

BQD
青島銀行

2021 Interim Report

Bank of Qingdao Co., Ltd.
青島銀行股份有限公司

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

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

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 interim 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 interim report.
2. The proposal on the 2021 half-yearly report of Bank of Qingdao Co., Ltd., its summary and results announcement was considered and approved at the 4th meeting of the eighth session of the Board of Directors of the Bank held on 30 August 2021. There were 15 Directors eligible for attending the meeting, and 15 Directors actually attended the meeting.
3. The Bank's chairman Mr. GUO Shaoquan, president Mr. WANG Lin and chief financial officer Mr. MENG Dageng assure the authenticity, accuracy and completeness of the financial reports in this interim report.
4. The financial report of the Company during the first half of 2021 prepared in accordance with the PRC Accounting Standards for Business Enterprises and the International Financial Reporting Standards have been reviewed by KPMG Huazhen LLP and KPMG in accordance with the PRC and International Standards on Review Engagements respectively.
5. No cash dividend distribution of ordinary shares, no distribution of bonus shares and no increase in share capital with provident fund were planned by the Bank in the interim period of 2021.
6. Unless otherwise specified, the currency of the amounts mentioned in this interim report is RMB.
7. This report contains certain forward-looking statements about the financial conditions, operating results and business development of the Company. The report uses the words "will", "may", "strive", "plan", "hope", "endeavor", "expect", "aim" and similar wording 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 cultivate the adequate risk awareness in this regard, understand the differences between plans, forecasts and commitments, and 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 interim 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 III Management Discussion and Analysis".
9. Documents Available for Inspection
 - (1) Financial statements bearing signatures and seals of Mr. GUO Shaoquan (the chairman of the Bank), Mr. WANG Lin (the president of the Bank) and Mr. MENG Dageng (the chief financial officer of the Bank);
 - (2) Originals of all the Company's documents and originals of announcements, which have been disclosed on the newspapers designated by the CSRC during the Reporting Period;
 - (3) The results announcement published on the website of the Hong Kong Stock Exchange.

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DEFINITIONS

Term	Definition
Company	Bank of Qingdao Co., Ltd. and its subsidiaries and branches
Bank	Bank of Qingdao Co., Ltd. and its branches
A Share(s)	shares issued in China, listed on a domestic stock exchange and subscribed for and traded in RMB
H Share(s)	shares issued outside China, listed on the Hong Kong Stock Exchange and subscribed for and traded in foreign currencies
CBIRC	China Banking and Insurance Regulatory Commission
CSRC	China Securities Regulatory Commission
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
SZSE	the Shenzhen Stock Exchange
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 2021 to 30 June 2021 (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
PRC	the People's Republic of China
Hong Kong	the Hong Kong Special Administrative Region of the PRC
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).
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	Shenzhen Stock Exchange		
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

SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

III. OTHER INFORMATION

(I) Contact information of the Bank

The Bank's registered address, office address and corresponding postal code, the Bank's website and email address remained unchanged during the Reporting Period. Please refer to 2020 Annual Report for details.

(II) Information disclosure and place of inspection

The newspapers designated by the Bank for information disclosure, the websites designated by the CSRC where the half-yearly report is posted, and the place of inspection for half-yearly report of the Bank remain unchanged during the Reporting Period. Please refer to 2020 Annual Report for details.

(III) Other relevant information

During the Reporting Period, there were no changes in the Bank's other relevant information.

IV. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS

The financial data and indicators contained in this interim report are prepared in accordance with the IFRSs. Unless otherwise specified, all amounts are consolidated data of the Company.

Item	January to June 2021	January to June 2020	Year-on-year change
Business performance (RMB' 000)			Change (%)
Net interest income ⁽¹⁾	3,908,157	3,991,212	(2.08)
Net non-interest income ⁽¹⁾	1,418,893	2,112,927	(32.85)
Operating income	5,327,050	6,104,139	(12.73)
Operating expenses	(1,536,404)	(1,456,874)	5.46
Credit impairment losses	(1,650,058)	(2,787,723)	(40.81)
Profit before taxation	2,140,588	1,859,542	15.11
Net profit	1,832,972	1,564,491	17.16
Net profit attributable to shareholders of the Bank	1,797,590	1,530,517	17.45
Per share (RMB/share)			Change (%)
Basic earnings per share ⁽²⁾	0.40	0.34	17.65
Diluted earnings per share ⁽²⁾	0.40	0.34	17.65

SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

Item	30 June 2021	31 December 2020	Change from the end of last year
Scale indicators (RMB' 000)			Change (%)
Total assets ⁽³⁾	501,637,206	459,827,605	9.09
Loans and advances to customers:			
Total loans to customers ⁽³⁾	234,915,965	206,747,221	13.62
Add: Accrued interest	800,878	899,064	(10.92)
Less: Provision for impairment on loans and advances to customers measured at amortized cost	(6,085,423)	(5,287,801)	15.08
Loans and advances to customers	229,631,420	202,358,484	13.48
Provision for loan impairment	(6,101,007)	(5,302,582)	15.06
Of which: Impairment provision for loans and advances to customers at fair value through other comprehensive income	(15,584)	(14,781)	5.43
Total liabilities ⁽³⁾	469,347,081	428,920,747	9.43
Deposits from customers:			
Total deposits from customers ⁽³⁾	295,610,962	272,231,484	8.59
Add: Accrued interest	3,696,667	3,519,226	5.04
Deposits from customers	299,307,629	275,750,710	8.54
Share capital	4,509,690	4,509,690	–
Equity attributable to shareholders of the Bank	31,633,059	30,285,174	4.45
Equity attributable to shareholders	32,290,125	30,906,858	4.48
Net capital base	45,488,628	37,806,580	20.32
Of which: Net core tier-one capital	23,724,687	22,384,998	5.98
Other tier-one capital	7,904,970	7,909,292	(0.05)
Tier-two capital	13,858,971	7,512,290	84.48
Total risk-weighted assets	286,145,148	267,941,143	6.79
Per share (RMB/share)			Change (%)
Net assets per share attributable to ordinary shareholders of the Bank ⁽⁴⁾	5.27	4.97	6.04

SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

Item	January to June 2021	January to June 2020	Year-on-year change
Profitability indicators (%)			Change
Return on average total asset ⁽⁵⁾ (annualized)	0.76	0.77	(0.01)
Weighted average return on net assets ⁽²⁾ (annualized)	15.38	13.56	1.82
Net interest spread ⁽⁶⁾ (annualized)	1.96	2.15	(0.19)
Net interest margin ⁽⁷⁾ (annualized)	1.90	2.18	(0.28)
Net fee and commission income to operating income ⁽¹⁾	14.46	17.10	(2.64)
Cost-to-income ratio ⁽⁸⁾	27.51	22.72	4.79

Item	30 June 2021	31 December 2020	Change from the end of last year
Asset quality indicators (%)			Change
Non-performing loan ratio	1.49	1.51	(0.02)
Provision coverage ratio	174.53	169.62	4.91
Loan provision ratio	2.60	2.56	0.04
Indicators of capital adequacy ratio (%)			Change
Core tier-one capital adequacy ratio ⁽⁹⁾	8.29	8.35	(0.06)
Tier-one capital adequacy ratio ⁽⁹⁾	11.05	11.31	(0.26)
Capital adequacy ratio ⁽⁹⁾	15.90	14.11	1.79
Total equity to total assets ratio	6.44	6.72	(0.28)
Other indicators (%)			Change
Liquidity coverage ratio	179.39	152.42	26.97
Liquidity ratio	73.80	65.44	8.36

SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

Notes:

- (1) 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) (《關於嚴格執行企業會計準則切實加強企業2020年年報工作的通知》(財會[2021]2號))(the “**Caikuai [2021] No. 2 Document**”) issued by the Ministry of Finance of the PRC, CSRC, State-owned Assets Supervision and Administration Commission of the State Council, and CBIRC in January 2021, the Company reclassified the instalment income of credit cards for the corresponding period in 2020 from fee and commission income to interest income.
- (2) Earnings per share and weighted average return on net assets were calculated in accordance with the “Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Computation and Disclosure of Return on Net Assets and Earnings per Share” (2010 Revision) (《公開發行證券的公司信息披露編報規則第9號－淨資產收益率和每股收益的計算及披露》(2010年修訂)). The Bank issued offshore preference shares in September 2017. Therefore, in calculating weighted average return on net assets, the effect from preference shares has been deducted from the “weighted average net assets”.
- (3) For details of the structure of total assets, total liabilities, total loans to customers and total deposits from customers, please refer to “5. Analysis of Major Items of the Statement of Financial Position in Section III Management Discussion and Analysis” of this interim report.
- (4) Net assets per share attributable to ordinary shareholders of the Bank = (equity attributable to shareholders of the Bank – other equity instruments)/the number of ordinary shares as at the end of the period.
- (5) Return on average total assets = net profit/average balance of total assets at the beginning and at the end of the period.
- (6) Net interest spread = average yield of interest-earning assets – average cost rate of interest-bearing liabilities.
- (7) Net interest margin = net interest income/average interest-earning assets.
- (8) Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income.
- (9) The relevant indicators of capital adequacy ratio were calculated in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and other relevant regulatory regulations.

SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

V. ACCOUNTING DATA DIFFERENCE UNDER DOMESTIC AND FOREIGN ACCOUNTING STANDARDS

The net profit attributable to shareholders of the Bank for the Reporting Period and the equity attributable to the shareholders of the Bank 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.

VI. SUPPLEMENTARY INDICATORS

	30 June 2021	31 December 2020	31 December 2019
Migration rate (%)			
Normal loan migration rate	0.57	0.88	1.29
Special mention loan migration rate	36.22	31.07	52.47
Substandard loan migration rate	3.78	74.64	88.01
Doubtful loan migration rate	3.10	21.91	10.91

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

I. THE BANK'S PRINCIPAL BUSINESS DURING THE REPORTING PERIOD

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 strong customer base and shaped a 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. As at the end of the Reporting Period, there were 15 branches and 156 branch offices in major cities of Shandong Province such as Jinan, Yantai and Weihai. 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, total assets of the Company amounted to RMB501.637 billion, total liabilities amounted to RMB469.347 billion, capital adequacy ratio was 15.90%, and non-performing loan ratio was 1.49%, down by 0.02 percentage point as compared with that at the end of the previous year. During the Reporting Period, the accumulated net profit was RMB1.833 billion, representing an increase of 17.16% over the same period of last year.

II. ANALYSIS OF THE CORE COMPETITIVENESS

Centering on the development vision of “Innovative Finance, Brilliant Banking”, the Bank is firmly committed to the strategic goal of “being a technology-driven bank that offers new quality financial products with lean management and outstanding features”, and its sustainable development capacity is constantly enhanced. The Bank's core competitiveness is mainly reflected in:

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 legal entities 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.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

- 2. The dual-improvement strategy was implemented steadily and the management improvement was achieved in essence.** While introducing a dual-improvement plan for operation and management within the organization to foster business development, the Bank vigorously explored and launched a series of management reforms featuring technology-empowered development, business approval transformation, and operational management optimization. In order to enhance customer experience, the Bank achieved high-quality development of business management by optimizing system processes and increasing service efficiency.
- 3. A new model of service experience 3.0 was created so as to enhance customer service value.** The Bank's service strategy of focusing on high-quality services forms its core competitiveness targets at offering an experience and process-oriented service experience, with "more interaction, well-established procedures and strong experience". Based on "data analysis, enhanced intelligence and improved management", it further optimized and adjusted its guiding principle towards service management, effectively strengthened the customer experience by making overall planning and coordination, taking the lead in implementation, clarifying responsibilities, and forming a joint force, consolidated the ability of "acquiring customers + activating customers" in the service value stage by expanding the connotation and extension of financial services, and expanded services value boundary by creating a new service experience 3.0 model.
- 4. The quality and efficiency of the group's risk management was improved in order to establish a reliable risk management system.** Firmly sticking to the "prudent and steady" risk appetite, and centering around a group-based development pattern characteristic of "one body and two wings", the Bank adopted centralized credit management on a group level, and proceeded with the construction of a multi-level centralized credit granting system and a large amount risk exposure system covering all customers, all assets, and the entire organization. In light of the macro policies, the Bank established new development concepts, and continued to optimize the allocation of credit resources. It increased the technological empowerment in risk management, improved the risk management working mechanism and risk appetite management mechanism, and enhanced the effectiveness of risk management and the quality and effectiveness of serving the real economy. With proactive risk management thinking and professional risk management model, the Bank has ensured stable and sound asset quality. The non-performing loan ratio continued to be lower than the average in the country and Shandong, demonstrating strong risk resistance capability.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

5. **Digital transformation was accelerated and independent innovation capabilities was strengthened.** The Bank fully implemented the strategy of technological innovation. Upholding the new financial concept of “finance + technology + scenario”, it made more efforts in recruiting digitalization talents and the training inter-disciplinary talents, and accelerated the application of emerging technologies such as the big data, artificial intelligence, cloud computing, 5G and biometrics, etc., continued to strengthen business innovation, deepened the value transformation of technology in terms of risk control, operation, process and system, etc., strengthened technology-empowered business management capabilities, and paced up digital transformation.

