing Company Limited is an institution that is designated by others to hold shares, including the Shenzhen Stock Connect shares held by Hong Kong and overseas investors, on behalf of others in its capacity as nominee shareholder;
 3. As at the end of the Reporting Period, Intesa Sanpaolo S.p.A., as a H Share registered shareholder of the Bank, held 622,306,980 H Shares, and the remaining 2,447,000 H Shares were agented to and under the name of Hong Kong Securities Clearing Company Nominees Limited. In this table, the agent shares have been deducted from the number of shares held by Hong Kong Securities Clearing Company Nominees Limited.
 4. The top 10 ordinary shareholders and the top 10 ordinary shareholders without selling restrictions of the Bank did not conduct any transactions on agreed repurchases during the Reporting Period.

3.2 Controlling Shareholders of the Bank

As at the end of the Reporting Period, there was no controlling shareholder of the Bank. The Bank has no shareholder who may exercise more than 30% of the shares with voting rights of the Bank when acting along or in concert with others, while any shareholder of the Bank cannot control the resolutions of the general meeting or the resolutions of the Board meeting by shares with voting rights he/she holds, and there is no shareholder who controls the conduct of the Bank through the general meeting or de facto controls the conduct of the Bank through the Board of Directors and senior management. At the same time, there is no shareholder de facto controlling the Bank in any other manner when acting along or in concert with others. Therefore, the Bank has no controlling shareholders.

3.3 De facto controllers of the Bank and its person acting in concert

During the Reporting Period, there was no de facto controller of the Bank. There was no situation in which the Bank was under de facto control of investors due to their direct or indirect equity investment relationship, scheme of arrangement or other arrangements with the Bank. Therefore, there was no de facto controller of the Bank.

3.4 Substantial shareholders of the Bank

3.4.1 Shareholders holding more than 5% of the shares at ultimate controlling level

1. Haier Group Corporation

Haier Group Corporation was established on 24 March 1980 with its legal representative of ZHANG Ruimin and a registered capital of RMB311.18 million. It is mainly engaged in technology development, technology consultation, technology transfer, and technology service; data processing; and is engaged in digital technology, intelligent technology, and software technology; research and development, sales and after-sale services of robot and automation equipment products; logistics information services; research, development and sales of smart home products and software technology of solution system; household appliances, electronic products, communications equipment, electronic computers and accessories, general machinery, kitchen utensils, industrial robot manufacturing; economic and technical consultation; research and development and transfer of technological achievements.

Haier Group is a world's leading provider of better life solutions. Adhering to the corporate vision of "creating a new growth engine in the era of IoT with the RenDanHeYi (人單合一) model", it is committed to working with the world's first-class ecological partners to continue building high-end brands, scenario-based brands and ecological brands, building an IoT ecosystem covering clothing, food, housing, transportation, health care, medical and education, etc., and customizing personalized smart life for global users.

Section VIII Changes in Shareholdings and Information on Shareholders

As at the end of the Reporting Period, Haier Group Corporation held a total of 812,214,572 A Shares of the Bank via eight companies within the group, which accounted for 18.01% of the total ordinary share capital. The above shares were not pledged or frozen. These eight companies were persons acting in concert. The ultimate beneficiary of Haier Group Corporation is itself, and the listed companies controlled by it include Haier Smart Home Co., Ltd., INKON Life Technology Co., Ltd. and Qingdao Haier Biomedical Co., Ltd. Haier Group Corporation has declared to the Bank related parties in accordance with regulatory requirements. As at the end of the Reporting Period, the balance of the Bank's credit-related significant related party transactions¹ with Haier Group was RMB1,688 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

2. Intesa Sanpaolo S.p.A.

Intesa Sanpaolo S.p.A. was established on 5 January 2007 (through merger of Banca Intesa S.p.A. (意大利聯合銀行) and Sanpaolo IMI S.p.A. (意大利聖保羅意米銀行)) with its legal representative of Gian Maria GROS-PIETRO and a registered capital of EUR10,084 million. Intesa Sanpaolo S.p.A. is a multi-national bank headquartered in Milan, Italy. It is one of the most prominent players of the Eurozone's banking industry as well as the industry-leader of Italy's retail banking, corporate banking business and wealth management businesses. Intesa Sanpaolo S.p.A. has a total of approximately 5,300 branches in Italy, providing tens of millions of customers with high-quality service. Tapping into overseas market is of great importance in Intesa Sanpaolo S.p.A.'s development strategy. By acquiring commercial banks in over a dozen countries in the regions of Central and Eastern Europe as well as the Mediterranean, Intesa Sanpaolo S.p.A. owns nearly 1,000 branches and 7.2 million customers in the above regions. In addition, Intesa Sanpaolo S.p.A. has set up branches in 26 countries and regions around the world to support its corporate business customers.

As at the end of the Reporting Period, Intesa Sanpaolo S.p.A. held 624,753,980 H Shares of the Bank, which accounted for 13.85% of the total ordinary share capital. The above shares were not pledged or frozen. Intesa Sanpaolo S.p.A. has no controlling shareholders, no de facto controllers, no persons acting in concert, and its ultimate beneficiary is itself and itself is a listed company, and the listed companies controlled by which include RISANAMENTO SPA, PRIVREDNA BANKA ZAGREB DD, VSEOBECNA UVEROVA BANKA A.S. Intesa Sanpaolo S.p.A. has declared to the Bank related parties in accordance with regulatory requirements. During the Reporting Period, there was no significant related party transaction between the Bank and Intesa Sanpaolo S.p.A.

3. Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)

Qingdao Conson Development (Group) Co., Ltd. was established on 17 July 2008 with its legal representative of WANG Jianhui and a registered capital of RMB3 billion. It is mainly engaged in the investment, construction and operation of major urban and rural infrastructure projects, and major public welfare projects of the government; business services such as real estate, tourism and land development, as well as non-banking financial services.

Qingdao Conson Development (Group) Co., Ltd. is a wholly-state-owned company contributed by the State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government on behalf of the Qingdao Municipal People's Government. Since its establishment, the group has been following the urban development strategy, undertaken the responsibility of urban development, played a backbone and leading role, and formed its "3+2" primary business sector integrating finance, urban functionality development, urban operation and services, modern marine industry, and urban information technology industry supported by 9 core first-level subsidiaries. This business sector has made important contributions to the improvement of the financial system, urban functionality and the optimization of the urban service system in Qingdao.

Note 1: The data of related party transactions in this section was accounted under the caliber as required by the CBIRC.

Section VIII Changes in Shareholdings and Information on Shareholders

As at the end of the Reporting Period, Qingdao Conson Development (Group) Co., Ltd. held a total of 603,556,841 shares of the Bank via three subsidiaries, including 503,556,841 A Shares and 100,000,000 H Shares, which together accounted for 13.38% of the total ordinary share capital. The above shares were not pledged or frozen. The controlling shareholder and the de facto controller of Qingdao Conson Development (Group) Co., Ltd. is the State-owned Assets Supervision and Administration Committee of the Qingdao Municipal People's Government. It has no persons acting in concert, and its ultimate beneficiary is itself. It does not control domestic and foreign listed companies. Qingdao Conson Development (Group) Co., Ltd. has declared to the Bank related parties in accordance with regulatory requirements. At the end of the Reporting Period, there were no significant related transactions between the Bank and Qingdao Conson Development (Group) Co., Ltd. or its related parties.

3.4.2 Other substantial shareholders under the regulatory caliber

1. AMTD Group Company Limited

AMTD Group Company Limited was established on 2 January 2003 with its legal representative of WANG Ruiqiang and a registered capital of USD10,001. It is mainly engaged in investment banking business, asset management business, corporate insurance brokerage and risk solutions, and investment strategy consultation, etc.

As at the end of the Reporting Period, AMTD Group Company Limited held a total of 225,033,531 H Shares of the Bank via two subsidiaries, accounting for 4.99% of the total ordinary share capital. AMTD Group Company Limited accredited a director to the Bank. Pursuant to the provisions of CBIRC, the director was a substantial shareholder of the Bank. The controlling shareholder of AMTD Group Company Limited is L.R. Capital Financial Holdings Limited. It has no de facto controllers, no persons acting in concert, and its ultimate beneficiary is itself, and the listed company controlled by which is AMTD International Inc. AMTD Group Company Limited has declared to the Bank related parties in accordance with regulatory requirements. During the Reporting Period, there were no significant related party transactions between the Bank and AMTD Group Company Limited.

2. Qingdao East Steel Tower Stock Co., Ltd. (青島東方鐵塔股份有限公司)

Qingdao East Steel Tower Stock Co., Ltd. was established on 1 August 1996 with its legal representative of HAN Fangru and a registered capital of RMB1.244 billion. It is a company listed on the SZSE (stock code: 002545). It underwent restructuring in 2016 and was transformed into a listed company with dual main businesses in steel structure and potash fertilizer industry.

As at the end of the Reporting Period, Qingdao East Steel Tower Stock Co., Ltd. held 133,910,000 A Shares of the Bank via its subsidiary, Qingdao Hairen Investment Co., Ltd., accounting for 2.97% of the total ordinary share capital. Qingdao East Steel Tower Co., Ltd. accredited a supervisor to the Bank. Pursuant to the provisions of CBIRC, the supervisor was a substantial shareholder of the Bank. The controlling shareholder and de facto controller of Qingdao East Steel Tower Stock Co., Ltd. is HAN Huiru. It has no persons acting in concert, and its ultimate beneficiary is itself. Qingdao East Steel Tower Stock Co., Ltd. has declared to the Bank related parties in accordance with regulatory requirements. During the Reporting Period, there were no significant related party transactions between the Bank and Qingdao East Steel Tower Stock Co., Ltd. or its related parties.

Section VIII Changes in Shareholdings and Information on Shareholders

3.5 Interests and short positions of substantial shareholders

As at 31 December 2020, in so far as the Directors, Supervisors and chief executives of the Bank were aware, substantial shareholders who had an interest or short position in the issued share capital of the Bank which are required to be recorded in the register to be kept under section 336 of the SFO or held an equity interest or short position of 5% or more in the issued share capital of the Bank which are required to be notified to the Bank are shown as below:

Name of shareholders	Notes	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of shares ^(B)	Approximate percentage of the total number of A Shares ^(B)	Approximate percentage of the total number of H Shares ^(B)	Long/short position
Haier Group Corporation (海爾集團公司)	1	A Shares	Interest of controlled corporation	812,214,572	18.01	29.57	–	Long
Qingdao Haier Investment and Development Co., Ltd. (青島海爾投資發展有限公司)	2	A Shares	Beneficial owner	409,693,339	9.08	14.92	–	Long
			Other interest	402,521,233	8.93	14.65	–	Long
Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	–	A Shares	Beneficial owner	145,297,405	3.22	5.29	–	Long
			Interest of controlled corporation	244,680,795	5.43	8.91	–	Long
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	–	A Shares	Beneficial owner	218,692,010	4.85	7.96	–	Long
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)	3	A Shares	Interest of controlled corporation	503,556,341	11.17	18.33	–	Long
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	3	A Shares	Beneficial owner	503,556,341	11.17	18.33	–	Long
GE Shoujiao (葛守蛟)	4	A Shares	Interest of controlled corporation	152,170,000	3.37	5.54	–	Long
LENG Qiyuan (冷啟媛)	4	A Shares	Interest of controlled corporation	152,170,000	3.37	5.54	–	Long
Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	4	A Shares	Beneficial owner	152,170,000	3.37	5.54	–	Long

Section VIII Changes in Shareholdings and Information on Shareholders

Name of shareholders	Notes	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of shares ⁽⁸⁾	Approximate percentage of the total number of A Shares ⁽⁸⁾	Approximate percentage of the total number of H Shares ⁽⁸⁾	Long/short position
Intesa Sanpaolo S.p.A.	–	H Shares	Beneficial owner	624,753,980	13.85	–	35.44	Long
L.R. Capital Management Company (Cayman) Limited	5	H Shares	Interest of controlled corporation	225,033,531	4.99	–	12.76	Long
			Interest of controlled corporation	196,882,000	4.37	–	11.17	Short
L.R. Capital MNP Limited	5	H Shares	Interest of controlled corporation	225,033,531	4.99	–	12.76	Long
			Interest of controlled corporation	196,882,000	4.37	–	11.17	Short
L.R. Capital Holdings Limited	5	H Shares	Interest of controlled corporation	225,033,531	4.99	–	12.76	Long
			Interest of controlled corporation	196,882,000	4.37	–	11.17	Short
L.R. Capital Financial Holdings Limited	5	H Shares	Interest of controlled corporation	225,033,531	4.99	–	12.76	Long
AMTD Group Company Limited (尚乘集團有限公司)	5	H Shares	Interest of controlled corporation	225,033,531	4.99	–	12.76	Long
AMTD Strategic Investment Limited	5	H Shares	Beneficial owner	196,882,000	4.37	–	11.17	Long
AMTD Investment Solutions Group Limited	5	H Shares	Beneficial owner	28,151,531	0.62	–	1.60	Long

Section VIII Changes in Shareholdings and Information on Shareholders

Name of shareholders	Notes	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of shares ⁽⁸⁾	Approximate percentage of the total number of A Shares ⁽⁸⁾	Approximate percentage of the total number of H Shares ⁽⁸⁾	Long/short position
Jinan Binhe New District Constructive Investment Group Co., Ltd. (濟南濱河新區建設投資集團有限公司)	—	H Shares	Beneficial owner	200,000,000	4.43	—	11.34	Long
Ariana Capital Investment Limited	—	H Shares	Beneficial owner	176,766,469	3.92	—	10.03	Long
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限公司)	6	H Shares	Interest of controlled corporation	100,000,000	2.22	—	5.67	Long
Qingdao Conson Financial Holdings Co., Ltd. (青島國信金融控股有限公司)	6	H Shares	Interest of controlled corporation	100,000,000	2.22	—	5.67	Long
Haitian (HK) Holdings Limited (海天(香港)控股有限公司)	6	H Shares	Beneficial owner	100,000,000	2.22	—	5.67	Long
CITIC Securities Co., Ltd. (中信證券股份有限公司)	—	H Shares	Interest of controlled corporation	246,888,779	5.40	—	14.00	Long
			Interest of controlled corporation	246,888,779	5.40	—	14.00	Short
Guangzhou Rural Commercial Bank Co., Ltd. (廣州農村商業銀行股份有限公司)	—	H Shares	Person having a security interest in shares	196,882,000	4.37	—	11.17	Long
Goncius I Limited	—	H Shares	Beneficial owner	488,911,765	10.84	—	27.73	Long
			Beneficial owner	488,911,765	10.84	—	27.73	Short

Notes:

- (1) 812,214,572 shares of the Bank are held by Haier Group Corporation via its directly or indirectly controlled companies.
- (2) These 812,214,572 shares are held as to 409,693,339 shares directly by Qingdao Haier Investment and Development Co., Ltd., as to 402,521,233 shares by its controlled company and its person acting in concert.
- (3) Qingdao Conson Industrial Co., Ltd. is 100% owned by Qingdao Conson Development (Group) Co., Ltd. Therefore, Qingdao Conson Development (Group) Co., Ltd. is deemed to be interested in all the shares of the Bank held by Qingdao Conson Industrial Co., Ltd.
- (4) GE Shoujiao and LENG Qiyuan hold 55% and 45% equity interest in Shandong Sanliyuan Economics and Trade Co., Ltd. respectively. Therefore, GE Shoujiao and LENG Qiyuan are deemed to be interested in all the shares of the Bank held by Shandong Sanliyuan Economics and Trade Co., Ltd.

Section VIII Changes in Shareholdings and Information on Shareholders

- (5) AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited hold 196,882,000 shares and 28,151,531 shares of the Bank respectively. AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited are controlled by AMTD Group Company Limited. Therefore, AMTD Group Company Limited is deemed to be interested in all the shares of the Bank held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited.

According to the disclosure of interests notices submitted by L.R. Capital Financial Holdings Limited, L.R. Capital Holdings Limited, L.R. Capital MNP Limited and L.R. Capital Management Company (Cayman) Limited on 2 July 2020, L.R. Capital Financial Holdings Limited holds 61.57% interest in AMTD Group Company Limited, L.R. Capital Holdings Limited holds 92.00% interest in L.R. Capital Financial Holdings Limited, L.R. Capital Holdings Limited is 100% owned by L.R. Capital MNP Limited, and L.R. Capital MNP Limited is 100% owned by L.R. Capital Management Company (Cayman) Limited. Therefore, L.R. Capital Financial Holdings Limited, L.R. Capital Holdings Limited, L.R. Capital MNP Limited and L.R. Capital Management Company (Cayman) Limited are deemed to be interested in all the shares of the Bank held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited.

According to the disclosure of interests notices submitted by CM International Capital Limited, CM International Capital Limited (中國國際資本有限公司) and China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) on 21 September 2017, CM International Capital Limited holds 34.10% interest in L.R. Capital Financial Holdings Limited, CM International Capital Limited is 100% owned by CM International Capital Limited (中國國際資本有限公司), and CM International Capital Limited (中國國際資本有限公司) is 100% owned by China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司). Therefore, CM International Capital Limited, CM International Capital Limited (中國國際資本有限公司) and China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) are deemed to be interested in all the shares of the Bank held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited (i.e. 401,800,000 H Shares (long position) in the capacity of controlled corporation) at that time.

- (6) Haitian (HK) Holdings Limited holds 100,000,000 shares of the Bank and is wholly-owned by Qingdao Conson Financial Holdings Co., Ltd. which is 90.27% owned by Qingdao Conson Development (Group) Co., Ltd.
- (7) Under Section 336 of the SFO, forms disclosing of interests shall be submitted by shareholders of the Bank upon satisfaction of certain conditions. Changes of shareholders' shareholdings in the Bank are not required to inform the Bank and the Hong Kong Stock Exchange, except for the satisfaction of certain conditions. Therefore, there could be difference between shareholders' latest shareholdings in the Bank and the shareholdings submitted to the Hong Kong Stock Exchange.
- (8) As at 31 December 2020, the number of the Bank's total issued ordinary shares, A Shares and H Shares are 4,509,690,000 shares, 2,746,655,020 shares and 1,763,034,980 shares, respectively.

As at 31 December 2020, save as disclosed above, in so far as the Directors, Supervisors and chief executives of the Bank are aware, there is no person who had an interest or short position in the shares, underlying shares or equity derivatives of the Bank which are required to be recorded in the register to be kept under section 336 of the SFO or held an equity interest or short position of 5% or more in the issued capital of the Bank which are required to be notified to the Bank.

Section IX Preference Shares

I. ISSUANCE AND LISTING OF PREFERENCE SHARES FOR THE THREE YEARS ENDED THE END OF THE REPORTING PERIOD

For the three years ended the end of the Reporting Period, the Bank did not issue new preference shares.

II. NUMBER OF SHAREHOLDER OF PREFERENCE SHARES AND ITS SHAREHOLDINGS

Unit: 0'000 shares

Total number of shareholder of preference shares as at the end of the Reporting Period	1	Total number of shareholder of preference shares as at the end of the month before the date of the disclosure of the annual report	1
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Shareholding of shareholder holdings more than 5% of the preference shares or top ten shareholders of preference shares

Name of shareholder	Nature of shareholder	Percentage of shareholding	Number of shares held as at the end of the Reporting Period	Increase or decrease during the Reporting Period	Number of shares with selling restrictions held	Number of shares without selling restrictions held	Share pledged or frozen Status of shares	Number of shares
The Bank of New York Depository (Nominees) Limited	Overseas legal entity	100%	6,015	–	–	–	Unknown	Unknown

Explanation on the different settings of other provisions other than dividend distribution and residual properties distribution in respect of preference shares held

N/A

Explanation on the related relationships or persons acting in concert among the top 10 shareholders of preference shares and that between the top 10 shareholders of preference shares and the top 10 shareholders of ordinary shares

The Bank is not aware of any related relationships between the above shareholder of preference shares and the top 10 shareholders of ordinary shares, or whether they are parties acting in concert.

III. PROFIT DISTRIBUTION FOR PREFERENCE SHARES

3.1 Profit Distribution for Preference Shares during the Reporting Period

Date of distribution	Dividend rate	Amount of distribution (USD in ten thousand) (including tax)	Whether it was in compliance with the conditions and relevant procedures of distribution	Dividend payment method	Whether it was a cumulative dividend	Whether it participated in the distribution of residual profits
19 September 2020	5.50%	7,351.67	Yes	Cash	No	No

Note: During the Reporting Period, there was no adjustment or change in the Bank's profit distribution policy of preference shares.

3.2 Distribution of Preference Shares for the Past Three Years

Dividend Period	Amount of distribution (USD in ten thousand) (including tax)	Net profit (RMB) attributable to shareholders of the listed company in the consolidated financial statements during the year of distribution	Percentage of net profit attributable to shareholders of the listed company in the consolidated financial statements	Explanation on the difference accumulating to the next accounting year due to insufficient distributable profits or portion that can be allocated to the distribution of residual profits
From 19 September 2019 (inclusive) to 19 September 2020 (exclusive)	7,351.67	2,394,072,193	20.76%	N/A
From 19 September 2018 (inclusive) to 19 September 2019 (exclusive)	7,351.67	2,284,814,877	22.76%	N/A
From 19 September 2017 (inclusive) to 19 September 2018 (exclusive)	7,351.67	2,023,354,365	24.91%	N/A

IV. REPURCHASE OR CONVERSION OF PREFERENCE SHARES

During the Reporting Period, there was no repurchase or conversion of offshore preference shares.

V. RESUMPTION OR EXERCISE OF VOTING RIGHTS OF PREFERENCE SHARES

During the Reporting Period, there was no resumption or exercise of voting rights of offshore preference shares.

VI. ACCOUNTING POLICIES ADOPTED FOR PREFERENCE SHARES AND REASONS

The Company made accounting judgments over the preference shares then issued and outstanding in accordance with the requirements of the relevant accounting principles, including the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments and Accounting Standards for Business Enterprises No. 37 – Presentation and Reporting of Financial Instruments. As the Company's preference shares issued and outstanding carry no obligation to deliver cash and cash equivalents, nor have they any contractual obligations to deliver a variable number of its own equity instruments for settlement, they were therefore measured as other equity instruments.

Section X Directors, Supervisors, Senior Management and Employees

I. CHANGES IN SHAREHOLDING OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Gender	Age	Status of office	Position	Term of office commencing on	Term of office ending on	Shareholding at the beginning of the Reporting Period (shares)	Increase in the number of shares held during the Reporting Period (shares)	Decrease in the number of shares held during the Reporting Period (shares)	Other increase or decrease (shares)	Shareholding at the end of the Reporting Period (shares)
GUO Shaoquan	Male	58	Incumbent	Chairman	12 May 2010	14 May 2021	500,000	–	–	–	500,000
				Executive Director	12 May 2010	14 May 2021					
WANG Lin	Male	57	Incumbent	Executive Director	31 March 2012	14 May 2021	500,000	–	–	–	500,000
				President	31 March 2012	14 May 2021					
LU Lan	Female	56	Incumbent	Executive Director	13 December 2016	14 May 2021	380,000	–	–	–	380,000
				Secretary to the Board	29 October 2010	14 May 2021					
ZHOU Yunjie	Male	54	Incumbent	Non-executive Director	9 June 2015	14 May 2021	–	–	–	–	–
Rosario STRANO	Male	57	Incumbent	Non-executive Director	15 June 2012	14 May 2021	–	–	–	–	–
TAN Lixia	Female	50	Incumbent	Non-executive Director	25 May 2012	14 May 2021	500	–	125	–	375
Marco MUSSITA	Male	61	Incumbent	Non-executive Director	22 December 2011	14 May 2021	–	–	–	–	–
DENG Youcheng	Male	49	Incumbent	Non-executive Director	27 June 2018	14 May 2021	–	–	–	–	–
CHOI Chi Kin, Calvin	Male	42	Incumbent	Non-executive Director	13 December 2016	14 May 2021	–	–	–	–	–
CHEN Hua	Male	53	Incumbent	Independent non-executive Director	9 June 2015	14 May 2021	–	–	–	–	–
DAI Shuping	Female	60	Incumbent	Independent non-executive Director	13 December 2016	14 May 2021	–	–	–	–	–
Simon CHEUNG	Male	50	Incumbent	Independent non-executive Director	24 July 2017	14 May 2021	–	–	–	–	–
FANG Qiaoling	Female	45	Incumbent	Independent non-executive Director	27 June 2018	14 May 2021	–	–	–	–	–
Tingjie ZHANG	Male	49	Incumbent	Independent non-executive Director	13 February 2020	14 May 2021	–	–	–	–	–
YANG Fengjiang	Male	56	Incumbent	Chief Supervisor	30 March 2020	14 May 2021	500,000	–	–	–	500,000
				Employee Supervisor	26 March 2020	14 May 2021					
HE Liangjun	Male	48	Incumbent	Shareholder Supervisor	15 October 2019	14 May 2021	–	–	–	–	–
WANG Dawei	Male	47	Incumbent	Employee Supervisor	15 May 2018	14 May 2021	–	–	–	–	–
MENG Xianzheng	Male	53	Incumbent	Employee Supervisor	15 May 2018	14 May 2021	370,301	–	–	–	370,301
FU Changxiang	Male	49	Incumbent	External Supervisor	10 April 2015	14 May 2021	–	–	–	–	–
HU Yanjing	Male	61	Incumbent	External Supervisor	10 April 2015	14 May 2021	–	–	–	–	–
WANG Yu	Female	53	Incumbent	Vice President	5 September 2007	14 May 2021	500,000	–	–	–	500,000
CHEN Shuang	Female	53	Incumbent	Vice President	22 January 2017	14 May 2021	350,000	–	–	–	350,000
LIU Peng	Male	40	Incumbent	Vice President	30 October 2019	14 May 2021	–	–	–	–	–
Total	–	–	–	–	–	–	3,100,801	–	125	–	3,100,676

Note: The expiration of the term of office of Directors, Supervisors and senior management shall be subject to the completion of the term of office of the Board of Directors and the Board of Supervisors or the early departure of the above-mentioned personnel (if any).

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors of the Bank are nominated by the Board and elected in accordance with the qualifications of Directors and election procedures as specified in the Articles of Association; shareholder Supervisors and external Supervisors are nominated by the Board of Supervisors, employee Supervisors are nominated by the labor union, 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	–
	Chief Supervisor	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 above, from the beginning of the Reporting Period to the date of this annual report, there were no other changes in the Directors, Supervisors and senior management of the Bank.

III. CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS DURING THE REPORTING PERIOD

1. Mr. Rosario STRANO, a non-executive Director, has ceased to be the chief operating officer of Intesa Sanpaolo S.p.A. since January 2020, and has been the head of China development project of Intesa Sanpaolo S.p.A. since January 2020.
2. Mr. CHOI Chi Kin, Calvin, a non-executive Director, has served as the chairman of the board and chief executive officer of AMTD International since 23 December 2020.
3. Mr. CHEN Hua, an independent non-executive Director, has ceased to be an independent non-executive director of Shanda Wit Science and Technology Co., Ltd. since April 2020.
4. Mr. Tingjie ZHANG, an independent non-executive Director, has ceased to be the China co-director and managing director of the Shanghai branch of Rothschild Financial Consulting (Beijing) Co., Ltd. (洛希爾財務諮詢(北京)有限公司) since July 2020, and has been the managing director of Auster Capital Partners Limited since July 2020.
5. Mr. HE Liangjun, a shareholder Supervisor, has ceased to be an executive director of Suzhou World Technology New Energy Technology Co., Ltd. since March 2020, has ceased to be a director of Jingneng (Qianxi) Power Generation Co., Ltd. since 8 April 2020, and has been the chairman of the board and managing director of Sichuan Huiyuanda Potash Fertilizer Co., Ltd.

Save for the above, from the beginning of the Reporting Period to the date of this annual report, there were no other changes in the information of Directors and Supervisors of the Bank.

IV. EMPLOYMENT

4.1 BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. GUO Shaoquan, aged 58, a senior economist with an EMBA degree from Nankai University and an EMBA degree from Peking University. Mr. GUO was appointed as executive Director of the Bank and our Chairman in January 2010. Mr. GUO joined the Bank in November 2009 as secretary of the party committee.

Mr. WANG Lin, aged 57, a senior economist with an EMBA degree from Peking University. Mr. WANG was appointed as executive Director of the Bank in September 2011 and has been our President since March 2012. Mr. WANG joined the Bank in July 2011 as the deputy secretary of the party committee.

Ms. LU Lan, aged 56, a master of law majoring in sociology of Nankai University. Ms. LU was appointed as executive Director of the Bank in October 2016 and has been our Secretary to the Board of Directors since August 2010. Ms. LU joined the Bank in August 2010.

Mr. ZHOU Yunjie, aged 54, a doctor of business administration of Xi'an Jiaotong University and a chief senior engineer.

Mr. ZHOU was appointed as non-executive Director of the Bank in April 2015, has been the president and deputy chairman of the board of directors of Haier Group since December 2016 and now serves as deputy to the 13th National People's Congress. Mr. ZHOU served in various positions including the vice president, senior vice president, executive vice president, chief marketing officer and alternative president in Haier Group. Mr. ZHOU has been the chairman of the board of directors of Haier Electronics Group Co., Ltd., the chairman of Qingdao Gooday Logistics Co., Ltd., a director and the managing director of Haier Kaaosi Co., Ltd. and so on.

Mr. Rosario STRANO, aged 57, a bachelor of law of University of Bari in Italy.

Mr. STRANO was appointed as non-executive Director of the Bank in April 2012 and has been the head of China development project of Intesa Sanpaolo S.p.A. since 1 January 2020. Mr. STRANO held the positions of the chief operating officer of Intesa Sanpaolo S.p.A., the Director of Human Resources of Intesa Sanpaolo S.p.A., the head of human resources and organization department of the international subsidiary banks division of Intesa Sanpaolo S.p.A. and so on.

Ms. TAN Lixia, aged 50, a doctor of finance of PBC School of Finance, Tsinghua University (in-service study), a master of business administration of China Europe International Business School, a senior engineer, a Chartered Global Management Accountant (CGMA), a Certified Practicing Accountant Australia (CPA Australia) and a certified senior international internal control officer.

Ms. TAN was appointed as non-executive Director of the Bank in April 2012. She has been the executive vice president of Haier Group since December 2016. Ms. TAN successively served as the director of department of overseas market development of Haier Group, chief financial officer of Haier Group and head of Wanchain Platform. Ms. TAN has been the deputy chairlady of Haier Smart Home Co., Ltd., a company listed on Shanghai Stock Exchange (stock code: 600690), chairlady of Haier Group (Qingdao) Finance Holding Co., Ltd., director of Haier Kaaosi Co., Ltd. (海爾卡奧斯股份有限公司), chairlady of Qingdao Haier Biomedical Co., Ltd., a company listed on Shanghai Stock Exchange (stock code: 688139), and chairlady of INKON Life Technology Co., Ltd., a company listed on SZSE (stock code: 300143).

Section X Directors, Supervisors, Senior Management and Employees

Mr. Marco MUSSITA, aged 61, a bachelor of oriental literature and language of Università Ca' Foscari Venezia (Ca' Foscari University of Venice) in Italy.

Mr. MUSSITA was appointed as non-executive Director of the Bank in September 2011. He has been a supervisor of Qingdao Yicai Fund Distribution Co., Ltd. since September 2016. Mr. MUSSITA worked in Banca Commerciale Italiana (now known as ISP) as vice general manager of the Shanghai branch and vice general manager of the Tokyo branch. He has been director of OMR (China) Automotive Components Co., Ltd., the supervisor of Meccanotecnica Umbra S.p.A. (Qingdao) Mechanical Seal Co., Ltd. and director of Chongqing Italian Gasket Rubber & Plastic Co., Ltd.

Mr. DENG Youcheng, aged 49, a master of business administration of Tongji University, a certified public accountant, a certified public valuer, a senior auditor, a senior consultant and an accountant.

Mr. DENG was appointed as non-executive Director of the Bank in May 2018. He has been general manager, deputy secretary to the party committee and the director of Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司) from July 2019 to now. Mr. DENG held several positions of Qingdao Conson Development (Group) Co., Ltd., such as the director and the deputy general manager. Mr. DENG has been the director of Lujiazui International Trust Co., Ltd., the director of Zhonglu Property and Casualty Insurance Co., Ltd. and the director of Qingdao Conson Industrial Co., Ltd. and so on.

Mr. CHOI Chi Kin, Calvin, aged 42, an honorary bachelor of arts majoring in chartered accountants of University of Waterloo in Canada.

Mr. CHOI was appointed as non-executive Director of the Bank in October 2016, and has been chairman and chief executive officer of AMTD Group Company Limited since January 2016. Meanwhile, with approval by the government of Hong Kong Special Administrative Region, Mr. CHOI has been member of advisory committee of Hong Kong Cyberport Management Company Limited, a technology innovation platform wholly-owned by the government of Hong Kong Special Administrative Region from November 2019 to now, and member of investment advisory committee of Prisoners' Education Trust Fund of the government of the Hong Kong Special Administrative Region from December 2019 to now. In addition, Mr. CHOI has been the vice chairman of the Greater Bay Area Homeland Youth Community Foundation since April 2019, and has been a director of ASEAN Financial Innovation Network since June 2019. Mr. CHOI served as director of Hong Kong corporate finance department of PricewaterhouseCoopers, managing director of investment banking division of Union Bank of Switzerland and member of the Asian-Pacific Committee of Global family office.