3. SUMMARY OF OVERALL OPERATIONS

3.1 Status of Key Operational Indicators Achievements

- (1) Total assets amounted to RMB501.637 billion, representing an increase of RMB41.810 billion or 9.09% as compared with that at the end of the previous year;
- (2) Total loans to customers amounted to RMB234.916 billion, representing an increase of RMB28.169 billion or 13.62% as compared with that at the end of the previous year;
- (3) Total deposits from customers amounted to RMB295.611 billion, representing an increase of RMB23.379 billion or 8.59% as compared with that at the end of the previous year, among them, personal deposits exceeded RMB100 billion;
- (4) Net profit amounted to RMB1.833 billion, representing a year-on-year increase of RMB268 million or 17.16%; net profit attributable to shareholders of the parent company amounted to RMB1.798 billion, representing a year-on-year increase of RMB267 million or 17.45%;
- (5) Non-performing loan ratio was 1.49%, representing a decrease of 0.02 percentage point as compared with that at the end of the previous year; provision coverage ratio was 174.53%, representing an increase of 4.91 percentage points as compared with that at the end of the previous year; capital adequacy ratio was 15.90%, representing an increase of 1.79 percentage points as compared with that at the end of the previous year;
- (6) Return on average total assets was 0.76%, representing a year-on-year decrease of 0.01 percentage point;
- (7) Basic earnings per share was RMB0.40, representing a year-on-year increase of RMB0.06; weighted average return on net assets was 15.38%, representing a year-on-year increase of 1.82 percentage points.

3.2 Major Tasks of Operation and Management

- (1) The scale of operation reached a new level, and the group synergy was increased. During the Reporting Period, the Company achieved the milestone development goal of total assets reaching RMB500 billion, suggesting that the Company has stepped up to a new level in terms of business scale, officially becoming one mid-sized bank, and started a new stage of development. During the Reporting Period, the Company actively explored group management and operation. The coordinated business development between the parent bank and its subsidiaries has produced positive results. BQD Financial Leasing was gradually shifting the focus of its business to Shandong Province, and strengthened business coordination relying on the resources of the parent bank; Qingyin Wealth Management gave full play to its deposit derivation and pooling functions. As at the end of the Reporting Period, the balance of wealth management products increased by 26.26% as compared with the beginning of the year.
- (2) The Company has initially established a centralized credit system and further improved its management in essence. In 2021, the Company will improve its management in practice and in essence. During the Reporting Period, the Company further strengthened the guidance of credit policies by conducting centralized approval of on-balance sheet and off-balance sheet credit business; and initially formed a risk management system featuring “centralized approval and unified credit approval” by promoting the unified credit management of group customers through system transformation. The operation lines commenced the construction of corporate account management upgrades and the pilot “reduction of high cubes (減高櫃)”. The Company completed optimization of 95 system processes, and continued to improve business processing efficiency and customer experience.
- (3) Digital transformation was accelerated, and independent innovation capabilities was strengthened. During the Reporting Period, the Company continued to strengthen the application of technology and accelerate digital transformation. The online loan approval system named “Xingyun Intelligent” (星雲智慧) credit platform, and the Internet personal loan product named “Easy loans for marine financing (海融易貸)” were successfully launched, and full-process digital processing of domestic letter of credit and other businesses were made available; the business scope of the online supply chain financial product named “Qingyin e-chain” (青銀e鏈) was expanded. The Bank obtained independent intellectual property rights for the “Eagle Eye 360 Intelligent Risk Monitoring Platform” (鷹眼360智能風控平台) and outpaced its peers in shifting to digital operations. The Company continued to expand its credit card scenario-based application by launching the “boundless credit card” and remote interview functions to break geographical restrictions and improve business processing efficiency.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

- (4) The retail strategy achieved remarkable results. Offering services to the countryside and the community has accumulated business. As at the end of the Reporting Period, the Company's retail deposit increased by RMB12.251 billion as compared with the end of the previous year, and its balance was more than RMB100 billion; the assets retained by retail customers in the Bank increased by RMB30.143 billion as compared with the end of the previous year due to sustained rapid growth; financial management business recorded IB service income of RMB127 million, representing a year-on-year increase of 16.52%; cumulative number of credit cards issued reached 2,415.6 thousand, representing a year-on-year increase of 35.42%. The rural banking business was upgraded from quantitative change to qualitative change. As at the end of the Reporting Period, there are 1,759 signatory outlets, and the balance of rural-aiding deposits amounted to RMB2.822 billion. As to the community finance, we created a new model of "Volunteer Service PLUS" and built the "Happy Neighborhood (幸福鄰里)" brand. Five community branches commenced operation. User experience has been enhanced with "friendliness, accessibility, and professionalism" and service experience management 3.0 has been launched.
- (5) Both the quantity and quality of the wholesale customer base were increased thanks to the coordinated empowering of the financial market. During the Reporting Period, the Bank comprehensively proceeded with the "Six Generals (六總)" business model for strategic customers, further developed customer base in line with the "dual-base strategy", and saw growth of the percentage of newly acquired customers and the percentage of newly active acquired customers. As at the end of the Reporting Period, the channels for obtaining customers were expanded for inclusive business, and the Bank's outstanding loans for inclusive finance amounted to RMB21.066 billion, which more than satisfied the assessment requirements for "increases in both".
- (6) The financial market business continued its transformation, and its comprehensive contribution continued to increase. During the Reporting Period, the Bank issued Tier-2 capital bonds of RMB6 billion, which effectively consolidated our capital base and enhanced our business development potential. The Bank's capability to generate gains from investment continued to improve, and the settled Interbank bonds amounted to RMB5.13 trillion, maintaining active transactions on the market; the amount of medium and long-term debt financing instruments underwritten by the Bank amounted to RMB7.975 billion, accounting for 9.81% of the market, and ranking first in Shandong Province; obtained the qualification for the inter-bank gold inquiry service of Shanghai Gold Exchange and the "Northbound" service qualification of Bond Connect, and continued to diversify its business qualifications.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4. ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF PROFIT OR LOSS

4.1 Financial Performance Summary

During the Reporting Period, the Company's profit before tax amounted to RMB2.141 billion, representing a year-on-year increase of RMB281 million or 15.11%; net profit amounted to RMB1.833 billion, representing a year-on-year increase of RMB268 million or 17.16%; effective income tax rate was 14.37%, representing a year-on-year decrease of 1.50 percentage points, which was mainly due to the increase in tax-free income from the Company's central government bonds and local government bonds. The following table sets forth the changes in the Company's major profit items during the periods indicated.

Unit: RMB'000

Item	January to June 2021	January to June 2020	Change in amount	Change (%)
Net interest income	3,908,157	3,991,212	(83,055)	(2.08)
Net fee and commission income	770,325	1,044,052	(273,727)	(26.22)
Net trading gains, net gains arising from investments and other net operating income	648,568	1,068,875	(420,307)	(39.32)
Operating expenses	(1,536,404)	(1,456,874)	(79,530)	5.46
Credit impairment losses	(1,650,058)	(2,787,723)	1,137,665	(40.81)
Profit before tax	2,140,588	1,859,542	281,046	15.11
Income tax	(307,616)	(295,051)	(12,565)	4.26
Net profit	1,832,972	1,564,491	268,481	17.16
Of which: Net profit attributable to shareholders of the parent	1,797,590	1,530,517	267,073	17.45
Net profit attributable to non-controlling interests	35,382	33,974	1,408	4.14

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4.2 Operating Income

During the Reporting Period, the Company's operating income amounted to RMB5.327 billion, representing a year-on-year decrease of RMB777 million, or 12.73% mainly due to a drop in net interest margin and a slight drop in net interest income resulting from the Company's increased support to the real economy and reduced fees; a decrease in the total income from investment and gains and losses from fair value change, fee income from wealth management business due to the weak performance of bond market as compared with the same period of last year; reduction of exchange gains and losses from exchange rate fluctuations. Among the operating income, net interest income accounted for 73.36%, representing a year-on-year increase of 7.97 percentage points; net fee and commission income accounted for 14.46%, representing a year-on-year decrease of 2.64 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	January to June 2021		January to June 2020		Percentage changes (percentage point)
	Amount	Percentage (%)	Amount	Percentage (%)	
Net interest income	3,908,157	73.36	3,991,212	65.39	7.97
Interest income	8,881,975	166.73	8,295,162	135.90	30.83
Of which: Interest income from loans and advances to customers	5,613,418	105.38	4,990,383	81.75	23.63
Interest income from financial investments	2,616,902	49.12	2,636,940	43.20	5.92
Interest income from deposits with banks and other financial institutions	12,689	0.24	3,733	0.06	0.18
Interest income from placements with banks and other financial institutions	83	–	74,377	1.22	(1.22)
Interest income from deposits with central bank	191,341	3.59	173,372	2.84	0.75
Interest income from financial assets held under resale agreements	140,753	2.64	105,924	1.74	0.90
Interest income from long-term receivables	306,789	5.76	310,433	5.09	0.67
Interest expense	(4,973,818)	(93.37)	(4,303,950)	(70.51)	(22.86)
Net non-interest income	1,418,893	26.64	2,112,927	34.61	(7.97)
Of which: Net fee and commission income	770,325	14.46	1,044,052	17.10	(2.64)
Other net non-interest income	648,568	12.18	1,068,875	17.51	(5.33)
Operating income	5,327,050	100.00	6,104,139	100.00	–

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4.3 Net interest income

During the Reporting Period, the Company's net interest income amounted to RMB3.908 billion, representing a year-on-year decrease of RMB83 million or 2.08%, primarily due to a decrease in the net interest margin, and a slight drop in net interest income. 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	January to June 2021			January to June 2020		
	Average balance	Interest income/expense	Average yield/cost rate	Average balance	Interest income/expense	Average yield/cost rate
Interest-earning assets						
Loans and advances to customers	218,831,432	5,613,418	5.17%	187,623,101	4,990,383	5.35%
Financial investment	136,311,271	2,616,902	3.87%	125,590,006	2,636,940	4.22%
Deposits and placements with banks and other financial institutions ⁽¹⁾	19,485,557	153,525	1.59%	20,736,264	184,034	1.78%
Deposits with central bank	29,254,150	191,341	1.32%	24,063,776	173,372	1.45%
Long-term receivables	10,615,623	306,789	5.83%	10,789,667	310,433	5.79%
Total	414,498,033	8,881,975	4.32%	368,802,814	8,295,162	4.52%
Interest-bearing liabilities						
Deposits from customers	277,353,506	2,836,680	2.06%	227,844,871	2,290,323	2.02%
Deposits and placements from banks and other financial institutions ⁽²⁾	49,536,339	617,796	2.51%	49,013,154	571,345	2.34%
Debt securities issued	85,839,314	1,376,898	3.23%	82,268,328	1,349,986	3.30%
Borrowings from central bank	13,060,794	142,444	2.20%	6,374,878	92,296	2.91%
Total	425,789,953	4,973,818	2.36%	365,501,231	4,303,950	2.37%
Net interest income	/	3,908,157	/	/	3,991,212	/
Net interest spread	/	/	1.96%	/	/	2.15%
Net interest margin	/	/	1.90%	/	/	2.18%

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

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.

During the Reporting Period, the average balance of interest-earning assets was RMB414.498 billion, representing a year-on-year increase of RMB45.695 billion or 12.39%, mainly due to the Company's business development and the increase in loan size. Net interest spread was 1.96%, representing a year-on-year decrease of 0.19 percentage point, net interest margin was 1.90%, representing a year-on-year decrease of 0.28 percentage point. During the Reporting Period, the Company increased its support to the real economy, leading to reduced fees and concessions, resulting in a decline in loan yields; and in response to the market conditions, and for the intensive use of capital, it appropriately increased low-risk financial investments.

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.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Unit: RMB'000

Item	January to June 2021 vs. January to June 2020		
	Due to volume	Due to rate	Net increase (decrease)
Assets			
Loans and advances to customers	790,508	(167,473)	623,035
Financial investment	197,938	(217,976)	(20,038)
Deposits and placements with banks and other financial institutions	(10,971)	(19,538)	(30,509)
Deposits with central bank	33,482	(15,513)	17,969
Long-term receivables	(5,784)	2,140	(3,644)
Interest income changes	1,005,173	(418,360)	586,813
Liabilities			
Deposits from customers	501,163	45,194	546,357
Deposits and placements from banks and other financial institutions	5,132	41,319	46,451
Debt securities issued	55,469	(28,557)	26,912
Borrowings from central bank	72,593	(22,445)	50,148
Interest expense changes	634,357	35,511	669,868
Net interest income changes	370,816	(453,871)	(83,055)

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4.4 Interest Income

During the Reporting Period, the Company's interest income was RMB8.882 billion, representing a year-on-year increase of RMB587 million or 7.07%, mainly due to the expansion of the Company's assets and the increase in interest income from interest-earning assets. 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

During the Reporting Period, the Company's interest income from loans and advances to customers amounted to RMB5.613 billion, representing a year-on-year increase of RMB623 million or 12.48%, mainly due to the Company's increased credit allocation to the real economy, deepening of risk management and control, adjusting of credit structure, and continued expansion of scale of loan placement. 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	January to June 2021			January to June 2020		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	146,230,658	3,748,150	5.17%	124,338,087	3,317,073	5.36%
Personal loans	59,206,436	1,658,178	5.65%	55,237,222	1,545,390	5.63%
Discounted bills	13,394,338	207,090	3.12%	8,047,792	127,920	3.20%
Total	218,831,432	5,613,418	5.17%	187,623,101	4,990,383	5.35%

Interest income from financial investments

During the Reporting Period, the Company's interest income from financial investments was RMB2.617 billion, representing a year-on-year decrease of RMB20 million or a slight drop of 0.76%, mainly due to the prudent financial investment strategies adopted by the Company, continuous reduction in non-standard assets, and appropriate increase in low-risk investments such as government bonds according to the market conditions, maintaining steady growth of interest income from financial investment.