Mr. CHEN Hua, aged 53, a doctor of economics majoring in finance of Soochow University and a professor.

Mr. CHEN was appointed as independent non-executive Director of the Bank in April 2015. He has been the head of the Contemporary Finance Research Institute of Shandong University of Finance and Economics since August 2014. Mr. CHEN served as the head of the Finance and Taxation Institute of Shandong Economic University, and the head of the Center of Economics Research of Shandong University of Finance and Economics. Mr. CHEN is now the independent non-executive director of Jining Rural Commercial Bank, the external director of Shandong State-owned Assets Investment Holdings Co., Ltd., the independent non-executive director of Shandong Baogang International Port Co., Ltd.

Ms. DAI Shuping, aged 60, a master of business administration of Inter American University.

Ms. DAI was appointed as independent non-executive Director of the Bank in October 2016. She has been serving as the adviser to chairman and the dean of Shenzhen Qianhai Institute of Financial Management Limited since December 2017. Ms. DAI served as the general manager of headquarters' credit management department, the general manager of headquarters' credit approval department, the general manager of headquarters' legal and compliance department. Ms. DAI was an executive council member of China Banking Law Society and a council member of China Institute of Internal Audit.

Section X Directors, Supervisors, Senior Management and Employees

Mr. Simon CHEUNG, aged 50, a bachelor of arts majoring in computer science of the University of Wisconsin-Madison.

Mr. CHEUNG was appointed as independent non-executive Director of the Bank in May 2017. He has been the chief technology officer of Ping An Puhui Enterprise Management Co., Ltd. since December 2019. Mr. CHEUNG served as the deputy general manager of China Pingan Technology Share Limited, the director of IT architecture planning of SF Express (Group) Co., Ltd., the deputy general manager of Shenzhen Qianhai WeBank Co., Ltd.

Ms. FANG Qiaoling, aged 45, a doctor of management in accounting of Renmin University of China and a professor.

Ms. FANG was appointed as independent non-executive Director of the Bank in May 2018. She has been working in Management College of Ocean University of China since July 1999, and is currently a professor and supervisor for Ph.D. candidates in Management College of Ocean University of China. Ms. FANG has been an independent non-executive director of Triangle Tyre Co., Ltd. and an executive council member of the Shandong Provincial Accounting Society.

Mr. Tingjie ZHANG, aged 49, a master of business administration of the Richard Ivey School of Business at the University of Western Ontario, Canada.

Mr. ZHANG was appointed as independent non-executive Director of the Bank in February 2020. He has been the managing director of Auster Capital Partners Limited since July 2020. He served as the chief representative of the Shanghai Representative Office of Rothschild China Holdings Co., Ltd. (洛希爾中國控股有限公司) and the China co-director and managing director of the Shanghai branch of Rothschild Financial Consulting (Beijing) Co., Ltd. (洛希爾財務諮詢(北京)有限公司).

Supervisors

Mr. YANG Fengjiang, aged 56, a bachelor of economics majoring in finance of Shaanxi Financial College and a senior economist. Mr. YANG served as the employee Supervisor and the Chief Supervisor since March 2020. Mr. YANG joined the Bank in July 2003. He served as executive Director and vice president of the Bank, an assistant to the president of the Bank, the general manager of our Treasury Operation Department and so on.

Mr. HE Liangjun, aged 48, holds a master degree of business administration from China Europe International Business School and is a senior engineer.

Mr. HE was appointed as a shareholder Supervisor of the Bank in October 2019, and has served as a director and secretary to the board of Qingdao East Steel Tower Stock Co., Ltd. (青島東方鐵塔股份有限公司) since April 2007. Mr. HE has been a supervisor of Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司), an executive director of Nanjing Shineng New Energy Technology Co., Ltd. (南京世能新能源科技有限公司) and chairman to the board and general manager of Sichuan Huiyuanda Potash Fertilizer Co., Ltd. (四川省匯元達鉀肥有限責任公司).

Mr. WANG Dawei, aged 47, a bachelor of international economics of Nankai University. Mr. WANG was appointed as employee Supervisor of the Bank in March 2018. He has been serving as the chief officer of credit risk and the general manager of the credit management department of the Bank since July 2016.

Mr. MENG Xianzheng, aged 53, a master of business administration of Northwestern University and a senior political worker. Mr. MENG was appointed as employee Supervisor of the Bank in March 2018. Mr. MENG joined the Bank in August 2001. He has been serving as the general manager of the legal and compliance department of the Bank since August 2009, and the general manager of the asset security department of the Bank since April 2018. He served in various positions including the general manager of the special asset management department and sub-branch president of the Bank.

Section X Directors, Supervisors, Senior Management and Employees

Mr. FU Changxiang, aged 49, a bachelor of economics majoring in national economy management of Lanzhou University, a senior accountant, a Chinese certified public accountant as well as a Chinese certified tax agent.

Mr. FU was appointed as external Supervisor of the Bank in April 2015. He has been working as a deputy general manager in Qingdao Ruize Certified Tax Agents Firm Co., Ltd. since November 1997. He has been serving as the chief accountant in Qingdao Xinyongda Accounting Firm Co., Ltd. since July 2003. Mr. FU has been a supervisor of Shandong International Coastal Culture Industry Co., Ltd.* (山東國際海岸文化產業股份有限公司).

Mr. HU Yanjing, aged 61, a doctor of agronomy majoring in fishery resources of Ocean University of China as well as a professor.

Mr. HU was appointed as external Supervisor of the Bank in April 2015. He has been a professor of economics in Qingdao University since November 2001. Mr. HU served various roles at the Qingdao University, including deputy dean of School of Economics, dean of International College, and associate editor of the "Oriental Forum" of Journal of Qingdao University.

Senior Management

Mr. WANG Lin, for the biography of Mr. WANG, please refer to "Directors" in this section.

Ms. WANG Yu, aged 53, a bachelor of economics majoring in enterprise management of Finance and Economics Institute of Tianjin, a master of business administration majoring in business administration of Tongji University in Shanghai as well as a senior economist. Ms. WANG was appointed as Vice President of the Bank in June 2007. Ms. WANG joined the Bank in April 2002. She served as the head of sub-branch and an assistant to our President.

Ms. CHEN Shuang, aged 53, a master of arts majoring in English language and literature of Shanghai International Studies University as well as a master of science majoring in financial investment of the University of Edinburgh in the UK. Ms. CHEN was appointed as Vice President of the Bank in January 2017. Ms. CHEN joined the Bank in June 2007, and served as an assistant to our President, and was responsible for investment promotion of the Qingdao City Commercial Bank.

Mr. LIU Peng, aged 40, holds a master degree from Oxford University. Mr. LIU was appointed as Vice President of the Bank in August 2019. Mr. LIU was the financial market business director and president of the financial market business unit of the head office of the Bank from July 2015 to October 2019. Mr. LIU served as the general manager of the financial market business department and the general manager of asset management department of the head office of the Bank.

Ms. LU Lan, for the biography of Ms. LU, please refer to "Directors" in this section.

4.2 EMPLOYMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT BY CORPORATE SHAREHOLDERS

Name of employee	Name of corporate shareholder	Position held in corporate shareholder	Commencement date	Whether receiving remuneration in corporate shareholder's position
ZHOU Yunjie	Haier Group (海爾集團)	President and deputy president of the board	From December 2016 to date	Yes
Rosario STRANO	Intesa Sanpaolo S.p.A.	Head of China development project	From January 2020 to date	Yes
TAN Lixia	Haier Group (海爾集團)	Executive vice president	From December 2016 to date	Yes
TAN Lixia	Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	Deputy chairman	From June 2010 to date	No
DENG Youcheng	Qingdao Conson Development (Group) Co., Ltd.	Deputy secretary to the party committee, general manager and director	From July 2019 to date	Yes
DENG Youcheng	Qingdao Conson Industrial Co., Ltd.	Director	From June 2016 to date	No
CHOI Chi Kin, Calvin	AMTD Group Company Limited	Chairman and chief executive officer	From January 2016 to date	Yes
HE Liangjun	Qingdao East Steel Tower Stock Co., Ltd.	Director, secretary to the Board	From April 2007 to date	Yes
HE Liangjun	Qingdao Hairen Investment Co., Ltd.	Director	From February 2014 to date	No

4.3 EMPLOYMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT BY OTHER ENTITIES

Name of employee	Name of other entities	Position held in other entities
Marco MUSSITA	Qingdao Yicai Fund Distribution Co., Ltd.	Supervisor
CHEN Hua	the Contemporary Finance Research Institute of Shandong University of Finance and Economics	Head of the institute
DAI Shuping	Shenzhen Qianhai Institute of Financial Management Limited	Adviser to chairman and dean
Simon CHEUNG	Ping An Puhui Enterprise Management Co., Ltd.	Chief technology officer
FANG Qiaoling	Management College of Ocean University of China	Professor and supervisor for Ph.D. candidates
Tingjie ZHANG	Auster Capital Partners Limited	Managing director
FU Changxiang	Qingdao Ruize Certified Tax Agents Firm Co., Ltd.	Deputy general manager
HU Yanjing	Qingdao University	Professor

4.4 The Punishment suffered by the Directors, Supervisors or Senior Management of the Bank who Holds Office Currently or Resigned During the Reporting Period over the Past Three Years

None of the Directors, Supervisors or senior management of the Bank who holds office currently or resigned during the Reporting Period has been punished by the securities regulator(s) over the past three years.

V. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Decision-making process, basis for determination and actual payment of the remuneration of Directors, Supervisors and senior management

The Bank distributes the annual allowances and meeting subsidies to non-executive Directors, independent non-executive Directors, shareholder Supervisors and external Supervisors according to the policies on the allowance of Directors and Supervisors. The Administrative Measures on Remuneration and Performance of Senior Management of Bank of Qingdao shall be formulated by the Remuneration Committee of the Board of Directors and considered and approved by the Board of Directors. According to the requirements of Administrative Measures on Remuneration and Performance of Senior Management of Bank of Qingdao, the Bank shall determine and pay the basic remuneration of executive Directors, chairperson of the Board of Supervisors and other senior management personnel, and determine the performance remuneration according to the results of its annual assessment, and pay performance remuneration after consideration and approval by the Board of Directors. Employee Supervisors shall determine and pay annual remuneration according to our administration measures on remuneration of employees.

5.2 Remuneration of Directors, Supervisors and senior management of the Bank

Unit: RMB0' 000

Name	Position	Gender	Age	Status of office	Aggregate pre-tax remunerations received from the Company	Whether having received remunerations from the related parties of the Company
GUO Shaoquan	Chairman, executive Director	Male	58	Incumbent	273.24	No
WANG Lin	Executive Director, president	Male	57	Incumbent	251.38	No
LU Lan	Executive Director, secretary to the Board	Female	56	Incumbent	166.67	No
ZHOU Yunjie	Non-executive Director	Male	54	Incumbent	11.19	Yes
Rosario STRANO	Non-executive Director	Male	57	Incumbent	—	Yes
TAN Lixia	Non-executive Director	Female	50	Incumbent	11.19	Yes
Marco MUSSITA	Non-executive Director	Male	61	Incumbent	—	Yes
DENG Youcheng	Non-executive Director	Male	49	Incumbent	11.19	Yes
CHOI Chi Kin, Calvin	Non-executive Director	Male	42	Incumbent	10.60	Yes
CHEN Hua	Independent non-executive Director	Male	53	Incumbent	16.78	Yes
DAI Shuping	Independent non-executive Director	Female	60	Incumbent	16.78	Yes
Simon CHEUNG	Independent non-executive Director	Male	50	Incumbent	16.78	No
FANG Qiaoling	Independent non-executive Director	Female	45	Incumbent	16.78	Yes
Tingjie ZHANG	Independent non-executive Director	Male	49	Incumbent	13.98	No
YANG Fengjiang	Chief Supervisor, employee Supervisor	Male	56	Incumbent	190.61	No
HE Liangjun	Shareholder Supervisor	Male	48	Incumbent	8.09	Yes
WANG Dawei	Employee Supervisor	Male	47	Incumbent	187.63	No
MENG Xianzheng	Employee Supervisor	Male	53	Incumbent	166.07	No
FU Changxiang	External Supervisor	Male	49	Incumbent	11.78	Yes
HU Yanjing	External Supervisor	Male	61	Incumbent	11.78	No
WANG Yu	Vice president	Female	53	Incumbent	184.64	No
CHEN Shuang	Vice president	Female	53	Incumbent	184.64	No
LIU Peng	Vice president	Male	40	Incumbent	185.04	No
Total	—	—	—	—	1,946.84	—

Notes: 1. The total remuneration package for certain Directors and Supervisors of the Bank for 2020 have not been finalized, but it is expected that the differences in the final remuneration will not have significant impact on the financial statements for 2020.

2. With their authorization, the emoluments of Mr. Rosario STRANO and Mr. Marco MUSSITA during the Reporting Period were waived.
3. Mr. Tingjie ZHANG's qualification of serving as an independent non-executive Director was approved by the Qingdao Office of CBIRC in February 2020, and he has been in office officially since then. His Director's emolument is paid according to his term of service on a pro-rata basis.
4. During the Reporting Period, no Directors, Supervisors and senior management of the Bank were granted equity incentives.

VI. DETAILS OF EMPLOYEES OF THE COMPANY

6.1 Number of employees, composition by profession and education background

Number of employees on the payroll of the parent company (persons)	4,231
Number of employees on the payroll of the major subsidiaries (persons)	111
Total number of employees on the payroll (persons)	4,342
Total number of employees receiving remuneration in the current period (persons)	4,342
Number of retired employees for whom the parent company and major subsidiaries need to bear expenses (persons)	—
Composition by profession	
Composition by profession category	Number of persons of composition by profession (persons)
Management personnel	343
Business personnel	3,248
General administrative personnel	751
Total	4,342
Education background	
Education background category	Number (persons)
Master's degree or above	831
Bachelor's degree	3,026
College graduates or below	485
Total	4,342

6.2 Remuneration Policy

Currently, the Bank has established a market-oriented remuneration system that is based on a post-specific salary regime, under which employee remuneration is linked to the responsibilities, requirements and importance of the position and the results of performance appraisal. Under this remuneration system, remuneration is limited to the position and the performance of the employee. The Bank strictly implements the relevant requirements for the supervision of remuneration payment, and implements deferred payment for middle and senior management staff. The formulation and implementation of the annual remuneration scheme of the Bank are determined in strict accordance with the annual salary budget approved by the Board of Directors.

The Bank has formulated scientific evaluation measures, and utilizes such measures as a guideline to optimize resources allocation, actively mobilize employees' initiatives, so as to enhance the Bank's overall efficiency. Employees' performance-based remuneration is decided based on the performance evaluation results of the whole Bank, the institutions or departments they work in and their own.