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

During the Reporting Period, the Company's interest income from deposits and placements with banks and other financial institutions amounted to RMB154 million, representing a year-on-year decrease of RMB31 million or 16.58%, mainly attributable to the Company's change of resource allocation and reduction of placements with banks appropriately according to the interbank market conditions.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4.5 Interest Expense

During the Reporting Period, the Company's interest expense amounted to RMB4.974 billion, representing a year-on-year increase of RMB670 million or 15.56%, mainly due to the rapid growth of interest expense as a result of the Company's expansion of debt scale. Interest expenses on deposits from customers and interest expenses on debt securities issued were major components of the interest expense of the Company.

Interest expense on deposits from customers

During the Reporting Period, the Company's interest expense on deposits from customers was RMB2.837 billion, representing a year-on-year increase of RMB546 million or 23.86%, mainly due to the rapid growth of interest expense on deposits as a result of the Company's expansion of 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	January to June 2021			January to June 2020		
	Average balance	Interest expense	Average cost rate	Average balance	Interest expense	Average cost rate
Corporate deposits						
Demand	102,436,858	461,799	0.91%	82,887,495	340,811	0.83%
Time	81,478,529	1,105,542	2.74%	72,403,656	1,024,929	2.85%
Sub-total	183,915,387	1,567,341	1.72%	155,291,151	1,365,740	1.77%
Personal deposits						
Demand	23,209,948	34,859	0.30%	20,790,952	31,373	0.30%
Time	70,228,171	1,234,480	3.54%	51,762,768	893,210	3.47%
Sub-total	93,438,119	1,269,339	2.74%	72,553,720	924,583	2.56%
Total	277,353,506	2,836,680	2.06%	227,844,871	2,290,323	2.02%

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

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

During the Reporting Period, the Company's interest expense on deposits and placements from banks and other financial institutions amounted to RMB618 million, representing a year-on-year increase of RMB46 million or 8.13%, mainly due to the increases in interest expense on deposits and placements from banks and other financial institutions as a result of the rising repo interest rates on the money market.

Interest expense on debt securities issued

During the Reporting Period, the Company's interest expense on debt securities issued amounted to RMB1.377 billion, representing a year-on-year increase of RMB27 million or 1.99%, mainly due to the fact that the Company optimized the structure of active liabilities and issued Tier-2 capital bonds of RMB6 billion, allowing the interest expenses on debt securities issued basically stable.

4.6 Net Non-interest Income

During the Reporting Period, the Company's net non-interest income was RMB1.419 billion, representing a year-on-year decrease of RMB694 million, or 32.85%. This was mainly due to fact that bond market was weak as compared with that of the same period of last year, leading to a decrease in net gains arising from investments and a decrease in fee income from wealth management services; a decrease in exchange gains and losses due to exchange rate fluctuations. The following table sets forth the main components of the Company's net non-interest income for the periods indicated.

Unit: RMB'000

Item	January to June 2021	January to June 2020
Fee and commission income	846,442	1,108,169
Less: Fee and commission expense	(76,117)	(64,117)
Net fee and commission income	770,325	1,044,052
Net trading (losses)/gains, net gains arising from investments and other net operating income	648,568	1,068,875
Net non-interest income	1,418,893	2,112,927

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4.7 Net Fee and Commission Income

During the Reporting Period, the Company's net fee and commission income amounted to RMB770 million, representing a year-on-year decrease of RMB274 million or 26.22%, mainly due to a decrease in the Company's fee income from wealth management service. The following table sets forth the components of the Company's net fee and commission income for the periods indicated.

Unit: RMB'000

Item	January to June 2021	January to June 2020
Fee and commission income	846,442	1,108,169
Of which: Wealth management service fees	414,948	672,692
Agency service fees	235,461	227,747
Custody and bank card service fees ⁽¹⁾	102,985	79,338
Financial leasing fees	52,224	92,729
Settlement fees	34,305	19,636
Others	6,519	16,027
Less: Fee and commission expense	(76,117)	(64,117)
Net fee and commission income	770,325	1,044,052

Note: According to the CaiKuai [2021] No. 2 Document promulgated by the Ministry of Finance of the PRC, CSRC, State-owned Assets Supervision and Administration Commission of the State Council and CBIRC in January 2021, the Company reclassified the credit card installment income in 2020 from fee and commission income to interest income.

During the Reporting Period, the wealth management service fee income amounted to RMB415 million, representing a year-on-year decrease of RMB258 million or 38.32%. The scale of wealth management products managed by the Company kept growing, and income from fixed management fees has steadily increased, but there were fewer spread trading opportunities as a result of the less volatile bond market in 2021 as compared with the same period of last year, decrease in excess income of wealth management business, and overall decrease in wealth management service fees. Custody and bank card service fees income amounted to RMB103 million, representing a year-on-year increase of RMB24 million or 29.81%, mainly due to the increase in credit card fee income; financial leasing fees income amounted to RMB52 million, representing a year-on-year decrease of RMB41 million or 43.68%, mainly due to reduced investment in leased assets; settlement fees income amounted to RMB34 million, representing a year-on-year increase of RMB15 million or 74.70%, mainly due to the increase in forfeiting fees income.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

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

During the Reporting Period, the Company's net trading (losses)/gains, net gains arising from investments and other net operating income, amounted to RMB649 million, representing a year-on-year decrease of RMB420 million or 39.32%. This was mainly due to fact that bond market was weak as compared with that of the same period of last year, leading to a decrease in net gains arising from investments; a decrease in exchange gains and losses due to exchange rate fluctuations. 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	January to June 2021	January to June 2020
Net trading (losses)/gains	(89,297)	130,994
Net gains arising from investments	728,170	909,014
Other operating income	9,695	28,867
Total	648,568	1,068,875

4.9 Operating expenses

During the Reporting Period, the Company's operating expenses amounted to RMB1.536 billion, representing a year-on-year increase of RMB80 million or 5.46%. In particular, staff costs increased by RMB49 million or 6.01% on a year-on-year basis. The following table sets forth the components of the Company's operating expenses for the periods indicated.

Unit: RMB'000

Item	January to June 2021	January to June 2020
Staff costs	858,594	809,949
Property and equipment expenses	318,893	270,774
Tax and surcharges	70,741	69,765
Other general and administrative expenses	288,176	306,386
Operating expenses	1,536,404	1,456,874

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4.10 Credit impairment losses

During the Reporting Period, the Company's credit impairment losses amounted to RMB1.650 billion, representing a year-on-year decrease of RMB1.138 billion or 40.81%, mainly due to the increase in the impairment provision made by the Company in the same period of last year in response to the COVID-19 pandemic and others while the provision for impairment was reduced because the impact of the pandemic gradually died down this year, and the Company continued to increase control over asset quality and devote more efforts on collection of non-performing asset, leading to improvement of the risk profile of assets. Credit impairment losses from loans and advances to customers constituted the largest component of the credit impairment losses. During the Reporting Period, credit impairment losses from loans and advances to customers amounted to RMB1.263 billion, representing a year-on-year decrease of RMB682 million or 35.07%. The following table sets forth the major components of the Company's credit impairment losses for the periods indicated.

Unit: RMB'000

Item	January to June 2021	January to June 2020
Deposits with banks and other financial institutions	1,251	210
Placements with banks and other financial institutions	335	(10,126)
Financial assets held under resale agreements	6,028	7,456
Loans and advances to customers	1,262,812	1,944,777
Financial investments measured at amortized cost	(42,254)	735,614
Financial investments at fair value through other comprehensive income	343,563	(28,239)
Long-term receivables	53,731	134,237
Credit commitment	6,139	(2,015)
Others	18,453	5,809
Credit impairment losses	1,650,058	2,787,723

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

5. ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF FINANCIAL POSITION

5.1 Assets

As at the end of the Reporting Period, the Company's total assets amounted to RMB501.637 billion, representing an increase of RMB41.810 billion or 9.09% as compared with that at the end of the previous year. The following table sets forth the components of the Company's total assets as at the dates indicated.

Unit: RMB'000

Item	30 June 2021		31 December 2020		Change from the end of last year		31 December 2019	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Loans and advances to customers	229,631,420	45.78	202,358,484	44.01	13.48	1.77	169,158,291	45.28
Financial investments measured at amortized cost	66,408,636	13.24	74,157,602	16.13	(10.45)	(2.89)	64,491,058	17.26
Financial investments at fair value through other comprehensive income	76,647,978	15.27	66,828,002	14.53	14.69	0.74	54,973,781	14.71
Financial investments at fair value through profit or loss	49,193,456	9.81	37,250,405	8.10	32.06	1.71	22,912,561	6.13
Cash and deposits with central bank	46,937,324	9.36	47,219,397	10.27	(0.60)	(0.91)	39,704,840	10.63
Deposits with banks and other financial institutions	4,057,970	0.81	2,568,919	0.56	57.96	0.25	1,312,468	0.35
Placements with banks and other financial institutions	451,873	0.09	-	-	N/A	0.09	3,313,603	0.89
Derivative financial assets	226,390	0.05	286,400	0.06	(20.95)	(0.01)	12,436	-
Financial assets held under resale agreements	8,862,695	1.77	9,726,476	2.12	(8.88)	(0.35)	2,325,771	0.62
Long-term receivables	10,233,394	2.04	11,001,178	2.39	(6.98)	(0.35)	9,037,819	2.42
Property and equipment	3,258,291	0.65	3,247,768	0.71	0.32	(0.06)	3,048,813	0.82
Right-of-use asset	804,678	0.16	826,821	0.18	(2.68)	(0.02)	818,928	0.22
Deferred tax assets	2,570,590	0.51	2,468,017	0.54	4.16	(0.03)	1,581,905	0.42
Other assets	2,352,511	0.46	1,888,136	0.40	24.59	0.06	929,876	0.25
Total assets	501,637,206	100.00	459,827,605	100.00	9.09	-	373,622,150	100.00

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

5.1.1 Loans and advances to customers

As at the end of the Reporting Period, the Company's loans and advances to customers amounted to RMB229.631 billion, representing an increase of RMB27.273 billion or 13.48% as compared with that at the end of the previous year; accounted for 45.78% of Company's total assets, up by 1.77 percentage points as compared with that at the end of the previous year. During the Reporting Period, the Company's various loans continued to grow rapidly by improving the quality and effectiveness of serving the real economy in line with China's macro policies, and optimizing the credit structure. 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	30 June 2021		31 December 2020		Change from the end of last year		31 December 2019	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Corporate loans	150,431,093	64.03	138,776,966	67.12	8.40	(3.09)	112,036,804	64.83
Personal loans	67,434,011	28.71	60,755,096	29.39	10.99	(0.68)	54,508,817	31.55
Discounted bills	17,050,861	7.26	7,215,159	3.49	136.32	3.77	6,249,822	3.62
Total loans to customers	234,915,965	100.00	206,747,221	100.00	13.62	-	172,795,443	100.00
Add: Accrued interest	800,878	/	899,064	/	(10.92)	/	772,480	/
Less: Provision for impairment on loans and advances to customers measured at amortized cost	(6,085,423)	/	(5,287,801)	/	15.08	/	(4,409,632)	/
Loans and advances to customers	229,631,420	/	202,358,484	/	13.48	/	169,158,291	/

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Corporate loans

As at the end of the Reporting Period, the Company's corporate loans amounted to RMB150.431 billion, representing an increase of RMB11.654 billion or 8.40% as compared with that at the end of the previous year; accounted for 64.03% of the total loans and advances to customers (excluding accrued interest, the same hereinafter), down by 3.09 percentage points as compared with that at the end of the previous year. During the Reporting Period, the Company continuously innovated products to cater to corporate customers, and increased credit support to them, gave strong support to the upgrading and transformation of traditional industries, the development of green industries and inclusive finance.

Personal loans

As at the end of the Reporting Period, the Company's individual loans amounted to RMB67.434 billion, representing an increase of RMB6.679 billion or 10.99% as compared with that at the end of the previous year; accounted for 28.71% of the total loans and advances to customers, down by 0.68 percentage point as compared with that at the end of the previous year. During the Reporting Period, the Company steadily developed housing mortgage loans subject to regulatory requirements being satisfied. Meanwhile, personal consumption loans saw rapid growth because the Company grasped the general trend of consumption upgrades to meet the needs of people for inclusive finance.

Discounted bills

As at the end of the Reporting Period, the Company's discounted bills amounted to RMB17.051 billion, representing an increase of RMB9.836 billion or 136.32% as compared with that at the end of the previous year; accounted for 7.26% of the total loans and advances to customers, up by 3.77 percentage points as compared with that at the end of the previous year. During the Reporting Period, the Company further strengthened marketing of bill business, and witnessed a record high in the scale of business. The bill business continued to play a great role in acquiring customers and reducing customer financing costs.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

5.1.2 Financial investments

As at the end of the Reporting Period, the Company's carrying value of financial investments amounted to RMB192.250 billion, representing an increase of RMB14.014 billion or 7.86% 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	30 June 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Financial investments measured at fair value through profit or loss	49,193,456	25.59	37,250,405	20.90
Financial investments measured at fair value through other comprehensive income	76,647,978	39.87	66,828,002	37.49
Financial investments measured at amortized cost	66,408,636	34.54	74,157,602	41.61
Financial investments	192,250,070	100.00	178,236,009	100.00

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Financial investments measured at fair value through profit or loss

As at the end of the Reporting Period, the Company's carrying value of financial investments measured at fair value through profit or loss amounted to RMB49.193 billion, representing an increase of RMB11.943 billion or 32.06% 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	30 June 2021	31 December 2020
Debt securities issued by banks and other financial institutions	890,020	704,792
Debt securities issued by corporate entities	109,453	178,160
Investment funds	35,472,444	24,363,870
Asset management plans	11,148,719	9,998,794
Trust fund plans	1,572,820	2,004,789
Financial investments measured at fair value through profit or loss	49,193,456	37,250,405

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Financial investments measured at fair value through other comprehensive income

As at the end of the Reporting Period, the Company's carrying value of financial investments measured at fair value through other comprehensive income amounted to RMB76.648 billion, representing an increase of RMB9.820 billion or 14.69% as compared with that at the end of last year. The increase was mainly due to the fact that the Company carried out active risk management based on the bond market conditions, adjusted its investment structure, and moderately increase the scale of government bond investment with relatively low risk. 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	30 June 2021	31 December 2020
Government bonds	26,630,428	15,330,316
Debt securities issued by policy banks	2,275,354	6,437,969
Debt securities issued by banks and other financial institutions	14,274,980	11,039,796
Debt securities issued by corporate entities	26,607,255	26,338,440
Asset management plans	5,158,950	5,680,647
Other investments	703,251	703,121
Equity investments	23,250	23,250
Add: Accrued interest	974,510	1,274,463
Financial investments measured at fair value through other comprehensive income	76,647,978	66,828,002

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Financial investments measured at amortized cost

As at the end of the Reporting Period, the Company's carrying value of financial investments measured at amortized cost amounted to RMB66.409 billion, representing a decrease of RMB7.749 billion or 10.45% as compared with that at the end of last year. The decrease was mainly due to the fact that the Company reduced the scale of debt securities issued by banks and other financial institutions based on the management needs of liquidity. The following table sets forth the components of the Company's financial investments measured at amortized cost as at the dates indicated.

Unit: RMB'000

Item	30 June 2021	31 December 2020
Government bonds	28,231,883	26,717,042
Debt securities issued by policy banks	11,800,375	11,799,924
Debt securities issued by banks and other financial institutions	11,361,586	18,552,129
Debt securities issued by corporate entities	1,562,684	1,823,781
Asset management plans	5,426,670	7,585,510
Trust fund plans	2,030,700	1,434,700
Other investments	6,180,000	6,150,000
Total financial investments measured at amortized cost	66,593,898	74,063,086
Add: Accrued interest	869,004	1,191,036
Less: Provision for impairment losses	(1,054,266)	(1,096,520)
Carrying value of financial investments measured at amortized cost	66,408,636	74,157,602

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

5.2 Liabilities

As at the end of the Reporting Period, the Company's total liabilities amounted to RMB469.347 billion, representing an increase of RMB40.426 billion or 9.43% as compared with that at the end of last year. The increase was mainly due to the increase in deposits from customers and issue of bonds of the Company. The following table sets forth the components of the Company's total liabilities as at the dates indicated.

Unit: RMB'000

Item	30 June 2021		31 December 2020		Change from the end of last year Change in		31 December 2019	
	Amount	% of total	Amount	% of total	amount (%)	Change in % of total	Amount	% of total
Deposits from customers	299,307,629	63.77	275,750,710	64.29	8.54	(0.52)	215,425,403	62.78
Deposits from banks and other financial institutions	7,826,483	1.67	17,024,732	3.97	(54.03)	(2.30)	16,462,527	4.80
Borrowings from central bank	14,945,004	3.18	11,207,069	2.61	33.35	0.57	5,536,650	1.61
Placements from banks and other financial institutions	14,589,011	3.11	12,947,575	3.02	12.68	0.09	9,916,257	2.89
Derivative financial liabilities	226,436	0.05	288,347	0.07	(21.47)	(0.02)	8,805	-
Financial assets sold under repurchase agreements	31,591,305	6.73	33,099,349	7.72	(4.56)	(0.99)	16,027,082	4.67
Income tax payable	385,272	0.08	431,921	0.10	(10.80)	(0.02)	187,027	0.05
Debt securities issued	95,432,222	20.33	72,834,508	16.98	31.03	3.35	76,858,899	22.40
Lease liabilities	456,469	0.10	453,671	0.11	0.62	(0.01)	427,429	0.12
Other liabilities	4,587,250	0.98	4,882,865	1.13	(6.05)	(0.15)	2,294,153	0.68
Total liabilities	469,347,081	100.00	428,920,747	100.00	9.43	-	343,144,232	100.00

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

5.2.1 Deposits from customers

As at the end of the Reporting Period, the Company's deposits from customers amounted to RMB299.308 billion, representing an increase of RMB23.557 billion or 8.54% as compared with that at the end of last year. During the Reporting Period, the Company strengthened the market development, while improving customer tiered marketing and product service models, promoting growth of deposits, continuously consolidating the fundamental position of deposits in the source of operating funds. The fundamental position of deposits as a source of operating funds was continuously consolidated. The following table sets forth the components of the Company's deposits from customers by product type and customer type as at the dates indicated.

Unit: RMB'000

Item	30 June 2021		31 December 2020		Change from the end of last year		31 December 2019	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Corporate deposits	194,842,236	65.91	183,447,242	67.38	6.21	(1.47)	147,880,817	69.49
Demand deposits	112,968,000	38.21	111,491,369	40.95	1.32	(2.74)	92,593,934	43.51
Time deposits	81,874,236	27.70	71,955,873	26.43	13.78	1.27	55,286,883	25.98
Personal deposits	100,589,848	34.03	88,339,315	32.45	13.87	1.58	64,796,343	30.45
Demand deposits	26,753,635	9.05	22,899,499	8.41	16.83	0.64	20,622,060	9.69
Time deposits	73,836,213	24.98	65,439,816	24.04	12.83	0.94	44,174,283	20.76
Outward remittance and remittance payables	152,597	0.05	428,585	0.16	(64.40)	(0.11)	100,697	0.05
Fiscal deposits to be transferred	26,281	0.01	16,342	0.01	60.82	-	13,052	0.01
Total customer deposits	295,610,962	100.00	272,231,484	100.00	8.59	-	212,790,909	100.00
Add: Accrued interest	3,696,667	/	3,519,226	/	5.04	/	2,634,494	/
Deposits from customers	299,307,629	/	275,750,710	/	8.54	/	215,425,403	/

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the stability of deposits continued to increase. The Company's personal deposits accounted for 34.03% of the total deposits from customers (excluding accrued interest, the same hereinafter), representing an increase of 1.58 percentage points as compared with that at the end of last year; demand deposits accounted for 47.26% of the total deposits from customers, representing a decrease of 2.10 percentage points as compared with that at the end of last year; corporate demand deposits accounted for 57.98% of corporate deposits, representing a decrease of 2.80 percentage points as compared with that at the end of last year.

5.2.2 Deposits from banks and other financial institutions

As at the end of the Reporting Period, the Company's deposits from banks and other financial institutions amounted to RMB7.826 billion, representing a decrease of RMB9.198 billion or 54.03% 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, and appropriate decrease in scale of deposits from banks while issue of bonds increased.

5.2.3 Borrowings from central bank

As at the end of the Reporting Period, the Company's borrowings from central bank amounted to RMB14.945 billion, representing an increase of RMB3.738 billion or 33.35% as compared with that at the end of last year, mainly due to the fact that the Company implemented the central bank's policy guidance and actively applied for the relending and rediscount to small and micro enterprises, increased the sources of credit funds for small and micro enterprises, and actively participated in medium-term lending facilities.

5.2.4 Financial assets sold under repurchase agreements

As at the end of the Reporting Period, the Company's financial assets sold under repurchase agreements amounted to RMB31.591 billion, representing a decrease of RMB1.508 billion or 4.56% as compared with that at the end of last year, mainly due to the Company's exercising control over the total amount and structural adjustment of interbank liabilities, and appropriately decreasing the size of financial assets sold under repurchase agreements to balance the debt structure.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

5.2.5 Debt securities issued

As at the end of the Reporting Period, the Company's debt securities issued amounted to RMB95.432 billion, representing an increase of RMB22.598 billion or 31.03% as compared with that at the end of last year, mainly due to the fact that the Company successfully issued tier-two capital bonds of RMB6.0 billion, and actively strengthened liability management based on the capital market conditions, moderately increased the size of certificates of interbank deposit. For details of the bonds, please refer to "Notes to the Unaudited Interim Financial Report – 32 Debt Securities Issued" of this interim report.

5.3 Equity Attributable to Shareholders

As at the end of the Reporting Period, the shareholders' equity of the Company amounted to RMB32.290 billion, representing an increase of RMB1.383 billion or 4.48% as compared with that at the end of last year. Equity attributable to the shareholders of the Bank amounted to RMB31.633 billion, representing an increase of RMB1.348 billion or 4.45% as compared with that at the end of last year, mainly due to the increase in retained earnings. The following table sets forth the components of the Company's shareholders' equity as at the dates indicated.

Unit: RMB'000

Item	30 June 2021	31 December 2020
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	394,756	32,717
Surplus reserve	1,859,737	1,859,737
General risk reserve	5,072,217	5,072,217
Retained earnings	3,604,826	2,618,980
Total equity attributable to equity shareholders of the Bank	31,633,059	30,285,174
Non-controlling interests	657,066	621,684
Total equity	32,290,125	30,906,858

6. ANALYSIS OF CASH FLOWS STATEMENT

As at the end of the Reporting Period, net cash flows generated from operating activities of the Company was RMB-9.821 billion, representing a decrease of RMB29.546 billion as compared with the same period of the previous year, which was mainly due to a decrease in net increase in deposits from customers of RMB27.601 billion. Among which, cash outflows generated from operating assets decreased by RMB15.115 billion and cash inflows generated from operating liabilities decreased by RMB44.158 billion.

Net cash flows generated from investing activities was RMB-11.740 billion, representing an increase of RMB15.591 billion as compared with the same period of the previous year, which was mainly due to a decrease in cash payments on investments of RMB21.216 billion, while the above impact was partially offset by a decrease in proceeds from redemption of investments of RMB5.223 billion.

Net cash flows generated from financing activities was RMB20.349 billion, representing an increase of RMB18.827 billion as compared with the same period of the previous year, which was mainly due to an increase in cash received by the Company for issuance of debt securities of RMB22.917 billion, while the above impact was partially offset by an increase in cash paid for settlement of debt of RMB4.169 billion.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

7. SEGMENT ANALYSIS

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

Unit: RMB'000

Item	January to June 2021		January to June 2020	
	Segment operating income	Ratio (%)	Segment operating income	Ratio (%)
Corporate banking	2,827,449	53.08	3,088,002	50.59
Retail banking	1,063,614	19.97	1,057,926	17.33
Financial market business	1,253,422	23.53	1,691,245	27.71
Un-allocated items and others	182,565	3.42	266,966	4.37
Total	5,327,050	100.00	6,104,139	100.00

Unit: RMB'000

Item	January to June 2021		January to June 2020	
	Segment profit before taxation	Ratio (%)	Segment profit before taxation	Ratio (%)
Corporate banking	841,195	39.30	590,925	31.78
Retail banking	439,117	20.51	384,085	20.65
Financial market business	759,888	35.50	778,559	41.87
Un-allocated items and others	100,388	4.69	105,973	5.70
Total	2,140,588	100.00	1,859,542	100.00

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

8. ANALYSIS OF ASSETS AND LIABILITIES

8.1 Major offshore assets

N/A.

8.2 Assets and Liabilities Measured at Fair Value

Unit: RMB'000

Main item	31 December 2020	Changes in fair value included in profit or loss for the current period	Cumulative changes in fair value recognized in equity	Impairment provided during the current period	30 June 2021
Financial investments measured at fair value through profit or loss	37,250,405	242,094	N/A	N/A	49,193,456
Loans and advances to customers measured at fair value through other comprehensive income	7,215,159	N/A	14,843	803	17,050,861
Financial investments measured at fair value through other comprehensive income	66,828,002	N/A	28,615	343,563	76,647,978
Derivative financial assets	286,400	(60,010)	N/A	N/A	226,390
Derivative financial liabilities	(288,347)	61,911	N/A	N/A	(226,436)

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

Please refer to “Notes to the Unaudited Interim Financial Report - 44 (6) Pledged Assets” of this interim report.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9. ANALYSIS OF QUALITY OF LOANS

During the Reporting Period, the Company strengthened the quality control of credit assets. While the credit assets grew steadily, the quality of credit assets continuously improved and the non-performing loan ratio decreased. As at the end of the Reporting Period, the total amount of loans of the Company (excluding accrued interest) was RMB234.916 billion; total non-performing loans amounted to RMB3.496 billion; non-performing loan ratio was 1.49%. For the purpose of discussion and analysis, unless otherwise specified, the amount of loans presented in the analysis below excludes accrued interest.