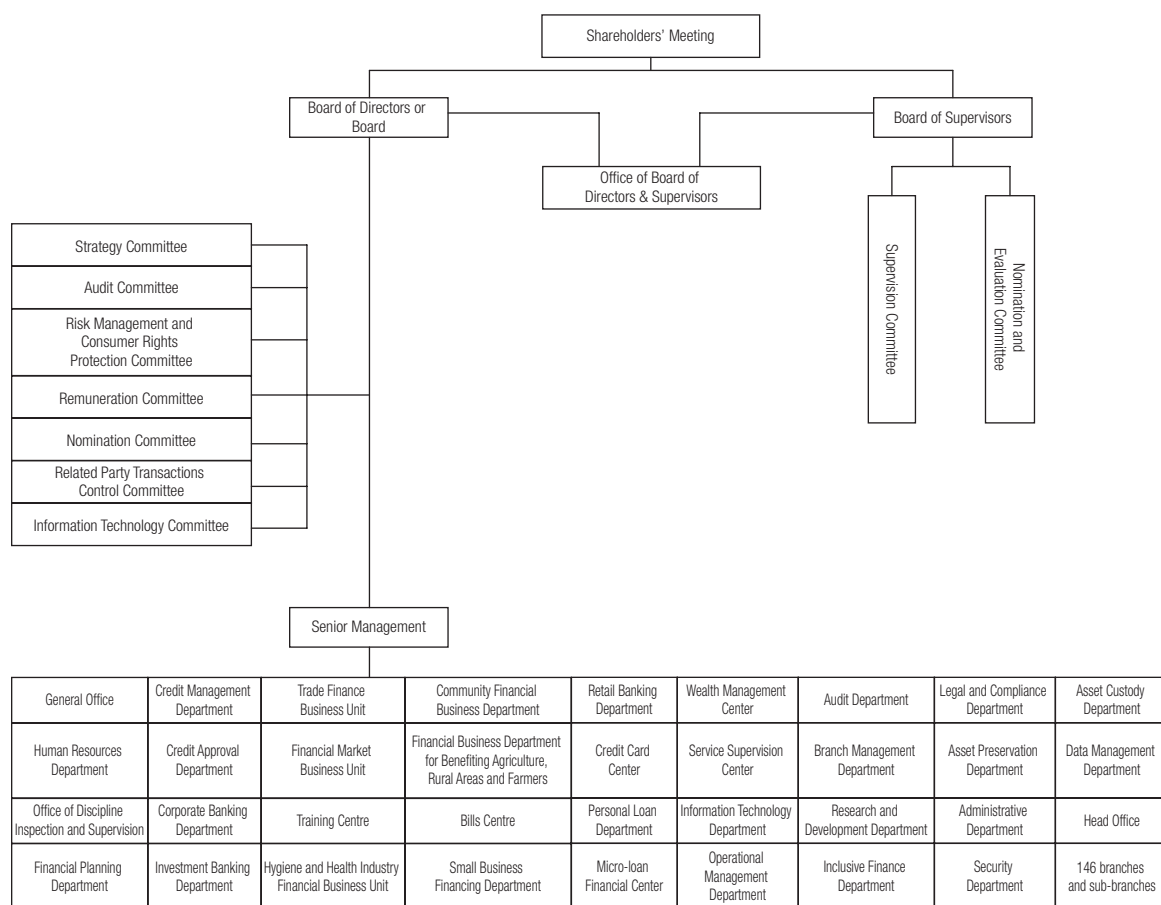
6.3 Training Program

The Bank coordinated all training arrangements based on its strategic planning and actual business development needs, optimized the training management procedure, enriched the training forms and reinforced the working skills of staff, thereby achieving double improvement in business and management. During the Reporting Period, the Bank focused on online training by making full use of the Bank's online training system and streaming platform and expanding resources of online quality courses. The optimized online functions of the training platform and the upgraded learning promotion mechanism have satisfied the multi-faceted training needs of the Bank's middle and senior management, business personnel and new staff.

6.4 Labor Outsourcing

N/A.

VII. ORGANIZATION CHART



VIII. BRANCHES AND SUB-BRANCHES

No.	Name of branch/sub-branch	Business address	Institutions under its administration	No. of staff (persons)	Total assets (100 million)
1	In Qingdao	—	1 head office, 1 branch and 81 sub-branches	2,568	3,303.18
2	Jinan Branch	Building 6, Yinfeng Fortune Plaza, No. 1 Longaoxi Road, Lixia District, Jinan	10 sub-branches under it	330	168.41
3	Dongying Branch	No. 72 Fuqian Avenue, Dongying District, Dongying	6 sub-branches under it	164	85.69
4	Weihai Branch	No. 112, No. 3-4 Shichang Avenue, Weihai	8 sub-branches under it	204	207.79
5	Zibo Branch	No. 266 Liantong Road, Zhangdian District, Zibo	3 sub-branches under it	132	97.29
6	Dezhou Branch	No. 717 Dexing Middle Avenue, Decheng District, Dezhou	3 sub-branches under it	105	48.19
7	Zaozhuang Branch	No. 215 Qingtan North Road, Shizhong District, Zaozhuang	5 sub-branches under it	114	42.14
8	Yantai Branch	Hongyuan Business Building, No. 29 Jinshajiang Road, Development Zone, Yantai	4 sub-branches under it	138	175.63
9	Binzhou Branch	No. 471 Huanghe 8th Road, Bincheng District, Binzhou	2 sub-branches under it	65	66.01
10	Weifang Branch	No. 124, Building 7, No. 6636 Fushou East Street, Kuiwen District, Weifang	4 sub-branches under it	128	121.27
11	Laiwu Branch	No. 57, Wanfu North Road, Laicheng District, Laiwu	1 sub-branches under it	54	15.18
12	Linyi Branch	Building 9, Hongxing International Plaza, Intersection of Jinan Road and Xiaohe Road, Beicheng New District, Linyi	2 sub-branches under it	78	62.39
13	Jining Branch	Welfare Lottery Building, No. 24 Hongxing Middle Road, Jining	2 sub-branches under it	65	52.20
14	Taian Branch	No. 237 Dongyue Street, Taian	—	50	39.12
15	Heze Branch	North side of East Gate of Jindu Huating, middle section of Renmin Road, Heze City	—	36	6.22

Section XI Corporate Governance

I. BASIC CORPORATE GOVERNANCE

The Bank will continue to enhance corporate governance with a guarantee of achieving sustainable and high-quality business development. The Bank will strictly comply with relevant laws and regulations such as the Company Law and the Commercial Bank Law as well as the Articles of Association, with the aim of establishing a standardized, market-oriented and characteristic corporate governance model, and continuously improving the Company's governance mechanism, in particular the level of standardization and effectiveness of its corporate governance. During the Reporting Period, the Bank's shareholders' general meeting, Board of Directors, Board of Supervisors and senior management achieved independent operation, effective check and balance, effective operation, and compliantly performed decision-making, supervision and execution duties of each corporate governance entity.

During the Reporting Period, the Bank adhered to the leadership of the Party, integrated the leadership of the Party into all aspects of corporate governance, and discussed among the Party committee considering decisions on major issues, giving full play to the Party's core role of leadership and the Board's important role in strategic guidance and scientific decision-making. The Bank also stuck to the concept of compliance by continuously improving its overall risk management level, and strived to achieve high-quality development. The Bank continued to regulate its equity management through evaluating the behavior of substantial shareholders on a regular basis as well as facilitating proper performance of substantial shareholders. The Bank also made continuous effort to optimize the meeting arrangements, deliberative procedures and subject selection of the special committees, practically exerted the professional deliberative functions of the special committees, and promoted the scientific decision-making and operational efficiency of the Board of Directors. The Bank tightened its supervision on the performance of the Board of Directors and senior management and its members, and conducted in-depth financial, risk and internal control monitoring activities to practically exert the supervisory role of the Board of Supervisors and safeguard the legitimate rights and interests of shareholders, employees, creditors and other stakeholders.

During the Reporting Period, the Bank, through careful self-examination, did not find any significant difference between the actual situation of its corporate governance and the requirements under the regulatory documents issued by the CSRC regarding listed company governance.

During the Reporting Period, the Bank strictly complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules, and adopted the suggested best practices as set out therein as appropriate.

II. SEGREGATION OF THE COMPANY AND ITS CONTROLLING SHAREHOLDER ON THE OPERATIONS, PERSONNEL, ASSETS, STRUCTURE AND FINANCE

The Bank did not have any controlling shareholder or de facto controller during the Reporting Period, and maintained independent operation in operations, personnel, assets, structure and finance.

III. HORIZONTAL COMPETITION

The Bank has no controlling shareholder or de facto controller, and no horizontal competition with controlling shareholders, de facto controllers and other enterprises controlled by them.

IV. CONVENING OF ANNUAL GENERAL MEETING AND EXTRAORDINARY GENERAL MEETING DURING THE REPORTING PERIOD

4.1 Shareholders' general meeting during the Reporting Period

Session of meeting	Type of meeting	Participation percentage of investors	Date of convening	Date of disclosure	Agenda	Index of disclosure
2019 annual general meeting	Annual general meeting	49.73%	7 May 2020	7 May 2020	At the meeting, 10 resolutions, including the work report of the Board of Directors, the work report of the Board of Supervisor, the final financial accounts, the profit distribution plan and the Amendment to the Articles of Association were considered and approved, and 3 reports were heard at the meeting, such as the evaluation report on the performance of duties of the Board of Directors and its members, the evaluation report on the performance of duties of Supervisors and the performance report of the independent non-executive Directors.	Announcement on Resolutions of the 2019 Annual General Meeting (Announcement No.: 2020-022) disclosed on the website of the SZSE, CNINFO website and the Bank's official website, and Poll Results of the 2019 Annual General Meeting Held on 7 May 2020 disclosed on the HKEXnews website of the Hong Kong Stock Exchange and the Bank's official website
2020 first extraordinary general meeting	Extraordinary general meeting	49.55%	17 September 2020	17 September 2020	At the meeting, the resolution on the issuance of tier-two capital bonds and the resolution on the capital management plan for 2021 to 2025 were considered and approved.	Announcement on Resolutions of the 2020 First Extraordinary General Meeting (Announcement No.: 2020-031) disclosed on the website of the SZSE, CNINFO website and the Bank's official website, and Poll Results of 2020 First Extraordinary General Meeting Held on 17 September 2020 disclosed on the HKEXnews website of the Hong Kong Stock Exchange and the Bank's official website

4.2 Request for convening of extraordinary general meeting by preference shareholders with recovered voting rights

During the Reporting Period, there was no request for convening of extraordinary general meeting by preference shareholders with recovered voting rights in the Bank.

V. BOARD OF DIRECTORS AND SPECIAL COMMITTEES

As the decision-making body of the Bank, the Board shall be accountable to and report its work to the general meetings. The Board exercises the following authorities and powers in accordance with the laws and regulations and the Articles of Association: convening and reporting its work at shareholders' general meetings; implementing resolutions passed at shareholders' general meetings; deciding on the Bank's business plans and investment plans; making decisions on the Bank's operational development strategies and supervising the implementation of such development strategies; formulating the Bank's annual financial budgets and final accounts; formulating the Bank's proposals on profit distribution and making up losses; formulating proposals on the increase or reduction of the Bank's registered capital, the issuance of corporate bonds and other securities and the listing plan; formulating plans for significant acquisitions, repurchase of the Bank's shares, or merger, division or dissolution or change in corporate form of the Bank; considering and approving matters within the scope authorized at shareholders' general meetings on the Bank's establishment of legal entities, mergers and acquisitions, external investments, asset acquisitions, asset disposals, asset write-off, external guarantees, related/connected transactions, etc.; deciding on the establishment of the Bank's internal management entities; appointing or removing the Bank's president and secretary to the Board of Directors; appointing or removing the members of the Bank's senior management including the vice president and chief financial officer in accordance with the recommendations of the president, and determining their remunerations, rewards and punishment; formulating the basic management systems of the Bank; formulating amendments to the Articles of Association, and the rules of procedure of shareholders' general meetings and Board meetings; managing the information disclosure of the Bank and taking ultimate responsibility for the truthfulness, accuracy, completeness and timeliness of the Bank's accounting and financial statements; proposing at shareholders' general meetings the engagement, dismissal or discontinuance of engagement of an accounting firm which undertakes auditing work for the Bank; evaluating regularly and continuously improving the corporate governance of the Bank; listening to the president's work report and inspecting the president's work; exercising other authorities and powers conferred by the laws, administrative regulations, departmental rules, regulatory documents or the requirements of the Articles of Association and the shareholders' general meetings.

5.1 The implementation of resolutions passed at general meetings by the Board

During the Reporting Period, the Board strictly implemented the resolutions passed at the general meetings, and conscientiously implemented the profit distribution plan for 2019 considered and passed at the general meetings and the estimated amount of the recurring related party transactions.

5.2 Members of the Board

As of the date this annual report, the Board consisted of 14 Directors, including 3 executive Directors, namely GUO Shaoquan, WANG Lin and LU Lan; 6 non-executive Directors, namely ZHOU Yunjie, Rosario STRANO, TAN Lixia, Marco MUSSITA, DENG Youcheng and CHOI Chi Kin, Calvin; and 5 independent non-executive Directors, namely CHEN Hua, DAI Shuping, Simon CHEUNG, FANG Qiaoling and Tingjie ZHANG. The number of members and the composition of the Board complied with the requirements of the laws and regulations.

The Bank promoted the diversity of the members of the Board of Directors in several aspects including gender, age, culture, region, and professional experience. The Nomination Committee under the Board of Directors examined the structure, number of members and composition of the Board of Directors, and made recommendations to the Board of Directors on the size and composition of the Board of Directors in accordance with the Bank's strategic planning, operational development and shareholding structure etc., and studied the selection criteria, the nomination and appointment procedures of the Directors and made recommendations to the Board of Directors for approval.

The Vocational Guidelines and Value Standards of the Board of Directors and Senior Management of Bank of Qingdao Co., Ltd. and Their Members 《青島銀行股份有限公司董事會與高級管理層及其成員職業規範與價值準則》 formulated by the Board of the Bank clarified the vocational guidelines and value standards to be followed by the Directors, and standardized the duty performance of the Board and its members, safeguarding the legitimate rights of the Bank, depositors and other stakeholders.

5.3 Changes in the Directors

For changes in the Directors, please refer to "Section X Directors, Supervisors, Senior Management and Employees" in this annual report.

5.4 Operation of the Board

During the Reporting Period, the Board convened a total of 10 meetings, of which 2 meetings were held in the form of on-site meetings and 8 meetings were held in the form of circulation of written resolutions. After in-depth discussion, members of the Board expressed their independent, objective and fair opinions, leveraging their professional expertise and experience, on the resolutions and reports submitted to the Board, forming the resolutions of Board meeting. During the Reporting Period, the Board resolved on 36 major issues including the work report of the president, the report on final financial accounts, business plans, the proposal for profit distribution and material related party transactions, and considered or reviewed 61 reports, including various risk management reports, internal and external audit reports, the proposal on external audit management and its rectification report.

The Directors of the Bank have acknowledged their responsibility for preparing the financial statements of the Bank for the year ended 31 December 2020. The Directors are responsible for overseeing the preparation of financial statements for each accounting period to make sure such financial statements give a true and fair view of the financial conditions, operating results and cash flows of the Bank. In preparing the financial statements for the year ended 31 December 2020, the Directors have adopted and consistently applied applicable accounting policies, and exercised prudent and reasonable judgement.

The Board of Directors is also responsible for determining the policy for corporate governance of the Bank and has performed the duties as set out in provision D.3.1 of the Corporate Governance Code.

5.5 Attendance of individual Directors at general meetings, Board meetings and meetings of the special committees

Actual attendance/Number of meetings requiring attendance										
Categories	Directors	General meetings	Board meetings	Strategy Committee	Remuneration Committee	Nomination Committee	Related Party Transactions Control Committee	Audit Committee	Risk Management and Consumer Rights Protection Committee	Information Technology Committee
Executive Directors	GUO Shaoquan	2/2	10/10	3/3	2/2	1/1	–	–	–	3/3
	WANG Lin	2/2	10/10	3/3	–	1/1	–	–	2/2	3/3
	LU Lan	2/2	10/10	–	–	–	6/6	–	2/2	–
Non-executive Directors	ZHOU Yunjie	2/2	10/10	3/3	2/2	1/1	–	–	–	–
	Rosario STRANO	2/2	10/10	3/3	2/2	–	–	–	–	–
	TAN Lixia	2/2	10/10	–	–	–	–	5/5	2/2	3/3
	Marco MUSSITA	2/2	10/10	–	–	–	–	–	2/2	3/3
	DENG Youcheng	2/2	10/10	3/3	–	–	–	5/5	–	–
	CHOI Chi Kin, Calvin	1/2	10/10	3/3	–	–	–	5/5	–	–
Independent non-executive Directors	CHEN Hua	2/2	10/10	3/3	2/2	–	6/6	5/5	2/2	–
	DAI Shuping	2/2	10/10	3/3	2/2	1/1	6/6	5/5	–	–
	Simon CHEUNG	2/2	10/10	–	2/2	1/1	6/6	–	–	3/3
	FANG Qiaoling	2/2	10/10	–	–	1/1	6/6	5/5	2/2	–
	Tingjie ZHANG	2/2	9/9	3/3	2/2	1/1	6/6	5/5	–	–

Notes: 1. Under the circumstance that the Directors' actual attendance of Board meetings and special committee meetings is less than required, other Directors were delegated to attend.

2. Mr. Tingjie ZHANG only formally began performing his duties as an independent non-executive Director when his qualifications were approved by the Qingdao Office of CBIRC in February 2020, as such the full number of Board meetings requiring attendance did not apply to him.

VI. PERFORMANCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS DURING THE REPORTING PERIOD

Our Board of Directors consists of five independent non-executive Directors and the qualification, number and proportion are in accordance with the regulations of CBIRC, CSRC and the Hong Kong Listing Rules. Independent non-executive Directors represent the majority of the Bank's Remuneration Committee, Nomination Committee, Related Party Transaction Control Committee and Audit Committee under the Board and serve as chairman of these committees.