9.1 Distribution of Loans by Five Categories

Unit: RMB'000

Item	30 June 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Normal loans	228,882,093	97.43	200,577,540	97.02
Special mention loans	2,538,136	1.08	3,043,568	1.47
Substandard loans	2,074,266	0.88	1,427,636	0.69
Doubtful loans	1,036,218	0.44	1,338,977	0.65
Loss loans	385,252	0.17	359,500	0.17
Total loans to customers	234,915,965	100.00	206,747,221	100.00
Total non-performing loans	3,495,736	1.49	3,126,113	1.51

Under the five-category classification system for loan supervision, the non-performing loans of the Company included the substandard, doubtful and loss loans. As at the end of the Reporting Period, the proportion of non-performing loans decreased by 0.02 percentage point as compared with that at the end of last year to 1.49%, of which the proportion of substandard loans increased by 0.19 percentage point to 0.88%, the proportion of doubtful loans decreased by 0.21 percentage point to 0.44% and loss loans remained flat as compared with that at the end of last year.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9.2 Distribution of Loans by Product Type

Unit: RMB'000

Item	30 June 2021		31 December 2020	
	Amount of loans	% of Total	Amount of loans	% of Total
Corporate loans	167,481,954	71.29	145,992,125	70.61
Working capital loans	89,053,289	37.91	83,070,680	40.18
Fixed asset loans	57,184,756	24.34	54,374,209	26.30
Import and export bills transactions	4,193,048	1.78	1,332,077	0.64
Discounted bills	17,050,861	7.26	7,215,159	3.49
Retail loans	67,434,011	28.71	60,755,096	29.39
Personal housing loans	43,940,272	18.71	40,588,284	19.63
Personal business loans	11,036,878	4.70	10,768,653	5.21
Personal consumption loans	12,456,861	5.30	9,398,159	4.55
Total loans to customers	234,915,965	100.00	206,747,221	100.00

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9.3 Distribution of Loans by Industry

Unit: RMB'000

Item	30 June 2021		31 December 2020	
	Amount of loans	% of Total	Amount of loans	% of Total
Corporate loans	167,481,954	71.29	145,992,125	70.61
Manufacturing	33,195,135	14.12	27,657,606	13.37
Construction	27,048,564	11.51	24,704,927	11.95
Renting and business services	23,676,010	10.08	21,806,775	10.55
Real estate	22,536,532	9.59	20,970,449	10.14
Wholesale and retail trade	21,601,677	9.20	15,003,646	7.26
Water conservancy, environment and public utility management	20,990,253	8.94	19,600,238	9.48
Transportation, storage and postal services	4,336,929	1.85	3,082,904	1.49
Production and supply of electric and heating power, gas and water	4,099,366	1.75	3,797,074	1.84
Financial services	3,036,970	1.29	1,869,095	0.90
Scientific research and technical services	2,236,480	0.95	2,241,260	1.08
Others	4,724,038	2.01	5,258,151	2.55
Retail loans	67,434,011	28.71	60,755,096	29.39
Total loans to customers	234,915,965	100.00	206,747,221	100.00

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9.4 Distribution of Loans by Region

Unit: RMB'000

Region	30 June 2021		31 December 2020	
	Amount of loans	% of Total	Amount of loans	% of Total
Shandong Province	234,915,965	100.00	206,747,221	100.00
Of which: Qingdao City	130,532,051	55.57	110,957,353	53.68

Qingdao City occupies a leading position in terms of total economic output among all municipal-level regions in Shandong Province. Leverage on its characteristic economy and advantageous industries, including marine economy, high-end manufacturing, foreign trade, etc., it enjoys obvious regional advantages, vibrant market and outstanding development prospects. The Company gives full play to the advantages of local legal entities to deepen its presence in Qingdao market. As at the end of the Reporting Period, the proportion of loans to customers in Qingdao increased by 1.89 percentage points to 55.57% as compared to that at the end of the previous year, and the non-performing loan ratio was 0.56%, which continued to remain at a relatively low level.

9.5 Distribution of Loans by Type of Collateral

Unit: RMB'000

Item	30 June 2021		31 December 2020	
	Amount of loans	% of Total	Amount of loans	% of Total
Unsecured loans	45,799,403	19.50	42,739,296	20.67
Guaranteed loans	52,117,221	22.19	50,477,538	24.41
Mortgage loans	91,920,927	39.12	84,180,163	40.72
Pledged loans	45,078,414	19.19	29,350,224	14.20
Total loans to customers	234,915,965	100.00	206,747,221	100.00

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9.6 Loans to the Top Ten Single Borrowers

Unit: RMB'000

Top ten borrowers	Industry	Amount of loans as at the end of the Reporting Period	Percentage in total loans %
A	Manufacturing	3,423,853	1.46
B	Renting and business services	2,580,000	1.10
C	Renting and business services	2,250,000	0.96
D	Renting and business services	1,730,000	0.74
E	Transportation, storage and postal services	1,696,000	0.72
F	Water conservancy, environment and public utility management	1,500,000	0.64
G	Water conservancy, environment and public utility management	1,500,000	0.64
H	Water conservancy, environment and public utility management	1,433,900	0.61
I	Renting and business services	1,400,000	0.59
J	Renting and business services	1,400,000	0.59
Total	–	18,913,753	8.05

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9.7 Distribution of Loans by Overdue Period

Unit: RMB'000

Overdue period	30 June 2021		31 December 2020	
	Amount of loans	% of total	Amount of loans	% of total
Overdue for 3 months (inclusive) or less	987,149	0.42	586,640	0.30
Overdue for over 3 months to 1 year (inclusive)	804,490	0.34	996,473	0.48
Overdue for over 1 year to 3 years (inclusive)	1,059,074	0.45	754,257	0.36
Overdue for over 3 years	228,826	0.10	196,363	0.09
Total overdue loans	3,079,539	1.31	2,533,733	1.23
Total loans to customers	234,915,965	100.00	206,747,221	100.00

As at the end of the Reporting Period, the overdue loans of the Company amounted to RMB3.080 billion, the overdue loans accounted for 1.31% of the total loans of the Company, representing an increase of 0.08 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.

9.8 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 RMB56.49 million with no provision for impairment, and the net amount of repossessed assets was RMB56.49 million.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9.9 Changes in Provision for Impairment of Loans

The Company has performed impairment accounting and confirmed loss provision based on expected credit losses. If the credit risk of a financial instrument is low as at the end of the Reporting Period or has not increased significantly since initial recognition, the Company measures its loss provision based on expected credit losses for the future 12 months. For other financial instruments, the Company measures their loss provisions based on lifetime expected credit losses.

The Company re-measures expected credit losses on each end of the reporting period. 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 division of loss stages, probability of default, loss given default, exposure at default, discount rate, forward-looking adjustment and other adjustment factors. The changes in the Company's provision for impairment of loans are detailed in the following table.

Unit: RMB'000

Item	January to June 2021	2020
Balance at the beginning of the period/year	5,302,582	4,422,549
Charge for the period/year	1,262,812	2,974,836
Write-offs for the period/year	(799,557)	(2,372,532)
Recovery of write-offs for the period/year	345,763	325,385
Other changes	(10,593)	(47,656)
Balance at the end of the period/year	6,101,007	5,302,582

The Company maintained a strong and prudent provision policy. As at the end of the Reporting Period, the Company's provision for impairment of loans (including discounted bills) amounted to RMB6.101 billion, representing an increase of RMB798 million or 15.06% as compared with that at the end of last year. The provision coverage ratio reached 174.53%, representing an increase of 4.91 percentage points as compared with that at the end of last year; the provision rate of loans stood at 2.60%, representing an increase of 0.04 percentage point as compared with that at the end of last year, both provision indicators satisfying regulatory requirements.

9.10 Countermeasures Taken against Non-performing Assets

During the Reporting Period, the Company was dedicated to strengthening the basic management of non-performing loans, strictly controlling new additions and accelerating the disposal of existing non-performing assets. The Company implemented policies on potential risks one by one, and performed early judgment, timely security, and expedited disposal. Through internal enhancement and external assistance, the Company strengthened the communication and coordination with government departments of various levels and debt committee organizations, in an attempt to tackle substantial risks. The Company improved its professional and intensive disposal capabilities with continuously optimized professional team building and incentive and restrictive mechanisms. On top of the basis of continuously strengthening self-collection, litigation collection and other traditional means, the Company made greater use of market-based debt transfer and other means to raise the efficiency of disposal and enhance the efficiency of assets revitalization. While leveraging on the means of writing-off to optimize the asset structure, the Company continued to strengthen the settlement effort of loans after written-off and achieved decent results.

9.11 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, optimized the system control plan of credit extension to group customers, enhanced the control of the entire process of credit extension to group customers, and strived to improve the risk management for the credit granting business. Firstly, it established a complete management system of credit extension to group customers, continued to improve the management of the group’s family tree and strictly implemented the unified credit extension system. Secondly, it strengthened the internal risk information sharing mechanism with core enterprises engaging in the principal activities of the group as the main subject, which consolidated and analyzed various credit risk information of group customers. Based on the extent of credit risk and risk tolerance, it enabled 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. Thirdly, it 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 risks for group customers in a practical and effective fashion. Fourthly, it improved the pre-warning mechanism of group customer risk, setting proper risk warning thresholds for group customers at the process node for pre-loan approval 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.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9.12 Rescheduled Loans

Unit: RMB'000

Item	30 June 2021		31 December 2020	
	Amount of loans	% of total	Amount of loans	% of total
Rescheduled loans	395,765	0.17	424,834	0.21
Total loans and advances to customers	234,915,965	100.00	206,747,221	100.00

The Company implemented strict management and control on rescheduled loans. As at the end of the Reporting Period, the proportion of rescheduled loans of the Company was 0.17%, which decreased by 0.04 percentage point as compared to the end of the previous year.

10. 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.

10.1 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 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. 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 the Reporting Period, the Company's capital adequacy ratio was 15.90%, representing an increase of 1.79 percentage points as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 8.29%, representing a decrease of 0.06 percentage point as compared with that at the end of last year. During the Reporting Period, the Company expanded its credit support for the real economy and increased its risk-weighted assets, and improved risk resistance ability by the successful issuance of tier-two capital bonds of RMB6 billion and capitalised retained earnings.

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

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Unit: RMB' 000

The Company	30 June 2021	31 December 2020
Total core tier-one capital	24,161,643	22,846,168
Of which: Share capital	4,509,690	4,509,690
Qualifying portion of capital reserve	8,337,869	8,337,869
Other comprehensive income	394,756	32,717
Surplus reserve	1,859,737	1,859,737
General reserve	5,072,217	5,072,217
Retained earnings	3,604,826	2,618,980
Qualifying portion of non-controlling interests	382,548	414,958
Core tier-one capital deductions	(436,956)	(461,170)
Net core tier-one capital	23,724,687	22,384,998
Other tier-one capital	7,904,970	7,909,292
Net tier-one capital	31,629,657	30,294,290
Tier-two capital	13,858,971	7,512,290
Net capital base	45,488,628	37,806,580
Total risk-weighted assets	286,145,148	267,941,143
Of which: Total credit risk-weighted assets	242,509,011	228,433,976
Total market risk-weighted assets	26,429,603	22,300,633
Total operational risk-weighted assets	17,206,534	17,206,534
Core tier-one capital adequacy ratio	8.29%	8.35%
Tier-one capital adequacy ratio	11.05%	11.31%
Capital adequacy ratio	15.90%	14.11%

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the Reporting Period, at the level of the Bank, the capital adequacy ratio was 15.60%, representing an increase of 1.84 percentage points as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 7.81%, representing a decrease of 0.08 percentage point as compared with that at the end of last year.

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

Unit: RMB'000

The Bank	30 June 2021	31 December 2020
Total core tier-one capital	23,570,003	22,291,306
Of which: Share capital	4,509,690	4,509,690
Qualifying portion of capital reserve	8,337,869	8,337,869
Other comprehensive income	394,756	32,717
Surplus reserve	1,859,737	1,859,737
General reserve	4,981,263	4,981,263
Retained earnings	3,486,688	2,570,030
Core tier-one capital deductions	(2,067,026)	(2,061,374)
Net core tier-one capital	21,502,977	20,229,932
Other tier-one capital	7,853,964	7,853,964
Net tier-one capital	29,356,941	28,083,896
Tier-two capital	13,605,271	7,176,469
Net capital base	42,962,212	35,260,365
Total risk-weighted assets	275,468,320	256,336,451
Of which: Total credit risk-weighted assets	232,431,133	217,428,234
Total market risk-weighted assets	26,429,603	22,300,633
Total operational risk-weighted assets	16,607,584	16,607,584
Core tier-one capital adequacy ratio	7.81%	7.89%
Tier-one capital adequacy ratio	10.66%	10.96%
Capital adequacy ratio	15.60%	13.76%

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

10.2 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 5.89% 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 0.25 percentage point as compared with that at the end of last year, mainly due to the development of business, increase in the size of the Company’s assets and the increased total consolidated assets.

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	30 June 2021	31 December 2020
1	Total consolidated assets	501,637,206	459,827,605
2	Consolidated adjustments	–	–
3	Customer assets adjustments	–	–
4	Derivative adjustments	2,570,181	2,667,000
5	Securities financing transactions adjustments	–	–
6	Off-balance sheet items adjustments	33,194,350	31,328,289
7	Other adjustments	(436,957)	(461,170)
8	Balance of assets on and off balance sheet after adjustments	536,964,780	493,361,724

SECTION III MANAGEMENT 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	30 June 2021	31 December 2020
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	492,548,121	449,814,729
2	Less: Tier-one capital deductions	(436,957)	(461,170)
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	492,111,164	449,353,559
4	Replacement cost of various types of derivatives (net of qualified margins)	226,390	286,400
5	Potential risk exposure in various types of derivatives	2,570,181	2,667,000
6	The sum of collaterals deducted from the statement of financial position	-	-
7	Less: Assets receivables formed due to qualified margins provided	-	-
8	Less: The balance of derivative assets formed due to transactions with central counterparties for providing clearing service for the customers	-	-
9	Notional principal for sold credit derivatives	-	-
10	Less: The balance of sold credit derivatives assets which can be deducted	-	-
11	The balance of derivatives assets	2,796,571	2,953,400
12	The balance of accounting assets for securities financing transactions	8,862,695	9,726,476
13	Less: The balance of securities financing transactions assets which can be deducted	-	-
14	Counterparty credit risk exposure to securities financing transactions	-	-
15	The balance of securities financing transactions assets formed due to securities financing transactions by proxy	-	-
16	The balance of securities financing transactions assets	8,862,695	9,726,476
17	The balance of items off balance sheet	33,194,350	31,328,289
18	Less: The balance of items off balance sheet reduced due to credit conversion	-	-
19	The balance of items off balance sheet after adjustments	33,194,350	31,328,289
20	Net tier-one capital	31,629,657	30,294,290
21	The balance of assets on and off balance sheet after adjustments	536,964,780	493,361,724
22	Leverage ratio	5.89%	6.14%

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets out, as at the dates indicated, the relevant information of the Company's leverage ratio:

Unit: RMB'000

Item	30 June 2021	31 March 2021	31 December 2020	30 September 2020
Leverage ratio (%)	5.89	6.17	6.14	6.22
Net tier-one capital	31,629,657	31,120,547	30,294,290	30,128,413
The balance of assets on and off balance sheet after adjustments	536,964,780	504,257,463	493,361,724	484,692,986

According to the “Regulatory Requirements in 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 at <http://www.qdccb.com/>.

11. INVESTMENT ANALYSIS

11.1 Overview

Unit: RMB'000

Investees	At the beginning of the period	At the end of the period	Percentage of shareholding in investees (%)	Cash dividend for the current period
China UnionPay Co., Ltd.	13,000	13,000	0.34	–
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	–

Notes: The above investments are accounted for as financial investments measured at fair value through other comprehensive income in the statement of financial position.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the Reporting Period, for details of other information concerning the Company's investments, please refer to "Section III Management Discussion and Analysis 5.1.2 Financial Investments" and "14. Analysis of Main Shares Holding Companies and Joint Stock Companies" of this interim report.

11.2 Significant Equity Investments Made during the Reporting Period

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

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

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

11.4 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

<u>Type of security</u>	<u>Investment amount in securities</u>	<u>% of total investment in securities</u>
Government bonds	54,862,311	44.34%
Debt securities issued by policy banks	14,075,729	11.37%
Debt securities issued by banks and other financial institutions	26,526,586	21.44%
Debt securities issued by corporate entities	28,279,392	22.85%
Total	123,752,034	100.00%

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

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	Interest rates (%)	Maturity date	Impairment provision
Bond 1	5,170,000	3.39	2050-03	152.71
Bond 2	4,270,000	3.80	2036-01	429.67
Bond 3	3,060,000	2.43	2022-01	92.72
Bond 4	2,740,000	3.18	2026-09	277.59
Bond 5	2,650,000	3.07	2030-03	268.31
Bond 6	2,630,000	2.68	2030-05	78.10
Bond 7	2,250,000	3.55	2040-05	406.68
Bond 8	2,230,000	3.12	2026-12	70.16
Bond 9	2,000,000	3.23	2030-03	204.14
Bond 10	1,950,000	3.13	2029-11	60.95

11.5 Derivative Investments

Unit: RMB' 000

Item	30 June 2021			31 December 2020		
	Nominal amount	Fair value of assets	Fair value of liabilities	Nominal amount	Fair value of assets	Fair value of liabilities
Interest rate swaps and others	51,196,841	226,390	(226,436)	76,567,494	286,400	(288,347)

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 30 June 2021, 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.

12. MATERIAL DISPOSAL OF ASSETS AND EQUITY INTEREST

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

13. OTHER FINANCIAL INFORMATION

13.1 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. As at the end of the Reporting Period, the balance of credit commitments reached RMB42.752 billion. For details, please refer to "Notes to the Unaudited Interim Financial Report – 44 Commitments and Contingencies" of this interim report.

13.2 Overdue and Outstanding Debts

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

13.3 Pledge of Assets

As at the end of the Reporting Period, the Company pledged part of its assets as collateral under repurchase agreements and borrowings from central bank. For details, please refer to "Notes to the Unaudited Interim Financial Report – 44 Commitments and Contingencies" of this interim report.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

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

Unit: RMB'000

Item	January to June 2021	January to June 2020	Changes (%)	Main reasons
Net trading (losses)/gains	(89,297)	130,994	(168.17)	Decrease in foreign exchange gains and losses as a result of exchange rate fluctuation
Other operating income, net	9,695	28,867	(66.41)	Decrease in government grants received
Credit impairment losses	(1,650,058)	(2,787,723)	(40.81)	Increase in the provision for impairment in response to the COVID-19 and other situations for the same period of last year and steady improvement in the asset risk situation, and corresponding decrease in the impairment provision due to the gradual mitigation of impact of the pandemic, and stronger asset quality control and more efforts in non-performing asset collection made by the Company
Other comprehensive income, net of tax	362,039	(215,321)	268.14	Consistent increase in changes in fair value of financial assets measured at fair value through other comprehensive income and changes in impairment provision

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Unit: RMB'000

Item	30 June 2021	31 December 2020	Changes (%)	Main reasons
Deposits with banks and other financial institutions	4,057,970	2,568,919	57.96	Increase in deposits with banks for settlement at the end of the period
Placements with banks and other financial institutions	451,873	–	N/A	Increase in interbank borrowings
Financial investments measured at fair value through profit or loss	49,193,456	37,250,405	32.06	Mainly due to the increased investment in public bond funds with high liquidity and tax-exempt advantages
Borrowings from central bank	14,945,004	11,207,069	33.35	Active application for the relending to small and micro enterprises, increase in the sources of credit funds for small and micro enterprises, and active participation in the medium-term lending facility
Deposits from banks and other financial institutions	7,826,483	17,024,732	(54.03)	Strengthening of the management on active interbank liability, optimization and adjustment to the liability structure, increasing the issue of bonds, while appropriately reducing the scale of deposits from banks by the Company

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Item	30 June 2021	31 December 2020	Changes (%)	Main reasons
Issued bonds	95,432,222	72,834,508	31.03	Successful issue of RMB6 billion of tier-two capital bonds by the Company, and strengthening of active liability management, and appropriately increasing the scale of deposits from banks based on the capital market situation
Other comprehensive income	394,756	32,717	1,106.58	Increase in credit losses of financial assets measured at fair value through other comprehensive income
Retained earnings	3,604,826	2,618,980	37.64	Increase in the profit for the period

13.5 Changes in Interest Receivables

Unit: RMB'000

Item	31 December 2020	Increase during the period	Decrease during the period	30 June 2021
Loans and advances to customers	18,042	182,923	(132,161)	68,804
Long-term receivables	633	17,830	(6,136)	12,327
Total	18,675	200,753	(138,297)	81,131

Notes: In accordance with the "Format of the Financial Statements of the Financial Enterprise for 2018" released by the Ministry of Finance of the PRC, the item "interest receivables" only reflects the interests overdue but not yet received on the balance sheet date. Since the amount is relatively small, it should be included under "other assets". The Company has made impairment provision for interest receivables, and the bad debt write-off procedures and policies have been implemented.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

13.6 Provision for Bad Debts

Unit: RMB'000

Item	30 June 2021	31 December 2020	Changes
Other receivables	224,577	389,641	(165,064)
Interest receivables	81,131	18,675	62,456
Less: Bad debt provision	(26,786)	(10,013)	(16,773)

14. ANALYSIS OF MAIN SHARES HOLDING COMPANIES AND JOINT STOCK COMPANIES

14.1 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	Profit before tax	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	10.53	10.35	0.74	0.43	0.32

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Name of company	Type of company	Main business	Registered capital	Total assets	Net assets	Operating income	Profit before tax	Net profit
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	107.23	13.41	1.79	0.95	0.72

14.2 Acquisition and Disposal of Subsidiaries during the Reporting Period

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

14.3 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 realizing the original intent of leasing and serving 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 leasee 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.

15. OVERVIEW OF BUSINESS DEVELOPMENT

15.1 Retail banking

During the Reporting Period, for retail banking, with customer base construction as the core, the Bank insisted on operating retail business offline using a wholesale approach and obtained customers in batches through “three agencies and one cloud”, which focused on urban community finance and county rural finance, to create new ways of achieving business growth. The Bank aggressively developed online business, steadily promoted the construction of smart outlet projects, enriched the construction of intelligent marketing system, and continued improving the credit card business. The Bank steadily expanded the scale of retail customer base through attracting young customers via new media such as WeChat to increase customer loyalty. The Bank conducted upgrades on service value based on the core of “customer base” with improved customer experience and concrete actions in customer base management to solidify the foundation of retail business. During the Reporting Period, the Company recorded the operating income of RMB1.064 billion in respect of retail banking, accounting for 19.97% of the Company’s operating income.

1. *Retail customers and customer asset management*

As at the end of the Reporting Period, the number of retail customers of the Bank reached 6,893.7 thousand, representing an increase of 569.2 thousand or 9.00% as compared with that at the end of the previous year. The assets retained by retail customers in the Bank reached a record high of RMB232.942 billion, representing an increase of RMB30.143 billion or 14.86% as compared with that at the end of the previous year and suggesting double-digit growth for two consecutive years. Among them, the number of customers with financial assets of more than RMB200,000 reached 275.3 thousand, representing an increase of 28.7 thousand as compared with that at the end of the previous year, who retain assets in the Bank amounting to RMB201.392 billion, accounting for 86.46% of all retail customers’ assets, representing an increase of 0.89 percentage point as compared with that at the end of the previous year.

The business volume of the Bank’s retail customers maintained its rapid growth. Through the increased development of rural finance and community finance, the Bank insisted on operating retail business using a wholesale approach. In the first half of the year, more than 1,800 new customers were acquired in agency payroll payment, reaching the targeted number of new customers throughout the year; centering on the goal of “promoting activity and expanding assets”, the Bank adopted the approach of digitalized management, realized precise operations of basic customer base, increased the contribution of new and existing customers.

Retail deposits exceeded the landmark of RMB100 billion. As at the end of the Reporting Period, balance of the Bank’s retail deposits amounted to RMB100.590 billion, representing an increase of RMB12.251 billion or 13.87% as compared with that at the end of the previous year, accounting for 34.03% of total customer deposits, representing an increase of 1.58 percentage points as compared with that at the end of the previous year. Among them, demand deposits amounted to RMB26.753 billion, representing an increase of RMB3.854 billion or 16.83% as compared with that at the end of the previous year.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Smart outlet projects were generally implemented. During the Reporting Period, the smart outlet projects basically reached the construction goal of “mobile services, scenario-based transactions, and intelligent processes and non-coercion in marketing”. 140 branches of the Bank have deployed the smart outlet service model with a promotion rate of 95%. The Bank rationalized the high-efficiency hall service marketing process, and integrated business handling, service marketing and customer maintenance, speeding up basic business handling by 75% on average. The success rate of cross-selling was greatly improved.

The smart marketing project was put into use. During the Reporting Period, the Bank proactively built a retail marketing center. According to basic characteristics and transaction behaviors of customers, we summarized more than 400 customer characteristic tags, and established data models such as “loss warning” and “new customer growth” through the big data algorithm for the first time, and did a solid work in customer operation and management and laid a foundation for digital transformation for the Bank’s retail business. At the same time, in order to improve the use experience of the staff, the Bank independently developed the first “Marketing Link” APP on top of traditional computer terminals, which allowed “viewing data on a mobile phone, and marketing anywhere” and facilitated the operation and management of customers by different employees of branches anytime and anywhere.

2. Retail loans

As at the end of the Reporting Period, balance of the Bank’s retail loans amounted to RMB67.434 billion, representing an increase of RMB6.679 billion or 10.99% as compared with that at the end of the previous year, accounting for 28.71% of the balance of total loans. During the Reporting Period, the Bank increased the comprehensive income of retail loan business by improving comprehensive capabilities, namely adjusting the structure and operating its customer base while expanding the scale of business.

The overall asset quality of personal loans remained stable. The Bank attaches great importance to risk management of retail loans, and asset quality has remained stable for a long time. During the Reporting Period, the loan approval system named “Xingyun Wisdom” credit platform created by the Bank was launched online, which effectively enhanced the Bank’s IT system’s support to the full-process approval online of personal loan business, real-time quantitative risk control strategies, and online customer operation management. As at the end of the Reporting Period, the balance of non-performing loans of retail customers amounted to RMB411 million, and the non-performing loan ratio of retail customers was 0.61%, representing an increase of 0.07 percentage point as compared with that at the end of the previous year. Among the newly generated retail non-performing loans, the balance of mortgaged loans and loans to be settled by cooperative partners accounted for 86.59%, and the collateral was sufficient and the final loss of the loan was controllable.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

The personal housing loan business maintained steady development. Subject to compliance with regulatory requirements, the Bank's personal housing loan business actively carried out structural adjustments in favor of quality projects. The Bank paid attention to the comprehensive operation of and cross-selling to customers of personal housing loans, and provides such customers with comprehensive financial services. As at the end of the Reporting Period, balance of the Bank's personal housing loan amounted to RMB43.940 billion, representing an increase of RMB3.352 billion or 8.26% as compared with that at the end of the previous year; number of customers is 74.6 thousand, representing an increase of 3,700 as compared with that at the end of the previous year.

The Bank continuously expanded the variety and scale of Internet online loans. During the Reporting Period, the Bank launched the self-operated personal Internet credit loan product "Hairong Yidai". The core functions of this product, such as acceptance of service requests, risk assessment, and granting of loans, were independently designed and developed by the Bank, and the entire process can be completed online. At the same time, the Bank adhered to the business positioning of "serving the real economy and practicing inclusive finance". It entered into business cooperation with well-known domestic Internet platforms, concentrating the personal Internet loan business on the areas of small and micro business loans and small consumer loans. During the Reporting Period, a total of 930,300 loans amounting to RMB10.021 billion were issued, and the balance of loans as at the end of the Reporting Period was RMB12.518 billion, representing an increase of 19.40% as compared with that at the end of the previous year.

3. Credit card business

At the end of the Reporting Period, the total cumulative number of credit cards issued by the Bank reached 2,415,600, with a cumulative transaction amount of RMB23,621 million during the Reporting Period, representing a year-on-year increase of 47.03%, and an overdraft balance of RMB6,760 million at the end of the Reporting Period, representing an increase of 25.44% as compared with that at the end of the previous year.