6.1 Attendance of independent non-executive Directors at Board meetings and general meetings

Attendance of independent non-executive Director at Board meetings and general meetings							
Name of independent non-executive Director	Number of attendance required at Board meetings during the Reporting Period	Number of Board meetings attended in person	Number of Board meetings attended by telecommunications	Number of Board meetings attended by proxy	Number of absence	Whether attended Board meetings in person for two consecutive times	Number of attendance at general meetings
CHEN Hua	10	2	8	0	0	no	2
DAI Shuping	10	2	8	0	0	no	2
Simon CHEUNG	10	2	8	0	0	no	2
FANG Qiaoling	10	2	8	0	0	no	2
Tingjie ZHANG	9	2	7	0	0	no	2

Note: Mr.Tingjie ZHANG only formally began performing his duties as an independent non-executive Director when his qualifications were approved by the Qingdao Office of CBIRC in February 2020, as such the full number of Board meetings requiring attendance did not apply to him.

6.2 Objections raised by independent non-executive Directors on matters of the Company

During the Reporting Period, the Bank's independent non-executive Directors issued independent opinions on material matters including our profit distribution, staff bonus appropriation and performance bonus of the senior management at bank level, the engagement of accounting firms and material related party transactions. They have not raised any objection to the resolutions passed at the Board meetings or other meetings during the year.

6.3 Other explanations on the performance of duties by independent non-executive Directors

During the Reporting Period, the Bank's 5 independent non-executive Directors conscientiously participated in the meetings of the Board and the special committees, independently and objectively gave their opinions, and emphasized the interests of minority shareholders. They kept in touch with the Bank through various means such as reviewing the newsletters of Directors and Supervisors and special investigations to provide suggestions for the development of the Bank, fully discharging the independent and professional responsibilities of independent non-executive Directors. The Bank carefully studied the recommendations raised by the independent non-executive Directors, and adopted and implemented such recommendations according to the actual situation of the Bank.

VII. PERFORMANCE OF THE SPECIAL COMMITTEES UNDER THE BOARD DURING THE REPORTING PERIOD

The Bank currently has 7 special committees under the Board, including a Strategy Committee, a Remuneration Committee, a Nomination Committee, a Related Party Transactions Control Committee, an Audit Committee, a Risk Management and Consumer Rights Protection Committee, and an Information Technology Committee.

During the Reporting Period, the special committees under the Board of the Bank exercised their respective authorities and powers in an independent manner according to laws and regulations. They convened a total of 22 meetings during the year, at which 33 resolutions were considered and 47 reports of all kinds were reviewed, which allowed the special committees under the Board to play their professional roles in deliberation, provide robust support for the scientific decision-making of the Board, and improve the efficiency and quality of scientific decision-making ability of the Board.

As at the date of this annual report, the composition of the special committees under the Board of the Bank is as follows:

Name	Strategy Committee	Remuneration Committee	Nomination Committee	Related Party Transactions Control Committee	Audit Committee	Risk Management and Consumer Rights Protection Committee	Information Technology Committee
GUO Shaoquan	C	M	M				M
WANG Lin	M		M			C	M
LU Lan				M		M	
ZHOU Yunjie	M	M	M				
Rosario STRANO	M	M					
TAN Lixia					M	M	M
Marco MUSSITA						M	M
DENG Youcheng	M				M		
CHOI Chi Kin, Calvin	M				M		
CHEN Hua	M	M		C	M	M	
DAI Shuping	M	C	M	M	M		
Simon CHEUNG		M	M	M			C
FANG Qiaoling			M	M	C	M	
Tingjie ZHANG	M	M	C	M	M		

Note: C denotes the chairman of the relevant committee; while M denotes the member of the relevant committee.

7.1 Strategy Committee

The primary duties of the Strategy Committee include the following:

1. studying and making recommendations on the Bank's mid-to-long term development strategy;
2. formulating the operation management goals of the Bank and supervising and inspecting the implementation of annual business and investment plan of the Bank;
3. studying and formulating the Bank's capital restoration plan and its sources of capital restoration funds according to the development goal;
4. studying and making recommendations on the significant investment plan which required approval by the Board under the Articles of Association;
5. considering the proposed amendments to the Articles of Association and submitting them to the Board for consideration;
6. studying and making recommendations on other significant matters which may affect the development of the Bank;
7. inspecting the implementation of the above matters.

During the Reporting Period, the Strategy Committee convened 3 meetings in total, at which resolutions on the 2020 work plan of the Strategy Committee, the work report of the president and the general mandate of share issuance, were considered and approved, fulfilling the significant role of strategic management.

7.2 Remuneration Committee

The primary duties of the Remuneration Committee include the following:

1. formulating the system and policy on the remuneration management of the Bank and submitting the same to the Board for consideration;
2. formulating the remuneration package for Directors and senior management, submitting the same to the Board for consideration, and overseeing the implementation of the package plan;
3. studying the appraisal criteria for Directors and senior management, organizing regular performance appraisal for Directors and senior management, and submitting the appraisal results to the Board;
4. reviewing and approving the compensation payable to executive Directors and senior management arising from any loss or termination of office or appointment, and making recommendations to the Board;
5. reviewing and approving the compensation arrangement in connection with the dismissal or removal of Directors for their misconduct, and making recommendations to the Board;
6. ensuring that none of the Directors or any of their associates is involved in the process of finalizing their own performance appraisal and remuneration package, except for the self-assessment section in their performance appraisal.

During the Reporting Period, the Remuneration Committee convened 2 meetings in total, at which resolutions on the 2020 work plan of the Remuneration Committee and the 2019 appropriation of the staff bonus and distribution of the performance bonus of senior management at bank level, were considered and approved for the purpose of fulfilling the significant role of incentive and constraint.

7.3 Nomination Committee

The primary duties of the Nomination Committee include the following:

1. formulating the procedures and standards for the election of the Directors and senior management, and making recommendations to the Board in respect thereof;
2. conducting extensive searches for qualified candidates as Directors and senior management and establishing a talent pool for key positions;
3. conducting preliminary review of the qualifications and credentials of candidates as Directors and senior management, and making recommendations to the Board in respect thereof;
4. reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations to the Board according to the Bank's business activities, the scale of assets and the shareholding structure.

During the Reporting Period, the Nomination Committee convened 1 meeting in total, at which the resolution on the 2020 work plan of the Nomination Committee was considered and approved.

7.4 Related Party Transactions Control Committee

The primary duties of the Related Party Transactions Control Committee include the following:

1. identifying the related parties of the Bank in accordance with relevant laws and regulations, and collecting and organizing the list and information of related parties;
2. reviewing and approving the related party transactions within the scope of the authority granted by the Board of Directors, reviewing the related party transactions that required the submission to the Board of Directors and shareholders' general meeting for consideration and approval, and reporting the same to the Board of Directors;
3. inspecting and supervising the control over the Bank's related party transactions and the implementation of the Bank's related party transaction control system by the Directors, senior management and related parties of the Bank, and reporting the same to the Board.

During the Reporting Period, the Related Party Transactions Control Committee convened a total of 6 meetings, during which the members considered and passed resolutions such as the 2020 work plan of the Related Party Transaction Control Committee, confirmation of the list of related parties and review of significant related party transactions, listened to or reviewed the management reports on related party transactions, focused on the compliance and fairness of related party transactions, aiming to maintain strict control over the risks in related party transactions.

7.5 Audit Committee

The chairman of the Audit Committee possesses the appropriate expertise of accounting or related financial management as required under Rule 3.10(2) of the Hong Kong Listing Rules. The primary duties of the Audit Committee include the following:

1. proposing the engagement or change of an accounting firm which undertakes auditing work for the Bank;
2. supervising the Bank's internal audit system and the implementation thereof;
3. responsible for the communication between its internal auditors and the accounting firm;
4. reviewing the accounting policies, financial position and financial reporting procedures of the Bank, and monitoring its risk and compliance status;
5. responsible for the annual audit of the Bank, and preparing a judgment report on the authenticity, accuracy, completeness and timeliness of the audited financial information, and submitting the report to the Board for consideration;
6. reviewing the internal control system of the Bank, evaluating the working procedures and effectiveness of the internal audit department of the Bank, and ensuring that the function of internal audit is adequately resourced and has proper standing within the Bank;
7. reviewing the annual budget, final accounts, and any significant changes and adjustments in the course of implementation, and submitting its findings to the Board of Directors for consideration;
8. reviewing the profit distribution policy and annual profit distribution plans, and submitting its findings to the Board for review;
9. reviewing and ensuring that the Board of Directors will provide a timely response to the issues raised in the external auditor's management letter (or any equivalent documents) to the senior management, and reviewing any major queries raised by the external auditors to senior management about accounting records, financial accounts or control systems and senior management's response;
10. reviewing arrangements employees of the Bank can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and carrying out independent and fair investigation of these matters and appropriate follow-up actions.

During the Reporting Period, the Audit Committee convened 5 meetings in total, during which the members considered and passed resolutions on regular reports, engagement of accounting firms, the self-evaluation report on internal control, the financial report, the proposal for profit distribution, as well as reviewed special audit reports and rectification reports. It listened to the audit work summary, audit plan and management recommendations of external auditors, which continued to promote the Bank's philosophy of compliant operation, enhanced internal control and improved the quality and efficiency of internal and external auditors.

7.6 Risk Management and Consumer Rights Protection Committee

The primary duties of the Risk Management and Consumer Rights Protection Committee include the following:

1. supervising the risk control condition conducted by the senior management of the Bank in credit, marketing, liquidity, operation, compliance, information technology and reputation, and conducting regular reviews of the risk reports;
2. regularly assessing our risk policies, management, tolerance and capacity;
3. making suggestions on the improvement of our risk management and internal control;
4. deciding on the strategy of overall risk management, confirming the overall risk limits and formulating suitable risk management procedure and measures;
5. formulating the Bank's strategy, policy and target in protecting consumers' rights, listening to the senior management's special reports on protection of consumers' rights regularly, and submitting the reports to the Board for review.

During the Reporting Period, the Risk Management and Consumer Rights Protection Committee convened 2 meetings in total, during which the members considered and passed resolutions on the 2020 work plan of the Risk Management and Consumer Rights Protection Committee and the 2020 plan of risk appetite of business operation, reviewed the reports on risk management of credit risk, market risk, liquidity risk and off-balance sheet risk, and offered guidance on the continuous improvement of the Bank's comprehensive risk management capability.

7.7 Information Technology Committee

The primary duties of the Information Technology Committee include the following:

1. studying and formulating the strategy of information technology of the Bank, and submitting the strategy to the Board for review;
2. regularly appraising the overall results of the work of information technology, and the progress of information technology strategic planning and execution of material projects of the Bank;
3. instructing and supervising the development and governance of the work of information technology in senior management and relevant management departments, and conducting information technology risk identification, measurement and control;
4. listening to or reviewing the information technology management report, business continuity management report, and special auditor's report on information technology of the Bank, and making suggestions.

During the Reporting Period, the Information Technology Committee convened 3 meetings in total, during which the members considered and passed resolutions on the 2020 work plan of the Information Technology Committee, and listened to the report on the management of risks in information technology and report on the management of business continuity, with the purpose of supporting the Bank's plans for information technology development, continuing to increase investment in information technology and improving talent development and reserve.

VIII. PERFORMANCE OF BOARD OF SUPERVISORS

8.1 Board of Supervisors

The Board of Supervisors is the supervisory body of the Bank and is responsible to the general meeting. During the Reporting Period, no risk was identified in the Bank in the supervisory activities of the Board of Supervisors.

The Board of Supervisors exercises the following authorities and powers in accordance with the laws and regulations and the Articles of Association: supervising the discharge of duties by the Board and the senior management; supervising the conduct of Directors and members of the senior management in their performance in the Bank, and proposing the removal of such Directors and members of senior management violating the laws, administrative regulations, the Articles of Association or the resolutions of the shareholders' general meeting; requiring Directors and members of the senior management to rectify any act which is detrimental to the interests of the Bank; conducting exit audits for Directors and members of the senior management when necessary; inspecting and supervising the financial activities of the Bank; carrying out supervisory inspections on matters such as the business decision-making, risk management and internal controls of the Bank, and supervising the rectification of mistakes; making enquiries towards the Directors, the chairman of the Board of Directors and other members of the senior management; proposing the convening of extraordinary general meetings, and convening and presiding over the shareholders' general meeting when the Board of Directors fails to perform this duty in accordance with the Company Law or the Articles of Association; attending the meetings of the Board of Directors; raising proposals to shareholders' general meeting; examining the financial information such as financial reports, business reports, and profit distribution plans proposed to be submitted to the shareholders' general meeting by the Board of Directors; conducting investigations if there is any doubt or irregularity in relation to the Bank's operations; engaging professionals from accounting firms or law firms when necessary to assist its duties at the expenses of the Bank; initiating legal proceedings against Directors and members of the senior management according to the provisions of the Company Law; making proposals regarding the remuneration (or allowance) of the Supervisors; and exercising any power conferred by the laws, administrative regulations, departmental rules, the regulatory documents, the Articles of Association or the shareholders' general meetings.

8.2 Composition of the Board of Supervisors

The Board of Supervisors of the Bank is composed of shareholder Supervisors, external Supervisors and employee Supervisors. The shareholder Supervisors and external Supervisors are nominated by the Board of Supervisors and elected by a shareholders' general meeting. The employee Supervisors are nominated by the trade union's committee and elected through democratic procedures. As at the end of the Reporting Period, the Board of Supervisors of the Bank consisted of 6 Supervisors, including 3 employee Supervisors, namely YANG Fengjiang, WANG Dawei, and MENG Xianzheng; 1 shareholder Supervisor, namely HE Liangjun; and 2 external Supervisors, namely FU Changxiang and HU Yanjing. The structure of the Board of Supervisors of the Bank satisfies the requirements of the applicable laws and regulations, and the Supervisors possess the professionalism and independence required to perform their duties, and can effectively exert the supervisory functions of the Board of Supervisors.

8.3 Changes in the Supervisors

For details of the changes in the Bank's Supervisors during the Reporting Period, please refer to "Section X Directors, Supervisors, Senior Management and Employees".

8.4 Operation of the Board of Supervisors

Through various means such as convening meetings of the Board of Supervisors and the Special Committees, considering and approving resolutions, listening to reports, conducting business investigation and research, participating in general meetings, and attending Board meetings and important meetings of the Bank, the Board of Supervisors supervised and appraised the discharge of duties by the Board and the senior management and its members, oversaw the financial activities, risk management and internal control of the Bank, gave their recommendations on supervision and continuously focused on the implementation of various recommendations by the Bank.

8.5 Meetings of the Board of Supervisors held during the Reporting Period

During the Reporting Period, the Board of Supervisors of the Bank convened 7 meetings, of which 3 meetings were held in the form of on-site meetings and 4 meetings were held in the form of circulation of written resolutions. At these meetings, the Board of Supervisors considered and approved 20 resolutions, listened to or reviewed 57 reports, covering operation management, final financial accounts, risk management and internal control of the Bank, as well as the performance evaluation of Directors, Supervisors and senior management personnel. During the Reporting Period, there was no objection raised by the Board of Supervisors to the matters supervised. During the Reporting Period, attendance of Board of Supervisors meetings is as below:

Supervisor	Number of attendance required	Number of attendance in person	Number of attendance by proxy
YANG Fengjiang	5	5	0
HE Liangjun	7	7	0
WANG Dawei	7	7	0
MENG Xianzheng	7	6	1
FU Changxiang	7	7	0
HU Yanjing	7	7	0

Note: Mr. YANG Fengjiang only began performing his duties on 26 March 2020, as such the full number of Board of Supervisors meetings requiring attendance did not apply to him.

8.6 Attendance at shareholders' general meetings during the Reporting Period

During the Reporting Period, the Bank convened 2 general meetings in total. The Board of Supervisors has designated representatives to attend such meetings to carry out on-site supervision over the legal compliance of the matters transacted at the meeting, procedures of the meeting and the voting process.

8.7 Attendance at meetings of the Board and meetings of the senior management

During the Reporting Period, the Board of Supervisors designated representatives to attend on-site meetings of the Board convened by the Bank, reviewed the documents of the Board meetings in the form of circulation of written resolutions, and supervised the legal compliance of procedures of convening the Board meeting and voting, as well as the attendance, speech and voting of Directors. The Board of Supervisors also sent representatives to attend important senior management meetings such as the working meetings of the president and review and inspect meetings on internal control, and gave opinions on the performance of senior management, risk management and internal controls, etc.

8.8 Operation of the Special Committees under the Board of Supervisors

The Board of Supervisors has established a Supervision Committee and a Nomination and Evaluation Committee. The composition of these committees is as follows:

No.	Special Committees under the Board of Supervisors	Chairman	Members
1	Supervision Committee	FU Changxiang	YANG Fengjiang, HE Liangjun, HU Yanjing, WANG Dawei
2	Nomination and Evaluation Committee	HU Yanjing	YANG Fengjiang, FU Changxiang, MENG Xianzheng

Supervision Committee

The primary duties of the Supervision Committee include the following:

1. responsible for the formulation of the plans for supervising the Bank's financial affairs, and implementing related examinations;
2. supervising the Board of Directors for the establishment of stable operational principle, value criterion, and formulating the development strategy based on the Bank's actual needs;
3. supervising and examining the Bank's operational decisions, risk management and internal control.

During the Reporting Period, the Supervision Committee held 5 meetings in total, at which the resolutions on the report of final financial accounts, proposals for profit distribution, regular report, the engagement of accounting firm and self-evaluation report on internal control were considered and approved, and listened to the work report of internal audit and the major risk management report.

Nomination and Evaluation Committee

The primary duties of the Nomination and Evaluation Committee include the following:

1. studying the selection standards and procedures of Supervisors, and making recommendations to the Board of Supervisors;
2. preliminarily reviewing the qualifications and criteria of candidates for Supervisors and making recommendations;
3. supervising the process of election and appointment of Directors and independent Directors;
4. conducting comprehensive evaluation on the performance of duties of Directors, Supervisors and senior management and reporting to the Board of Supervisors.

During the Reporting Period, the Nomination and Evaluation Committee convened 3 meetings in total, at which the resolutions on the president's work report, evaluation report on the performance of duties of the Board of Directors and its members, the evaluation report on the performance of duties of Supervisors, the evaluation report on performance of duties of the senior management and senior executives, and the election of chairman of the seventh session of the Board of Supervisors were considered and approved.

8.9 Work of external Supervisors

During the Reporting Period, external Supervisors attended the meetings of the Board of Supervisors and its Special Committees in compliance with laws and regulations, gave their independent and objective opinions and suggestions, protected the interests of the Bank and depositors; kept themselves abreast of the status of the Bank's operation and management by conscientiously carrying out reviews on the resolutions, reports and newsletters of Directors and Supervisors and other documents provided by the Bank; and performed their duties as external Supervisors according to laws.

8.10 Training and studies undertaken by Directors and Supervisors during the Reporting Period

During the Reporting Period, all our Directors and Supervisors participated in the special trainings on laws and regulations, including latest domestic and overseas laws, regulations and regulatory requirements in 2020 such as the Securities Law and the listing rules of SZSE. All Directors and Supervisors were educated in the interpretation of policy key points of the Opinion on Further Improving the Quality of Listed Companies (Guo Fa [2020] No. 14) 《關於進一步提高上市公司品質的意見》(國發[2020]14號)), and watched the video learning materials from the director, supervisor and senior management training course for listed companies in the Qingdao jurisdiction designed by the Qingdao Securities Regulatory Bureau (青島證監局) on 26 November 2020.

During the Reporting Period, Mr. CHEN Hua, Ms. DAI Shuping, Mr. Simon CHEUNG, Ms. FANG Qiaoling and Mr. Tingjie ZHANG, independent non-executive Directors of the Bank, initiated a special research on the related party transaction, internal audit, asset quality management and control and information technology planning of the Bank and formulated a special research report with in-depth understanding of the Bank's operation and management, in which they provided numerous poignant and forward-looking opinions and suggestions

IX. WORK OF SENIOR MANAGEMENT

Serving as the executive body of the Bank, the senior management is responsible to the Board of Directors and is subject to the supervision of the Board of Supervisors. Authorities of the senior management and the Board of Directors are divided in strict compliance with the Articles of Association and other documents.

Under the Bank's system, the president assumes overall responsibility under the leadership of the Board of Directors. The president shall be accountable to the Board of Directors and shall perform the following functions and powers:

1. take charge of the operation and management of the Bank, make arrangements for the implementation of the resolutions of the Board of Directors and report the work to the Board of Directors;
2. submit business plans and investment proposals to the Board of Directors on behalf of the members of the senior management, and make arrangements for the implementation upon approval by the Board of Directors;
3. make arrangements for the formulation and implementation of the Bank's various rules and regulations, development plans and annual operation plans;
4. authorize members of the senior management and persons in charge of internal departments and branches to conduct operating activities;
5. formulate proposals on the establishment of the Bank's internal management entities;
6. propose to the Board of Directors to engage or dismiss the vice presidents, chief financial officers and other members of the senior management of the Bank;
7. engage or dismiss persons in charge of the internal departments and branches of the Bank other than those to be engaged or dismissed by the Board of Directors;
8. determine wages, benefits, rewards and punishment of the employees of the Bank, and decide on their engagement and dismissal;
9. propose the convening of an extraordinary meeting of the Board of Directors;
10. adopt emergency measures when any major emergency, such as a bank run, arises in the Bank and promptly report them to the banking regulatory authorities of the State Council as well as the Board of Directors and the Board of Supervisors;
11. other duties and powers conferred by the laws, administrative regulations, departmental rules, regulatory documents, the regulations of the relevant regulatory authorities, the Articles of Association and by the Board of Directors.

9.1 Delegation of authority by the Board of Directors

The Board of Directors of the Bank and the management led by the president exercised their respective powers in accordance with their responsibilities as set out in the Articles of Association. Apart from the responsibilities stipulated in the Articles of Association, the Bank formulated the Delegation Arrangement to the Senior Management Authorized by the Board of Directors of Bank of Qingdao Co., Ltd., to refine corporate governance structure and promote decision-making efficiency. The validity period of the delegation is from the date of approval by the Board of Directors until new delegation arrangements made by the Board of Directors.

9.2 Chairman and President

In line with the recommendations of the Hong Kong Listing Rules, the roles and responsibilities of the Chairman and President of the Bank are taken up by different persons, and their respective responsibilities are clearly defined in the Articles of Association.

Mr. GUO Shaoquan, Chairman of the Bank, is responsible for organizing timely consideration, review and discussion of major issues of the Bank by the Board of Directors, so as to ensure the sound operation of the Board of Directors and effective implementation of decisions. Mr. WANG Lin serves as President of the Bank, and is responsible for business development and overall operational management of the Bank in accordance with the provisions of laws and regulations and the Articles of Association.

9.3 Securities Transactions by Directors and Supervisors

The Bank has adopted the required standard set by the Model Code set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for securities transactions by Directors and Supervisors of the Bank. Having made enquiries to all Directors and Supervisors, the Bank confirmed that they had complied with the above Model Code for the H Share transaction of the Bank during the Reporting Period.

9.4 External auditors and remuneration

For details, please refer to “Section VII Significant Events” in this report.

9.5 Risk management and internal control

The Board of Directors of the Bank is responsible for ensuring the establishment and implementation of an adequate and effective internal control system and the Bank's prudent operation under the framework set by laws and policies. The Board of Directors is also responsible for clearly determining the acceptable risk level, ensuring senior management to adopt necessary risk control measures, and supervising senior management on their monitoring and assessment of the adequacy and effectiveness of the risk management and internal control system.

The Board of Directors of the Bank has established the Audit Committee to be responsible for the supervision of the effective implementation of the Bank's internal control and the self-assessment of risk management and internal control, the coordination of audit on internal control and other relevant matters.

The Board of Supervisors of the Bank is responsible for supervising the Board of Directors and senior management in improving the risk management and internal control system as well as the supervision on the performance of risk management and internal control duties by the Board of Directors, senior management and their members.

The senior management of the Bank is responsible for implementing the decisions of the Board of Directors, formulating systematic systems, procedures and methods based on acceptable risk levels as determined by the Board of Directors and adopting the corresponding risk control measures, establishing and improving the internal structure and institutions, ensuring the effective implementation of various risk management and internal control functions as well as conducting supervision and assessment on the adequacy and effectiveness of the risk management and internal control system.

Based on rules and regulations including the “Basic Standards for Enterprise Internal Control” and its complimentary guidelines and the “Guidelines on Internal Control of Commercial Banks”, along with relevant requirements of the Hong Kong Stock Exchange, the Bank has formulated the objectives and principles of internal control and established its internal control system. The Bank takes control over the entire process of various operation and management activities, and continuously enhances the completeness, reasonableness and effectiveness of internal control system through practice.

The Board of Directors of the Bank reviewed the risk management and internal control systems for the year ended 31 December 2020. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board of Directors of the Bank considered and approved the “2020 Evaluation Report on Internal Control of Bank of Qingdao Co., Ltd.”, and assessed the risk management and internal controls of the Bank for the year. The Board of Directors is in the opinion that such risk management and internal controls of the Bank are effective.

On the basis of continuous improvement of the Bank’s user-friendly system that provides excellent customer experience, is highly accessible to employees and comprehensively covers risks, the Bank carried out a system-building initiative known as “Strike of the Sword Action” (利劍行動) in 2020, focusing on comprehensive updates and revisions to the Bank’s systems, improving the flexibility of the systems to advance with the times, ensuring that the systems are always followed and constantly updated, and guaranteeing steady development of innovative businesses under the regulation of these systems; established the “Weekly Inspection Practice” of senior management inspection system and regular compliance inspection system, with 41 inspections carried out in 2020 to identify and promptly rectify system implementation problems and potential risks; established a sound internal control evaluation and post-evaluation mechanism, conducted regular audits, responsibility audits and special audits annually and created a sustainable new mechanism for operational risk assessment and rectification; and convened quarterly “internal control assessment meetings” to enhance awareness of risk prevention and control at all levels, ensuring that potential risks are identified in early stages and rectified in a timely manner, and edging up the standards of its risk management and control.

The Bank formulated Information Disclosure Management System of Bank of Qingdao Co., Ltd. which specified the definition of inside information, confidentiality measures, handling and issuance procedures and internal control.

During the Reporting Period, no organization or staff of the Bank participated in or was suspected of being involved in any money laundering or terrorism financing activity.

9.6 Appraisal and incentives for senior management

During the Reporting Period, the Board of Directors and the Remuneration Committee of the Bank appraised the senior management according to the annual work objectives and plans of the Bank, and granted bonuses for the senior management according to the appraisal results. The Bank will continue to improve the performance evaluation and constraint mechanism of the senior management.

9.7 Company Secretaries

During the Reporting Period, the joint company secretaries of the Bank, Ms. LU Lan and Ms. YU Wing Sze from TMF Hong Kong Limited, a company secretary service provider of the Bank, both had undertaken not less than 15 hours of continuing professional training in compliance with the requirements of Rule 3.29 of the Hong Kong Listing Rules. Ms. LU Lan, one of the joint company secretaries of the Bank, is the chief liaison person of the Bank.

* For identification purpose only

X. INFORMATION DISCLOSURE AND TRANSPARENCY

In strict compliance with the provisions of laws and regulations, the Bank released various periodic reports and temporary announcements in compliance with laws and regulations to ensure that the information disclosed is true, accurate, complete, timely and standardized to protect the lawful rights and interests of shareholders. During the Reporting Period, 182 various announcements were released on the website of SZSE, the HKEXnews website of the Hong Kong Stock Exchange and the website of the Bank, among which, 90 announcements were released on SZSE and 92 on the Hong Kong Stock Exchange.

The Bank has also established a special column for investor relations on its official website which contains relevant email address and contact details, reflecting the Bank's commitment to earnestly responding to questions and enquiries raised by shareholders and to ensuring that all shareholders have equal access to relevant information.

XI. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Reporting Period, the Bank made amendments to the Articles of Association in accordance with the latest requirements under relevant laws and regulations such as the Company Law (2018 Revision), the Guidelines for Articles of Association of Listed Companies (2019 Revision) and the Reply of the State Council of the People's Republic of China on the Adjustment of the Notice Period for General Meetings and Other Matters Applicable to Overseas Listed Companies 《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》. The resolution on the amendment of the Articles of Association of the Bank of Qingdao Co., Ltd. was considered and approved at the 2019 annual general meeting of the Bank on 7 May 2020. The amended Articles of Association has been approved by the Qingdao Office of CBIRC. For details of the amendments, please refer to the Documents of the 2019 Annual General Meeting 《2019年度股東大會會議文件》 of the Bank dated 16 April 2020 published on the website of CNINFO and the Circular of 2019 Annual General Meeting dated 15 April 2020 published on the website of the Hong Kong Stock Exchange.

XII. SHAREHOLDERS' RIGHTS

12.1 Convening of extraordinary general meetings on requisition by shareholders

In accordance with relevant requirements of laws and regulations and relevant regulations of the Articles of Association, shareholders of the Bank shall have the right to convene extraordinary general meetings. Shareholders individually or jointly holding ten percent or more of the total shares with voting rights of the Bank shall have the right to propose by written requisition to the Board of Directors or the Board of Supervisors to convene an extraordinary general meeting.

The Board of Directors shall, in accordance with requirements of the laws, administrative regulations and Articles of Association, make a written response as to whether or not it agrees to convene an extraordinary general meeting within ten days upon receipt of the proposal. If the Board of Directors agrees to convene the extraordinary general meeting, a notice convening such a meeting shall be issued within five days after the resolution of the Board of Directors is passed. If the Board of Directors does not agree to convene such extraordinary general meeting or no response has been made within ten days upon receipt of the requisition, the shareholders shall have the right, by written requisition to the Board of Supervisors, to propose an extraordinary general meeting to be called.

If the Board of Supervisors gives consent to the convening of an extraordinary general meeting, a notice for convening such meeting shall be issued within five days upon receipt of the proposal. If the Board of Supervisors fails to issue notice of the shareholders' general meeting within the prescribed period, it shall be deemed to have failed to convene and preside over the shareholders' general meeting, and the shareholders having individually or jointly held ten percent or more of the shares of the Company for at least ninety consecutive days may convene and preside over the meeting by themselves.

For details of the relevant requirements, please refer to the Articles of Association published on the HKEXnews website of the Hong Kong Stock Exchange, the website of SZSE and the website of the Bank.

12.2 Making enquiries with the Board

Shareholders of the Bank shall be entitled to inspect the relevant information of the Company in accordance with the laws, administrative regulations, departmental rules, regulatory documents, the relevant provisions of the securities regulatory authorities of the jurisdiction in which the Bank's shares are listed and the requirements of the Articles of Association of the Bank, including the status of the share capital, the minutes of general meetings, the resolutions of Board meetings, the resolutions of Board of Supervisors meetings and the latest audited financial statements. Shareholders of the Bank demanding inspection of the relevant information or copies of the materials mentioned in the preceding provision shall provide to the Bank written documents evidencing the class and the number of shares of the Bank they hold. Upon verification of the shareholder's identity, the Bank shall provide such information at the shareholder's request.

For details of the relevant requirements, please refer to the Articles of Association published on the HKEXnews website of the Hong Kong Stock Exchange, the website of SZSE and the website of the Bank.

12.3 Proposals of the general meeting

Shareholders individually or jointly holding 3% or more of the total shares with voting rights of the Bank may submit provisional proposals to the conveners in writing twelve Hong Kong business days prior to the date of the general meeting. The conveners shall issue a supplemental notice of the general meeting setting out the content of the provisional proposals within two days upon receipt of the proposals.

Shareholders individually or jointly holding 1% or more of the total shares with voting rights of the Bank may nominate independent Directors to the Board, who shall be elected at a shareholders' general meeting.

For details of relevant requirements, please refer to the Articles of Association published on the HKEXnews website of the Hong Kong Stock Exchange, the website of SZSE and the website of the Bank.

XIII. INVESTOR RELATIONS

The Bank attaches importance to the comments and recommendations of shareholders, and proactively hosts various communication activities with investors and analysts, and satisfies the reasonable requests of shareholders in a timely manner. Shareholders may propose their request for information enquiry to the Board of Directors through the Office of Board of Directors & Supervisors of the Bank. Contact details of the Office of Board of Directors & Supervisors of the Bank are as follows:

Address:	No. 6, Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC
Postal code:	266061
Telephone number:	+86 40066 96588 ext. 6
Facsimile number:	+86 (532) 85783866
Email:	ir@qdbankchina.com

XIV. INTERNAL CONTROL AND INTERNAL AUDIT

14.1 Evaluation report of internal control

14.1.1 Details on the material deficiencies in internal control detected during the Reporting Period

No material deficiencies in internal control were detected in the Bank during the Reporting Period.