Continued to consolidate the customer base and focus on active customer growth. Firstly, the Bank focused on online customer acquisition and accelerated offline issue of cards. During the Reporting Period, the Bank's online issue of cards remained stable, while offline issue of cards was beginning to bear fruit, with the number of new offline cards issued increasing by 25% year-on-year. Secondly, the Bank launched the "Boundless Card" product to enrich new customer acquisition scenarios for credit card business and further expand the young customer base. Thirdly, the Bank used mobile payment as a fulcrum to optimize the credit card activation and card-binding process and focus on active customer growth, with average monthly active customers increasing by 20% year-on-year during the Reporting Period.

Steady promotion of risk strategy and high revenue growth. Firstly, asset quality was stable and controllable and risk management strategies were steadily promoted, with the growth of non-performing assets in credit card business slowing down significantly and at a low level in the industry. Secondly, a good business cycle was formed whereby active customers drove the use of cards for transactions and the use of cards for transactions drove the sales of interest-bearing products, resulting in significant growth in related business revenue.

4. *Wealth management and private banking business*

As at the end of the Reporting Period, the Bank's retail customers with assets under management of over RMB2.00 million reached 14,300, representing an increase of 2,500 or 21.37% as compared to the end of last year, and the assets retained in the Bank amounted to RMB63.584 billion, representing an increase of RMB12.999 billion or 25.70% as compared to the end of last year.

During the Reporting Period, the Bank realized wealth management fee and commission income of RMB127 million, representing a year-on-year increase of 16.52%. Of which, RMB75 million was realized from the sales of agency trust products, RMB23 million from agency sales of insurance business and RMB29 million from agency sales of fund business. The cumulative sales agency amount of trust products reached RMB4.591 billion, agency sales of insurance premiums were RMB153 million and agency sales of open-ended funds amounted to RMB3.031 billion.

The wealth management and private banking business of the Bank maintained the focus of strategies and adhered to the operation and service philosophy of "customer-centered and market-oriented", constantly enriched investment instruments, provided customers with comprehensive wealth management planning and asset allocation services, and satisfied customers' increasingly diversified wealth management needs. On the basis of established multi-level product system, the Bank continued to optimize the product supply strategy; continuously improve customer service capabilities on remote lines; further implement customer segmentation operations, build a team of VIP financial managers and supporting service processes; and promote the steady increase in the number of customers, asset scale and business income.

5. Customer service management

During the Reporting Period, the Bank's service management was closely aligned with the theme of retail business development, further consolidating the service value and the ability to "obtain customers + vitalize customers", creatively formulating a new model of service experience 3.0 and building a highly adaptable and open and integrated marketing in halls "customer base" system. The Bank improved the efficiency and effectiveness of service cross-selling with user experience as the guide, and expanded the boundaries of service value.

The Bank continued to deepen its service exploration project. With focusing on retail customer base indicators, the Banks deepened its integrated service marketing capabilities at lobbies; transformed the service marketing by managers at lobbies, and collaborated with the integrated marketing at lobbies, achieving new breakthroughs in customer acquisition, deposit collection and other indicators. The Bank applied new standards, methods and models of "friendliness, accessibility and professionalism" to launch the service experience 3.0, so as to extend the brand value. The Bank transformed from service quality management to service experience management with the customer satisfaction research as a breakthrough to enhance user experience from the customer's perspective, and combined product innovation and process reengineering to further highlight the maturity and reliability of service experience management. The Bank promoted the transformation from consultative customer service to expert customer service, and steadily improved the service capacity of intelligent customer service robots. Technology empowerment gradually enhanced the service efficiency and boundaries to achieve a comprehensive upgrade of online customer service experience.

The Bank was selected as one of the "China's 500 Most Valuable Brands" in 2021, the only financial enterprise in Shandong Province to be selected for the third consecutive year, proving that our service brand was recognised again.

15.2 Corporate banking

During the Reporting Period, in terms of corporate banking, the Bank strengthened its foothold in public finance, focusing on the public projects of local government. The Bank strengthened special finance, seized policy opportunities, enriched green finance and blue finance products, and practiced a new financial model for sustainable development; comprehensively promoted the "Six General" business model for strategic customers, and cultivated our customer base around the "dual-base strategy". The Bank continued to promote inclusive finance, improve supply chain finance, promote business upgrades, develop inclusive finance customers in bulk, and promote steady growth in inclusive finance business. During the Reporting Period, the Company's corporate banking business achieved operating income of RMB2.827 billion, accounting for 53.08% of the Company's operating income.

1. *Corporate deposits*

During the Reporting Period, the Bank achieved sustained and stable growth in corporate deposits by strengthening its customer base and optimizing its liability structure. As at the end of the Reporting Period, the balance of corporate deposits (excluding accrued interest) reached RMB194.842 billion, representing an increase of RMB11.395 billion or 6.21% as compared with that at the end of the previous year, accounting for 65.91% of the balance of various deposits (excluding accrued interest). The corporate demand deposit amounted to RMB112.968 billion, representing an increase of RMB1.477 billion or 1.32% as compared with that at the end of the previous year. Corporate time deposit amounted to RMB81.874 billion, representing an increase of RMB9.918 billion or 13.78% as compared with that at the end of the previous year.

The Bank closely followed the process of government non-tax revenue reform and continued to strengthen the marketing of public finance, consolidating the corporate deposit base. At the same time, the Bank adjusted the sources of liabilities for corporate banking business and transformed from active liabilities to transactional liabilities to reduce the interest cost of corporate deposits. At the end of the Reporting Period, the average cost ratio of corporate deposits was 1.72%, representing a decrease of 0.05 percentage point as compared with the same period of previous year. Through increasing the volume of international settlement business, strengthening domestic letters of credit, opening domestic financial guarantees and other trade finance businesses, the Bank increased cash flow from transactional businesses and enhanced the deposit contribution from customers while increasing their adherence.

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 RMB167.482 billion, representing an increase of RMB21.490 billion as compared with that at the end of the previous year, representing an increase of 14.72%, accounting for 71.29% of the total loans (excluding accrued interest). In particular, the balance of the loans of private enterprises was RMB79.084 billion, representing an increase of RMB11.627 billion or 17.24% as compared with that at the beginning of the year, accounting for 47.22% of the total corporate loans. The balance of Green Credit was RMB17.483 billion, representing an increase of RMB2.250 billion or 14.77% as compared with that at the beginning of the year, accounting for 10.44% of the total corporate loans.

During the Reporting Period, the Bank focused on national macro policies and further increased credit investment in new infrastructure, marine strategic emerging industries, high-end manufacturing, people's livelihood protection, inclusive finance and other aspects. Also, the Bank paid attention to industrial actions under the target node of "carbon peak and carbon neutrality", actively linked and served green industry enterprises and projects, continuously improved financial support for private and small and micro enterprises, optimized the credit structure and continued to improve the quality and efficiency of serving the real economy. At the same time, the Bank actively supported the construction of rural public infrastructure, satisfied the financial service needs of the entire industrial chain of modern agriculture, and continued to improve the ability and level of financial services for rural revitalization.

3. Corporate customers

As at the end of the Reporting Period, the Bank had 216.4 thousand corporate customers, representing an increase of 18.2 thousand or 9.18% as compared with that at the end of the previous year, of which the number of corporate customers with an average daily deposit of RMB10 million or more reached 1,875.

The Bank comprehensively promoted the "six-heads" business model for strategic customers. During the Reporting Period, the Bank has established a family tree of strategic customer groups, equipped with a comprehensive development service team, mobilized the resources of the whole bank, and thoroughly conducted various strategic customer businesses. As at the end of the Reporting Period, the Bank had 620 strategic customers, representing an increase of 48 as compared with that at the beginning of the year, while the total annual average deposit amounted to RMB139.183 billion, representing an increase of RMB12.952 billion or 10.26% as compared with that at the beginning of the year.

The number of transaction banking customers and business volume of the Bank grew steadily. During the Reporting Period, the Bank continued to enhance its cash management, supply chain finance, and trade financing businesses, integrate cash management products, and create integrated supply chain financing services. As at the end of the Reporting Period, there were 256 new international settlement business customers of the Bank, representing an increase of 12.78% year on year, with accumulated international settlement of USD4.572 billion, representing an increase of 47.39% year on year. There were 29 new customers who entered into contracts for the new generation of electronic payment system for customs duties, with an addition of transaction volume of customs duties by RMB275 million. The Bank expanded 20 core customer groups for the online supply chain financing business, retained 555 upstream and downstream customers at the end of the Reporting Period, and granted loans with a total of amount of RMB1.120 billion during the Reporting Period.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

For inclusive finance, the Bank expanded the channels for obtaining customers and expanded the basic customer base in batches. During the Reporting Period, the Bank expanded the channels for obtaining customers, comprehensive made use of technology loans, government procurement loans and other inclusive loan products to continuously improve the financing service methods and models for small and micro enterprises. As at the end of the Reporting Period, the balance of inclusive loans to small and micro enterprises of the Bank¹ was RMB21.066 billion, representing an increase of RMB2.901 billion or 15.97% as compared with that at the beginning of the year. The average interest rate of the inclusive loans to small and micro enterprises was 5.08%, and the number of loans to inclusive small and micro enterprises reached 35.5 thousand, representing an increase of 1.7 thousand as compared with that at the beginning of the year, and featured branches serving small and micro enterprises totaled 13.

4. *Corporate products*

During the Reporting Period, the Bank optimized and improved the Company's product system in an all-round way under the guidance of the "dual-base strategy". The Bank innovatively launched "Qinghuiying" (青匯盈), "Cross-border Capital Pool" (跨境資金池) and other products, enriched and improved the product types of international business customers; developed payment collection products such as "Qing e Payment" (青e繳) and Shouyinbao (收銀寶), expanded the customer base of cash management; launched the "Tan Dai Tong" (碳貸通) business product, financially supported "Carbon cap, carbon neutralization", shaped a distinctive "blue finance" brand; innovated "Cheng Fu Tong" (承付通), an acceptance one-key invoicing function, improved the business system support, and enhanced the efficiency of invoicing and customer experience.

During the Reporting Period, the first "Carbon neutralization" loan in Shandong Province, the first supply chain bill financing business in the province and the first online forfaiting transaction business in the province of the Bank had gone into operation. The Bank also launched the first green supply chain financial product of a bank corporation in the province, namely "Carbon E-Link" (碳E鏈), and signed a blue bond investment commitment agreement with International Finance Corporate (IFC) of World Bank Group.

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

15.3 Financial Market Business

During the Reporting Period, in terms of financial market business, the Bank optimized asset structure, improved investment quality and reduced management costs. The Bank leveraged on advantage as a bank corporation to enhance its underwriting strength and coordination capability. The Bank has also expanded the coverage of bond underwriting business, enlarged and solidified underwriting businesses by encouraging business innovations and improving product lines. While continuously strengthening the comprehensive strength of wealth management business, the Bank explored the research and development of characteristic wealth management products to expand the customer coverage. The Bank actively promoted asset securitization and issuance of tier-two capital bonds, providing strong support for business development. During the Reporting Period, the Company's financial market business realized operating income of RMB1.253 billion, accounting for 23.53% of the Company's operating income.

1. *Proprietary investment*

As at the end of the Reporting Period, the Bank's proprietary investment (excluding accrued interest) reached RMB186.344 billion, representing an increase of RMB18.541 billion or 11.05% as compared with that at the end of last year. Among them, the scope of bond investment reached RMB123.736 billion, representing an increase of RMB4.825 billion or 4.06% as compared with that at the end of last year, which was mainly attributable to the increase in investment in central government bonds and local government bonds. The scope of investment in public bond fund products reached RMB35.472 billion, representing an increase of RMB11.109 billion or 45.59% as compared with that at the end of last year, which was mainly attributable to the increased investment in public bond fund products and monetary fund products.

During the Reporting Period, the Bank responded to regulatory guidance, paid attention to market changes, continued to improve the investment portfolio, and improve the liquidity of assets while increasing the total amount of assets. First, management costs dropped significantly with the management of non-underlying assets and non-standardized investment, as well as the transition of asset investment from entrusted management to independent management; the safety and liquidity of assets were improved with the transition from non-standardized assets to standardized bonds. Second, in terms of saving capital appropriation, the Bank achieved a steady increase in total investment and investment returns, while maintaining the ratio of the financial investment risk weighted assets at a lower level, resulting in an increase in the revenue-generating efficiency per unit risk asset. Third, the liquidity of assets increased. During the Reporting Period, the incremental business of proprietary investment mainly focused on highly liquid assets (such as central government bonds and local government bonds) and open public funds. In the background of the simultaneous growth of assets and liabilities, the Bank has maintained sufficient liquidity, while the market hedging ability of proprietary investment and the flexibility of structural adjustment have been strengthened.

2. Interbank business

The structure of the Bank's interbank liabilities is stable with good liquidity. During the Reporting Period, the balance of interbank deposits (excluding accrued interest) was RMB8.462 billion; the balance of interbank deposit certificates issued amounted to RMB67.083 billion, representing an increase of 34.14% as compared with that at the end of the previous year, and accounting for 14.56% of the Bank's total liabilities. During the Reporting Period, the Bank issued the first foreign currency interbank deposit certificate on the inter-bank market in Shandong Province, with an issue size of USD10 million, a term of 3 months and an interest rate of 0.30%. This issue of deposit certificate realized the diversified fundraising of market-oriented funds, and diversified the original financing channels, providing investors with new foreign currency investment varieties.