14.1.2 Evaluation report of internal control

Disclosure date of the full text of evaluation report of internal control	31 March 2021
Disclosure index of the full text of evaluation report of internal control	Website of CNINFO (http://www.cninfo.com.cn/)
The percentage of total assets of units included in the assessment scope to the total assets in the Company's consolidated financial statements	100%
The percentage of operating income of units included in the assessment scope to the operating income in the Company's consolidated financial statements	100%

Criteria for deficiency recognition

Category	Financial Report	Non-financial Report
Qualitative criteria	Issue of adverse opinion or refuse to give opinion by a certified public accountant with respect to the financial statements of the enterprise; fraud or suspected of fraud of the senior management of the enterprise; material misstatement in financial reports disclosed; lack of control or failure of financial system of the Company; failure to rectify material or major deficiencies in the internal control on financial reports. Qualitative criteria of major deficiencies: deficiencies in the Company's financial procedures or system; failure to rectify major deficiencies in the internal control on financial reports; other internal control deficiencies that may cause material misstatement of financial reports. Qualitative criteria of general deficiencies: other deficiencies in the internal control of financial reports other than the aforesaid material deficiencies and major deficiencies.	Serious impact on the realization of the Bank's overall control objectives; violation of national laws and regulations and subject to punishment; wide range of negative impacts with extensive public attention at home and abroad, and a serious negative impact on the Bank's reputation and stock price; lack of control or failure of major business system. Qualitative criteria of major deficiencies: a certain impact on the realization of the Bank's overall control objectives; significant losses as a result of violation of internal regulations of the enterprise; negative impacts within and outside the Bank, drawing public attention, and a greater negative impact on the Bank's reputation in some areas; deficiencies in major business procedure or system. Qualitative criteria of general deficiencies: slight or no impact on the realization of the Bank's overall control objectives; in violation of internal regulations of the enterprise without loss; limited negative impacts, with low public attention and a less negative impact on the Bank's reputation; deficiencies in general business procedure or system.

Criteria for deficiency recognition

Category	Financial Report	Non-financial Report
Quantitative criteria	The possible impact amount of the annualized financial misstatement accounted for 5% or more of the Bank's profit before tax, and compensatory control could not effectively reduce the impact of the deficiency against the realization of the control objectives. Quantitative criteria of major deficiencies: the possible impact amount of the annualized financial misstatement accounted for 3% (inclusive) to 5% (exclusive) of the Bank's profit before tax, and compensatory control could not effectively reduce the impact of the deficiency against the realization of the control objectives. Quantitative criteria of general deficiencies: the possible impact amount of the annualized financial misstatement accounted for less than 3% of the Bank's profit before tax, and compensatory control could not effectively reduce the impact of the deficiency against the realization of the control objectives.	The amount of loss accounted for 5% or more of the Bank's profit before tax due to the internal control deficiencies shall be recognized as a material deficiency, and compensatory control could not effectively reduce the impact of the deficiency against the realization of the control objectives. Quantitative criteria of major deficiencies: the amount of loss accounted for 3% (inclusive) but less than 5% (exclusive) of the Bank's profit before tax due to the internal control deficiencies shall be recognized as a major deficiency, and compensatory control could not effectively reduce the impact of the deficiency against the realization of the control objectives. Quantitative criteria of general deficiencies: the amount of loss accounted for less than 3% of the Bank's profit before tax due to the internal control deficiencies shall be recognized as a general deficiency, and compensatory control could not effectively reduce the impact of the deficiency against the realization of the control objectives.
The number of material deficiencies in financial reports		—
The number of material deficiencies in non-financial reports		—
The number of major deficiencies in financial reports		—
The number of major deficiencies in non-financial reports		—

14.2 Audit report of internal control

Audit opinion of the audit report of internal control

As at 31 December 2020, the Bank has maintained effective internal control over financial reporting in all material aspects in accordance with the Basic Standards for Enterprise Internal Control and other relevant requirements.

Disclosure of the audit report of internal control	Disclosed
Disclosure date of the full text of audit report of internal control	31 March 2021
Disclosure index of the full text of audit report of internal control	Website of CNINFO (http://www.cninfo.com.cn/)
Opinion of the audit report of internal control	Unqualified opinion
Whether there is any material deficiency in the non-financial report	No

Note: The audit report on internal control issued by the accounting firm is consistent with the self-evaluation report of the Board.

14.3 Internal control

During the Reporting Period, the Bank placed emphasis on the implementation and improvement of internal control. Adhering to lawful, compliant and sound guiding principles in operational management, the Bank continued to enhance the level of internal control management through optimizing process, refining management measures, strengthening risk prevention and improving the management structure, and effectively promoted the overall implementation of its development strategy and business objectives.

The Bank issued Opinions on Solidifying Foundation to Facilitate Comprehensive Compliance 《關於強基固本推進全面合規建設工作的意見》 as “No. 1 document (一號文)” and carried out ten actions at all levels around the theme of “Comprehensive Compliance”, so as to continue solidifying the construction of the ten systems for compliance and internal control, and establish a new ecosystem of “Comprehensive Compliance”.

Throughout the year, the Bank comprehensively raised compliance awareness by resorting to online and offline promoting methods such as compliance-themed speeches and lectures, aiming to establish a brand built to last owing to its standardized, orderly and compliant operation. The Bank also carried out internal inspections centering on the concept of “looking back” to rectify irregularities through the combined efforts of head office’s supervision and branches’ individual implementation, and rectification of specific issues and the improvement of the internal control system, as well as accountability for incompliance and warning education. External institutions were engaged to conduct special evaluation of internal control, in order to comprehensively improve the level of internal control management by constantly identifying and solving problems. The Bank strictly followed legal review protocols, and stayed informed of the latest enactment of laws, regulations and regulatory systems closely related to the banking business, and issued articles on risk cautions through the Bank’s magazine and intranet, to ensure early warning on risk prevention was properly made.

14.4 Internal audit

The Bank has established an audit department as its internal auditor, which is responsible for comprehensive audit evaluation of all businesses and operational management activities and operational conditions of the Bank. The audit department answers directly to the chairman and hence enjoys certain independence. The audit results were regularly reported by the audit department to the Board of Directors and the Board of Supervisors and were submitted in compliance with regulatory requirements.

The Bank enhanced project coordination and regulated the audit process by intensifying management of audit philosophy and accelerating the transformation of audit model. With continuous innovation in audit methods and approaches, the Bank promoted the upgrade of audit management and tirelessly expanded and deepened the audit process in order to fundamentally resolve issues and improve management, strengthening the Bank's innate driving force for sustainable development.

With a technical edge in big data analysis, the Bank furthered the approach of "on-site + off-site" audit management by focusing on regular audit, while special audits for anti-money laundering, protection of consumer rights and interests, wealth management and sales agency, proprietary business in the financial market, performance appraisal and sound remuneration as well as the economy responsibility audit complement one another, and the audit project for the year progressed steadily. The Bank initiated the follow-up audit system to track and rectify implementation results, improved the closed-loop rectification mechanism and applied the "looking back" audit approach, while utilizing multiple channels to, among others, monitor the trend of business development, analyze peer percentage, track asset quality changes in the credit extension business and inspect the compliance and risk control effectiveness of new anti-pandemic products. The Bank also convened quarterly internal review and inspection meetings via "on-site + video" methods to improve the rectification mechanism, promote synergetic rectification and comprehensively augment the value of internal audit.

XV. OTHER INFORMATION

The Bank is the holder of the financial institution license No. B0170H237020001 from the Qingdao Office of CBIRC and the business license with a unified social credit code of 91370200264609602K from the Administration for Market Regulation of Qingdao City. As the Bank is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of Laws of Hong Kong), it is neither subject to the supervision of the Hong Kong Monetary Authority, nor authorized to carry on banking or deposit-taking business in Hong Kong.

Section XII Report of the Board of Directors

I. PRINCIPAL ACTIVITIES

The principal activities of the Bank are: intake deposits from public; provide short-term, mid-term and long-term loans; conduct domestic and overseas settlements; conduct acceptance, discounting and inter-bank discounting of notes; issue financial bonds; issue, cash-in, underwrite government bonds and financial bonds as agent; trade government bonds, notes of central banks, financial bonds, corporate bonds, mid-term notes, short-term financing coupons and other bonds issued and circulated in the national interbank bond market; participate in interbank lending and borrowing and interbank deposit businesses; perform foreign exchange trading as agent; carry out the foreign exchange settlement and sales businesses; engage in bank card business; provide letter of credit service and guarantee; perform receipt and payment, insurance business as agent as well as other agency services including funds and sales of precious metals; provide safe deposit box service; wealth management business; bond settlement agency business and the Fixed Deposits Business of Commercial Banks for Cash Management of Central Treasury; other businesses approved by the relevant national regulatory authorities.

II. OPERATIONS IN COMPLIANCE WITH LAWS AND REGULATIONS

During the Reporting Period, the Bank had been operating in compliance with relevant laws and regulations. Its decision-making procedures complied with laws, regulations and the Articles of Association.

III. BUSINESS REVIEW AND OUTLOOK

The business review and financial indicator of the Company during the Reporting Period and its development outlook for the upcoming year are set out in "Section II Corporate Information and Key Financial Highlights" and "Section VI Operation Discussion and Analysis" of this annual report.

IV. EXPOSURE TO MAJOR RISKS

Please refer to "Section VI Operation Discussion and Analysis" for the major risks the Bank had exposed to during the Reporting Period.

V. EARNINGS AND DIVIDENDS

The revenue of the Company during the Reporting Period and the financial position of the Company as at the end of the Reporting Period are set out in the financial statements of this annual report. For details of the dividend, please refer to "Section VII Significant Events".

Taxation applying to dividends on ordinary Shares

In accordance with the Enterprise Income Tax Law of the PRC effective from 1 January 2008 and the related implementation provisions, the Company shall withhold and pay enterprise income tax at the rate of 10% for non-resident enterprise shareholders whose names appear on the H-share register of members at close of business on the H Share record date.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Individual Income Tax After the Annulment of Document Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) 《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通告》(國稅函[2011]348號)) promulgated on 28 June 2011, dividend received by overseas resident individual shareholders from the shares issued by domestic non-foreign invested enterprises in Hong Kong are subject to individual income tax, which shall be withheld and paid by withholding agents according to relevant laws; however, the overseas resident individual shareholders of the shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements between the countries where they reside and China and the tax arrangements between Mainland China and Hong Kong/Macau.

In accordance with the above tax regulations, the Bank shall generally withhold and pay individual income tax at the rate of 10% for individual holders of H Shares of the Bank unless otherwise specified by the relevant tax regulations and tax agreements, in which case the Bank will conduct specific procedures according to the relevant regulatory requirements of tax authorities.

Section XII Report of the Board of Directors

For investors of the Hong Kong Stock Exchange (including enterprises and individuals) investing in the A Shares of the Bank listed on SZSE (the “**Shenzhen Southbound Trading**”), the Bank will distribute the dividends in RMB through the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited to the account of the nominee holding such Shares. The Bank will withhold income taxes at the rate of 10% on behalf of the investors and will report to the competent tax authorities for the withholding. For investors of Shenzhen Southbound Trading involved in the enjoying of tax treaty (arrangement) treatment, the withholding will be implemented in accordance with the Notice of the State Administration of Taxation on Issues about the Administrative Measures for Non-residents to Enjoy the Treatments of Tax Treaties (Notice of the State Administration of Taxation [2015] No. 60) 《國家稅務總局關於發佈〈非居民納稅人享受稅收協議待遇管理辦法〉的公告》(國家稅務總局公告2015年第60號)) and Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets (Cai Shui [2016] No. 127) 《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)).

The record date and the distribution date of cash dividends and other arrangements for the investors of Shenzhen Southbound Trading will be the same as those for the A shareholders of the Bank. Details of the payment of dividends to the A shareholders of the Bank and related matters will be announced in due course.

For investors of the Shanghai Stock Exchange and the SZSE (including enterprises and individuals) investing in the H Shares of the Bank listed on the Hong Kong Stock Exchange (the “**Southbound Trading**”), China Securities Depository and Clearing Corporation Limited, as the nominee holders for the investors of the Southbound Trading, shall receive the cash dividends distributed by the Bank and distribute the cash dividends received from the Bank to the relevant investors of the Southbound Trading through their depository and clearing systems. The cash dividends for the investors of Southbound Trading will be paid in RMB. Pursuant to the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81) 《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) and the Notice of the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Cai Shui [2016] No. 127) 《財政部、國家稅務總局、中國證監會關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)), for dividends received by individual domestic investors from investing in H Shares listed on the Hong Kong Stock Exchange through the Shanghai-Hong Kong stock exchanges connectivity mechanism (the “**Shanghai-Hong Kong Stock Connect**”) and the Shenzhen-Hong Kong stock exchanges connectivity mechanism (the “**Shenzhen-Hong Kong Stock Connect**”), the company of such H Shares shall withhold individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The company of such H Shares will not withhold the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves.

The record date and the distribution date of cash dividends and other arrangements for the investors of Southbound Trading will be the same as those for the H shareholders of the Bank.

The Bank held no liability in respect of any claims arising from any delay in, or inaccurate determination of the identity of the shareholders or any disputes over the mechanism of withholding.

If in any doubt as to the above arrangement, the relevant shareholders of the Bank may consult with their tax consultants on the advices of the tax implications involved in holding and disposing of the relevant shares of the Bank in Mainland China, Hong Kong and other countries (regions).

The Bank will make a separate announcement regarding the dividend payment to A shareholders and any related matters.

VI. ANNUAL GENERAL MEETING OF 2020 AND CLOSURE OF REGISTER OF MEMBERS

The Bank intends to hold the 2020 annual general meeting 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 transfer of H Shares 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 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 Wednesday, 5 May 2021.

VII. DISTRIBUTABLE RESERVES

The details of distributable reserves of the Company during the Reporting Period are set out in the "Consolidated Statement of Changes in Equity" in the annual financial statements of the Company.

VIII. FINANCIAL HIGHLIGHTS

The highlights of the operational results, assets and liabilities of the Company for the five years prior to the end of the Reporting Period are set out in "Section II Corporate Information and Key Financial Highlights" of this annual report.

IX. DONATIONS

The Company made charity and other donations of approximately RMB12.80 million in total during the Reporting Period.

X. ENVIRONMENTAL POLICIES AND PERFORMANCE

The Bank has complied with the applicable environmental laws and regulations of which its business operations are located all the time, and has reviewed and improved the promoted environmental protection measures from time to time to enhance sustainability. For relevant information of the environmental policies and performance of the Bank during the Reporting Period, please refer to the Social Responsibility Report published by the Bank on the CNINFO website and HKEXnews website of the Hong Kong Stock Exchange.

XI. PROPERTY AND EQUIPMENT

The details of the changes in the property and equipment of the Company during the Reporting Period are set out in notes to the financial statements of this annual report.

XII. FIXED ASSETS

The details of the changes in the fixed assets of the Company during the Reporting Period are set out in notes to the financial statements of this annual report.

XIII. ACQUISITIONS, DISPOSAL OF ASSETS DURING THE REPORTING PERIOD

During the Reporting Period, the Bank did not engage in any other material acquisition and disposal of assets.

XIV. RETIREMENT BENEFITS

The retirement benefits provided by the Company to employees include defined contribution plan and defined benefit plan. As for defined contribution plan, forfeited contributions may not be used by the Company to reduce the existing level of contributions. As for defined benefit plan, Towers Watson Management Consulting Co., Ltd. (韜睿惠悅管理諮詢有限公司), a qualified staff (a member of society of Actuaries in America) of an independent actuary, was engaged by the Company to assess the plan and the plan did not have corresponding asset and contribution in 2019. No significant changes incurred during the Reporting Period. For details, please refer to notes to the financial statements of this annual report.

XV. SUBSTANTIAL SHAREHOLDERS

Details of the Bank's substantial shareholders as at the end of the Reporting Period are set out in "Section VIII Changes in Shareholdings and Information on Shareholders" and notes to the financial statements of this annual report.

XVI. PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

XVII. PRE-EMPTIVE RIGHTS

There are no provisions in the relevant PRC laws and the Articles of Association for granting pre-emptive rights to shareholders of the Bank. The Articles of Association provides that, after the resolution made by the general meeting was submitted to and approved by the relevant national regulatory authorities, the Bank may increase its capital by the following ways: public issuance of shares; non-public issuance of shares; placing new shares to existing shareholders; distributing new shares to existing shareholders; performing capital conversion from capital reserve; any other ways permitted by laws, administrative regulations and relevant national regulatory authorities.

XVIII. EMPLOYEES AND MAJOR CUSTOMER

Please refer to "Section X Directors, Supervisors, Senior Management and Employees" and the Social Responsibility Report published by the Bank on the website of the SZSE, HKEXnews website of the Hong Kong Stock Exchange, and the website of the Bank for details of employees and employment policies of the Bank.

During the Reporting Period, the operating income from the top five largest customers of the Company did not exceed 30% of the total operating income of the Company.

XIX. ISSUANCE OF DEBENTURE

During the Reporting Period, the Bank did not issue any securities in the nature of debenture.

XX. EQUITY-LINKED AGREEMENT

During the Reporting Period, the Bank did not enter into or renew any other equity-linked agreement.

XXI. USE OF RAISED FUNDS

Please refer to "Section VI Operation Discussion and Analysis" for details of the use of raised funds of the Bank.

XXII. UNDERTAKINGS REGARDING THE LISTING OF H SHARES

Please refer to "Section VII Significant Events" for the undertakings regarding the listing of H Shares of the Bank.

XXIII. SHARE CAPITAL

During the Reporting Period, there was no change in the share capital of the Bank.

XXIV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please refer to "Section X Directors, Supervisors, Senior Management and Employees" of this report for details.

XXV.CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Bank has received from each of its independent non-executive Directors the confirmation of his/her independence, and is of the view that all of its independent non-executive Directors are independent pursuant to the independence guidelines set out in Rule 3.13 of the Hong Kong Listing Rules.

XXVI.INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN SHARES AND UNDERLYING SHARES OF THE BANK

In so far as the Directors, Supervisors and chief executives of the Bank are aware, as at the end of the Reporting Period, the Directors, Supervisors and chief executives who had interests or short positions in the issued share capital, debentures or equity derivatives of the Bank which are required to be recorded in the register referred to in section 352 of the SFO, or interests or short positions which are required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code, are as follows:

Name of Director/ Supervisor/chief executive	Type of shares	Capacity	Number of shares held	Percentage of the total number of ordinary shares ^{Note}	Percentage of the total number of A Shares ^{Note}	Long position/ short position
GUO Shaoquan	A Shares	Beneficial owner	500,000	0.01%	0.02%	Long position
TAN Lixia	A Shares	Beneficial owner	375	0.00001%	0.00001%	Long position
WANG Lin	A Shares	Beneficial owner	500,000	0.01%	0.02%	Long position
YANG Fengjiang	A Shares	Beneficial owner	500,000	0.01%	0.02%	Long position
LU Lan	A Shares	Beneficial owner	380,000	0.01%	0.01%	Long position
MENG Xianzheng	A Shares	Beneficial owner	370,301	0.01%	0.01%	Long position

Note: The aforementioned percentages are calculated according to the total number of shares of 4,509,690,000 shares and the total number of A Shares of 2,746,655,020 shares at the end of the Bank's Reporting Period.

Apart from the above, in so far as the Directors, Supervisors and chief executives of the Bank are aware, as at the end of the Reporting Period, no one had any interests or short positions in the shares, debentures or equity derivatives of the Bank which are required to be recorded in the register referred to in section 352 of the SFO, or interests or short positions which are required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

XXVII.FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There are no relationships between each of the Directors, Supervisors and senior management of the Bank, including financial, business and family relationships.

XXVIII.ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the Reporting Period was the Bank a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

XXIX.DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE AND SERVICE CONTRACTS

Save for the continuing connected transactions which are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules at the end of the Reporting Period and at any time during the year, none of the Directors or Supervisors of the Bank or any entity connected with the Directors or Supervisors had any interest, whether directly or indirectly, in any transaction, arrangement or contract of significance (excluding service contracts) in relation to the Bank's business to which the Bank is a party. None of the Directors or Supervisors have entered into any service contracts with the Bank, under which the Bank should pay compensation (other than statutory compensation) if the Bank terminates the contracts within one year.

XXX. PERMITTED INDEMNITY PROVISIONS AND INSURANCE FOR DIRECTORS

During the Reporting Period, the Bank bought effective liability insurance for all of the Directors in respect of legal actions against Directors arising from corporate events.

XXXI.MANAGEMENT CONTRACTS

During the Reporting Period, the Bank did not enter into any management contract.

XXXII. DIRECTORS AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors and Supervisors has any interest in a business that competes directly or indirectly, or is likely to compete with the business of the Bank.

XXXIII.CORPORATE GOVERNANCE

Details are set out in "Section XI Corporate Governance" in this report.

XXXIV. CONNECTED TRANSACTIONS

Transactions between the Bank and the Bank's connected persons (as defined under the Hong Kong Listing Rules) constitute connected transactions of the Bank under Chapter 14A of the Hong Kong Listing Rules. The Bank provides commercial banking services and products to customers, including connected persons of the Bank (such as Directors, Supervisors, president of the Bank and/or their respective associates) in its daily and normal business. Such connected transactions are entered into during the course of the Bank's daily and normal business in accordance with normal commercial terms (or more privileged commercial terms to the Bank). Such connected transactions can be fully exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Hong Kong Listing Rules. The Bank has reviewed all of its connected transactions and confirmed that it had complied with the requirements under Chapter 14A of the Hong Kong Listing Rules.

The definition of connected persons under Chapter 14A of the Hong Kong Listing Rules is different from the definition of related parties under International Accounting Standard 24, "Related Party Disclosures", and its interpretations by the International Accounting Standards Board. Certain related party transactions set out in the notes of the financial statements also constitute connected transactions or continuing connected transactions as defined under the Hong Kong Listing Rules, but none constitutes a discloseable connected transaction as required under the Hong Kong Listing Rules.

XXXV. REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For details, please refer to "Section X Directors, Supervisors, Senior Management and Employees" in this report.

XXXVI. PUBLIC FLOAT

Based on the public information available to the Bank and to the knowledge of the Directors, as at the end of the Reporting Period, the Bank has maintained sufficient public float as required by the Hong Kong Stock Exchange. As at the date of this annual report, the public float of the Bank's A Shares and H Shares was 49.69%.

XXXVII. AUDITORS

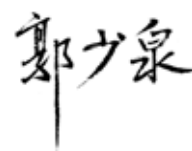
During the Reporting Period, the domestic and overseas auditors of the Bank were KPMG Huazhen LLP and KPMG respectively. KPMG Huazhen LLP and KPMG audited the annual financial statements for the year prepared by the Company in accordance with Accounting Standards for Business Enterprises and IFRSs respectively, and issued unqualified audit reports.

XXXVIII. SUBSEQUENT EVENTS

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.

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.

By Order of the Board of Directors



GUO Shaoquan
Chairman

Section XIII Report of the Board of Supervisors

During the Reporting Period, the Board of Supervisors earnestly carried out effective supervision on areas including the performance of duties by the Board of Directors, the senior management of the Bank and their members, the financial activities, internal control and risk management and in accordance with the duties conferred by the laws and regulations such as the Company Law and the Articles of Association of the Bank, and the Board of Supervisors has no objection to the supervision during the Reporting Period.

I. COMPLIANT OPERATIONS OF THE COMPANY

During the Reporting Period, the business operations of the Bank complied with the requirements of the Company Law, the Commercial Bank Law and the Articles of Association, and the decision-making procedures were legitimate and valid. The Directors and senior management of the Bank carried out their duties diligently in the course of business operation and management. None of them was found to have contravened any laws or regulations or the Articles of Association of the Bank or to have committed any acts detrimental to the interests of the Bank and its shareholders.

II. AUTHENTICITY OF FINANCIAL REPORT

KPMG Huazhen LLP and KPMG audited the 2020 annual financial statements prepared by the Company in accordance with Accounting Standards for Business Enterprises and IFRSs respectively, and issued unqualified audit reports. The financial report has truly and completely reflected the financial position and operating results of the Bank as at 31 December 2020.

III. INFORMATION DISCLOSURE

During the Reporting Period, the Board of Supervisors believed that the Bank has established a comprehensive information disclosure management system, and did not discover any non-compliance of information disclosure laws and regulations by the Bank.

IV. ACQUISITION AND DISPOSAL OF ASSETS

During the Reporting Period, the Board of Supervisors did not find any insider trading or any acts detrimental to the interests of shareholders or leading to a drain on the assets in acquisition or disposal of assets.

V. RELATED PARTY TRANSACTIONS

For related party transactions conducted in the Reporting Period, the Board of Supervisors did not find any acts in violation of the principles of fairness or detrimental to the interests of the Bank and its shareholders.

VI. IMPLEMENTATION OF RESOLUTIONS OF THE SHAREHOLDERS' GENERAL MEETING

The Board of Supervisors had no objection to the reports and proposals submitted by the Board of Directors to the shareholders' general meeting of the Bank in 2020; supervised the implementation of the resolutions of the shareholders' general meeting, and considered that the Board of Directors had conscientiously implemented the relevant resolutions of the shareholders' general meeting.

VII. INTERNAL CONTROL

The Board of Supervisors reviewed the 2020 Annual Internal Control Evaluation Report of Bank of Qingdao Co., Ltd. and had no objection to the contents of the report. During the Reporting Period, there was no material deficiency in the integrity, rationality, effectiveness and implementation of the Bank's internal control mechanisms and systems were found.

By Order of the Board of Supervisors



YANG Fengjiang
Chief Supervisor

Section XIV 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 168 to 285, 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.

Section XIV Independent Auditor's Report (continued)

To the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

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

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.

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.

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.
- 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.

Section XIV Independent Auditor's Report (continued)

To the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

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.
- 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.

Section XIV Independent Auditor's Report (continued)

To the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

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

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

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

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

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

How the matter was addressed in our audit

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

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

Section XIV Independent Auditor's Report (continued)

To the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

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.

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

How the matter was addressed in our audit

Our audit procedures to assess the 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.
 - 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.

Section XIV Independent Auditor's Report (continued)

To the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

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.

Section XIV Independent Auditor's Report (continued)

To the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

- 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

Section XV Financial Statements and Notes

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 175 to 285 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 175 to 285 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 175 to 285 form part of these financial statements.

Consolidated statement of financial position (continued)

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

	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
Legal Representative
(Chairman)

Wang Lin
President

Meng Dageng
Head of the Planning &
Finance Department

(Company Stamp)

The notes on pages 175 to 285 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)

Note	Attributable to equity shareholders of the Bank								Non-controlling interests	Total equity
	Share capital	Other equity instrument	Capital reserve Note 39(1)	Surplus reserve Note 39(2)	General reserve Note 39(3)	Other comprehensive income Note 39(4)	Retained earnings	Total		
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

For the year ended 31 December 2019 (Expressed in thousands of Renminbi, unless otherwise stated)

Note	Attributable to equity shareholders of the Bank								Non-controlling interests	Total equity
	Share capital	Other equity instrument	Capital reserve Note 39(1)	Surplus reserve Note 39(2)	General reserve Note 39(3)	Other comprehensive income Note 39(4)	Retained earnings	Total		
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 175 to 285 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
<i>Adjustments for:</i>		
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)
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)

The notes on pages 175 to 285 form part of these financial statements.

Consolidated statement of cash flows (continued)

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

	Note	2020	2019
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 investing activities		(30,371,279)	9,815,646
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 175 to 285 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).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

– *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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Securitisation

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

Sales of assets on condition of repurchase

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

(vii) Derivative financial instruments

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(viii) Equity instrument

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

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

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

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

(ix) Preference share

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

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

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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
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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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

Name	Year ended 31 December 2020					
	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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

	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 to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

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 Chief Supervisor. 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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

14 CASH AND DEPOSITS WITH CENTRAL BANK (continued)

- (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)

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(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	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	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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(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	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	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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

- (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:

Investees	2020					
	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Percentage of shareholding in investees (%)	Cash dividend for the year
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

Investees	2019					
	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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

(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				
– 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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST (continued)

	2019			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit- impaired	
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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 LONG-TERM RECEIVABLES (continued)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

27 DEFERRED INCOME TAX ASSETS (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 OTHER ASSETS (continued)

(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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 DEBT SECURITIES ISSUED (continued)

- (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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 OTHER LIABILITIES (continued)

(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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 PREFERENCE SHARES (continued)

(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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 PREFERENCE SHARES (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RESERVES (continued)

(4) Other comprehensive income

Item	2020					Balance at the end of the year
	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	
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	2019					Balance at the end of the year
	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	
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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RESERVES (continued)

(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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

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

Major shareholders' information

Company name	Number of ordinary shares of the Bank held by the Company (in thousands)	Proportion of ordinary shares of the Bank held by the Company		Registered location	Business	Legal form	Legal representative
		31 December 2020	31 December 2019				
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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(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%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

	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(iii))	—	—	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 to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 SEGMENT REPORTING (continued)

	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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 SEGMENT REPORTING (continued)

	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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(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%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(g) Analysis on the credit quality of financial instruments

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

The Group

Financial assets measured at amortised cost	31 December 2020							
	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)

Financial assets measured at FVOCI	31 December 2020							
	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	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)

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

	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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

	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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(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							Total
	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	
Assets								
Cash and deposits with central bank	22,076,437	25,142,960	–	–	–	–	–	47,219,397
Deposits with banks and other financial institutions	–	2,568,919	–	–	–	–	–	2,568,919
Financial assets held under resale agreements	–	–	9,726,476	–	–	–	–	9,726,476
Loans and advances to customers	980,712	160,477	10,215,835	11,268,647	50,329,217	70,898,797	58,504,799	202,358,484
Financial investments (Note (i))	392,299	24,783	18,884,477	6,965,259	23,642,091	61,915,282	66,411,818	178,236,009
Long-term receivables	55,128	22,186	437,613	1,161,694	3,688,618	5,635,939	–	11,001,178
Others	6,965,783	154	20,381	2,592	72,763	446,753	1,208,716	8,717,142
Total assets	30,470,359	27,919,479	39,284,782	19,398,192	77,732,689	138,896,771	126,125,333	459,827,605
Liabilities								
Borrowings from central bank	–	–	758,662	2,671,429	7,776,978	–	–	11,207,069
Deposits from banks and other financial institutions	–	7,847,471	2,220,299	1,963,637	4,993,325	–	–	17,024,732
Placements from banks and other financial institutions	–	–	2,872,838	3,270,838	6,803,899	–	–	12,947,575
Financial assets sold under repurchase agreements	–	–	32,599,411	499,938	–	–	–	33,099,349
Deposits from customers	–	135,345,742	16,521,262	18,015,568	45,682,640	59,986,805	198,693	275,750,710
Debt securities issued	–	–	3,012,339	11,868,597	36,965,885	15,992,125	4,995,562	72,834,508
Others	116,849	307,271	1,964,668	153,995	831,206	1,960,036	722,779	6,056,804
Total liabilities	116,849	143,500,484	59,949,479	38,444,002	103,053,933	77,938,966	5,917,034	428,920,747
Net position	30,353,510	(115,581,005)	(20,664,697)	(19,045,810)	(25,321,244)	60,957,805	120,208,299	30,906,858

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

	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”.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

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%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

(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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

	31 December 2019			
	Level 1	Level 2	Level 3	Total
	Note (i)	Note (i)	Note (i) ~ (ii)	
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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

(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		Purchases, issues, disposals and settlements			As at 31 December 2020
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
Financial investments measured at FVTPL									
– Asset management plans	9,240,047	–	–	249,550	–	6,145,739	–	(5,636,542)	9,998,794
– Wealth management products	1,033,973	–	–	6,727	–	–	–	(1,040,700)	–
– Trust fund plans	2,829,424	–	–	(52,983)	–	2,000,000	–	(2,771,652)	2,004,789
– Investment funds	50,258	–	–	2,321	–	–	–	(2,189)	50,390
Derivative financial assets	5,588	–	–	(4,593)	–	–	–	–	995
Financial investments measured at FVOCI									
– Other investments	732,842	–	–	41,835	(2,143)	–	–	(42,000)	730,534
– Equity investments	23,250	–	–	–	–	–	–	–	23,250
Loans and advances to customers measured at FVOCI	6,249,822	–	–	(219,328)	11,679	30,832,820	–	(29,659,834)	7,215,159
Total financial assets	20,165,204	–	–	23,529	9,536	38,978,559	–	(39,152,917)	20,023,911
Derivative financial liabilities	2,015	–	–	(289)	–	–	–	–	1,726
Total financial liabilities	2,015	–	–	(289)	–	–	–	–	1,726

	As at 1 January 2019	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year		Purchases, issues, disposals and settlements			As at 31 December 2019
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

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	–

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 COMMITMENTS AND CONTINGENCIES (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

47 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (continued)

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

48 TRANSFERRED FINANCIAL ASSETS (continued)

(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).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (continued)

	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)

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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的肺炎疫情的通知》" 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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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.

Section XVI 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.

Section XVI Unaudited supplementary financial information (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

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)

Section XVI Unaudited supplementary financial information (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

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%

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