The Bank actively carried out market trade and derivative transaction, constantly increasing the transaction volume. During the Reporting Period, the Bank was qualified as the bond market maker in the bond market, becoming the first city commercial bank that acts as bond market maker in Shandong Province. It also launched FDR benchmark interest rate swaption and interest rate collar option business, enriching the varieties of local currency tradable derivatives of the Bank. The Bank's Bond Connect transaction comprehensively ranked 19th in the market and second in the category of "City Commercial Banks/Rural Commercial Banks". 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.

3. Asset management

Guided by the new asset management regulations, the Company achieved a series of work results in the characteristic development of wealth management business and the net-worth transformation of products under the premise that risks could be controlled.

As at the end of the Reporting Period, wealth management products of the Company reached 915, with a balance of RMB156.719 billion, and the scale of wealth management products increased by 26.26% as compared with that at the end of the previous year. During the Reporting Period, wealth management products issued by the Company reached 724, raising a total amount of RMB333.569 billion, all of which were non-principal-guaranteed wealth management products, representing an increase of 32.63% as compared to the same period of the previous year. During the Reporting Period, the bond market experienced low fluctuation, with staged opportunities for transaction weaker than the same period of last year, and the service fee and commission income from wealth management products reached RMB415 million.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the Reporting Period, the balance of the Company's wealth management investment products amounted to RMB185.160 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 RMB164.547 billion, accounting for 88.87%; non-standard debt assets amounted to RMB14.541 billion, accounting for 7.85%; public funds amounted to RMB3.253 billion, accounting for 1.76%; and capital market assets amounted to RMB2.819 billion, accounting for 1.52%.

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 RMB149.088 billion, representing an increase of 33.29% as compared to that at the end of the previous year, accounting for 95.13% of the balance of wealth management products, representing an increase of 5.01 percentage points as compared to that at the end of the previous year. During the Reporting Period, according to the Bank Wealth Management Capabilities Ranking Report (1Q 2021) published by PY Standard, the Company ranked 5th in comprehensive capabilities of wealth management business among city commercial banks. During the Reporting Period, the Company provided full support to its wealth management subsidiaries to advance various tasks. Qingyin Wealth Management stayed committed to the strategic policy of driving product design with strong investment research capabilities and driving customer base expansion with excellent product design. Leverage on professional and characteristic services, Qingyin Wealth Management adopted the market strategy featuring leadership in direct marketing and competition with sales agency, making the "Bright Life (璀璨人生)" series of wealth management products reach to more customers through more diverse channels. Meanwhile, Qingyin Wealth Management continued to pay attention to policies and people's livelihood hotspots, promote investment in social impact, create featured products such as carbon neutrality, ESG, charity, and blue finance, and fulfill corporate social responsibilities. As at the end of the Reporting Period, the balance of products of Qingyin Wealth Management reached RMB48.865 billion, representing an increase of 31.79 times as compared to the end of the previous year.

4. *Investment banking*

During the Reporting Period, the Bank underwrote the issue of 29 debt-related projects, with a total issue size of RMB17.930 billion, and the underwriting amount of the Bank was RMB12.055 billion. The issue amount increased by RMB1.650 billion or 10.14%, and the underwriting amount increased by RMB1.012 billion or 9.16%, as compared with the same period last year. The Bank issued tier-two capital bonds with a total amount of RMB6 billion in two phases for the purpose of supplementing the tier-two capital of the Bank and consolidating its capital base; and issued residential mortgage-backed securities with a total amount of RMB1.766 billion to expand the limit of credit and loan granted.

As the only financial institution corporation in Shandong Province with the independent underwriting qualification of Type B lead underwriter, the Bank focused on grasping market dynamics, made innovations in market tools, continuously improved the competitive advantage in the financial market, and built the Bank's service brand in the debt capital market, providing comprehensive financing solutions for high-quality enterprises in Shandong Province.

The Bank insisted on leveraging characteristic service advantages of its investment banking business, and took innovative products as a starting point to promote sustained business growth. During the Reporting Period, the Bank underwrote the issue of first carbon-neutral bond in Shandong Province, the first public offering project income notes in Shandong Province, and the first equity contribution note in Qingdao City, to meet the financing needs of different customers with diversified product mix.

15.4 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 156 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 88 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 104 in-bank self-service banks and 405 self-service devices including 31 self-service ATMs, 255 self-service Cash Deposit and Teller machines (CTM), and 119 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 3,097.3 thousand transactions through self-service banks with a total transaction amount of RMB9.863 billion.

3. *Electronic banking channels*

The Bank has been regarding electronic banking as a significant breakthrough in innovation and development, taking project construction as the starting point, and putting customer experience at the top of its work. The Bank also enhanced its comprehensive channel service capabilities through application of advanced financial technology, and continuous improvement and optimization of online service channels such as mobile banking and online banking, thus improving the advantages of electronic channel services.

(1) *Mobile finance*

During the Reporting Period, the number of users of the Bank's mobile banking service and the volume of mobile banking transactions were in constant and rapid growth. The number of existing mobile banking users reached 3,395.8 thousand, representing an increase of 12.60% as compared with that at the end of the previous year; 40.9576 million transactions, representing an increase of 34.12% as compared with that in the same period of the previous year; a transaction amount of RMB216.137 billion, representing an increase of 16.35% as compared with that in the same period of the previous year.

During the Reporting Period, the sales volume of wealth management products on the mobile banking channel continued to rise. The total sales of wealth management products were RMB211.476 billion, representing an increase of 25.91% as compared with that at the end of the previous year. The proportion of mobile banking sales to that in the whole channel reached 89.38%, representing an increase of 3.42 percentage points as compared with that at the end of the previous year.

(2) *Internet banking*

As at the end of the Reporting Period, the Bank had a total of 149.0 thousand online corporate banking customers, representing an increase of 10.45% as compared with that at the end of the previous year. During the Reporting Period, the Bank's accumulated number of transactions totaled 9,166.7 thousand, representing an increase of 18.11% as compared with that at the end of the previous year, while the value of total transaction amounted to RMB916.643 billion, representing an increase of 7.50% as compared with that in the same period of the previous year. The number of online retail banking customers totaled 738.8 thousand, representing an increase of 0.19% as compared with that at the end of the previous year, and accumulated a total of 16,522.9 thousand transactions, representing a decrease of 21.08% as compared with that in the same period of the previous year. Total transaction amounted to RMB118.339 billion, representing a decrease of 5.66% as compared with that in the same period of the previous year. During the Reporting Period, the Bank continued to develop mobile finance. Our customers were placing greater reliance on mobile banking, and online personal banking transactions were continuously decreasing.

15.5 Information technology

During the Reporting Period, guided by the concept of “digital transformation”, the Bank continued to promote its technological innovation strategy, deepen the practical application of new technologies such as big data, artificial intelligence, cloud computing, 5G technologies and biometrics, and accelerated the implementation and innovation of key projects. Also, the Bank was committed to exploring new business models and characteristic products and services, and promoting the innovative integration of finance and technology in ways that contributed to the achievement of various strategic goals of the Bank.

1. *Intensified efforts in the construction of technology projects, and continued to improve technology-empowered capability*

During the Reporting Period, the Bank launched 38 new IT projects, successfully completed the third phase of smart outlets, retail smart marketing, issue of digital credit card, and put 18 projects including cloud smart credit platform (星雲智慧信貸平台) into use. The Bank focused on corporate finance, retail finance, and inclusive finance, vigorously enhanced mobile, online and digital technologies, and actively utilized cutting-edge financial technology to improve quality and efficiency.

In terms of corporate finance, the Bank continued to diversify its corporate business channels and products, and promoted the digital transformation and healthy development of the business. For corporate smart CRM project, the Bank created a one-stop, Internet-based knowledge retrieval and display platform for corporate customers, realizing the dynamic and refined management of customer base and customer relationships, and providing powerful support for the targeted marketing to the customer base of the Company. The account management process optimization project of the Company effectively improved service efficiency and strengthened process risk control.

In terms of retail finance, the Bank continued to advance the new strategy of mobile finance, and strengthen the construction of mobile finance channels, thus achieving digitization of the whole online process. The rapid issue of digital credit card has realized the digitization of the whole process from application for credit card, receipt of card to payment with card, which broke geographical restrictions, deepened online scenarios and improved business efficiency, thus increasing the number of credit card issued. The remote interview function of credit card helped further expand service channels, increase activation rate of credit cards, and optimize customer experience.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

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

The Bank continued to strengthen network information security management, improved the emergency response mechanism for server room infrastructure, and enhanced the business continuity level and network security defense capabilities of the Bank to ensure the reliable, stable, continuous and efficient operation of information system. During the Reporting Period, the Bank's projects, including operation of remote cloud center, relocation and expansion of network equipment for disaster recovery server room, and upgrade of mPaaS platform system, contributed to improving the basic technology-empowered capability.

16. STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

Structured entities controlled by the Company are mainly the asset-backed securities sponsored by the Company. Please refer to "Section III Management Discussion and Analysis – 15.3 Financial Market Business" of this interim report.

17. RISK MANAGEMENT

17.1 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, etc.. The management of credit risk is centralised and led by the Credit Risk Management Committee. 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 credit portfolios, 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, a streamlined structure and high efficiency as well as well-delegated authority and duties. The risk management procedures and methods are constantly being improved and the credit 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 to strengthen the management of maturing loans and overdue loans and 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:

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

1. Implemented the group's credit risk management and control mechanism and unified risk appetite and risk control standards. Based on its persistent implementation of unified credit extension, the Company had been actively promoting the inclusion of large sum risk exposure management into the work 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 a full range of customers, assets and the entire institution and the construction of a large sum risk exposure management system, which maintained the stability of the overall credit quality and quantity of the group.
2. Continued to optimise credit asset quality control, implemented dynamic refined management, strengthened the pre-assessment and analyses of the trends of risk migrations and changes, actively controlled and monitored the trends of risk changes, strengthened the dynamic monitoring of the regional distribution and industry distribution of non-performing loans, enhanced preprocessing capabilities for risk signals, strengthened the management of maturing loans and overdue loans, enhanced the disposal of risky loans, stepped up efforts in increasing cash collection and cancellation of non-performing loans, making efforts to resolve the stock of non-performing assets. The loans that were overdue more than 60 days continued to be managed as non-performing loans to maintain a downward trend and achieved the control target.
3. Focused on macro policies to optimise credit resource allocation, taking credit policies as a grip to focus on the newly developed concept, actively focusing on industrial low-carbon actions and green manufacturing projects under the target point of "carbon peaking and carbon neutral", issuing "Ten Measures of Bank of Qingdao on Promoting Green Financial Construction and Supporting the Development of Carbon Emission Reduction", and has actively provided services to enterprises and projects in green industries, and increased the scale of Green Credit. Continued to increase support for key areas such as advanced manufacturing industries, green and low-carbon industries, and technological innovation enterprises and listed enterprises; formulated the "Bank of Qingdao Credit Guidelines for Financial Services for Rural Revitalisation" and the "White List Guidelines for Credit-granting Customers in County Livelihood Industries", leading operating institutions to gradually sink the focus of financial inclusion to the county, cultivating the local areas, adapting to local conditions, and actively striving to become the host bank for customers in livelihood industries. The Bank will continue to enhance its ability and level of financial services for rural revitalization.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4. By continuously and comprehensively improving the credit management system, 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, strengthening the risk supervision on key areas and key customers, as well as tracking and rectifying the problems found. 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. Improved intelligent risk control capabilities of credit risk, explored the establishment of a credit customer risk early warning platform, enriched internal data such as basic enterprise information, product business and transaction settlement, integrated access to external data such as industry and commerce, justice and customs, set thresholds for various types of early warning signals and early warning rules, building early warning models with the help of big data algorithms, integrating risk status monitoring, early warning push, early warning processing work monitoring and early warning reports, etc. The Bank integrated management tools to improve the timeliness and accuracy of post-loan risk warnings and credit execution capabilities through data empowerment and efficiency enhancement and increased 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.

17.2 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 flows to meet payment obligations and fund business operations on a timely basis. Based on its development strategy, the Company continuously improved its level of liquidity risk management and measures, strengthened its capability of identifying, monitoring, measuring and refining the management and control of liquidity risks, and maintained a reasonable balance between liquidity and profitability.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

The Company has established a liquidity risk management governance structure according to 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 its own management needs.

The Company measures, monitors, and identifies liquidity risks from the perspectives of short-term provision and term structure of assets and liabilities, 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 an appropriate amount of liquid assets to ensure the satisfaction of its liquidity needs and at the same time has sufficient capital to meet the unexpected payment needs that may arise from daily operation. Furthermore, the Company's internal control system for liquidity risk management is sound and compliant. The Company conducts internal special audits on liquidity risks annually and generates and submits an independent audit report to the Board.

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

1. Forwarding the growth of customers' deposits, strengthening key customer group marketing strategy and other measures, strengthening control at key time points, and adopt multiple strategies to promote steady growth of deposits, and the stability of liabilities was enhanced;
2. Managing the liquidity risk indicators with a forward-looking manner, regulating the allocation of assets and liabilities dynamically to ensure that all indicators continue to meet regulatory requirements;
3. Managing the matching of asset and liability growth, regulating the allocation of credit assets dynamically to achieve smooth operation of assets and liabilities;

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4. Increasing supervision and control in qualified and high-quality bonds, ensure the adequacy of liquidity reserves, and improving liquidity risk buffer capacity continuously;
5. Promoting the construction of a new generation asset liability management system project to continuously improve the Bank's liquidity risk identification, measurement and monitoring capabilities.

As at the end of the Reporting Period, details of the liquidity coverage ratio and net stable funding ratio of the Company are as follows:

Liquidity coverage ratio item (RMB' 000)	30 June 2021	31 December 2020
Qualified and high-quality current assets	100,034,369	84,342,175
Net cash outflows in next 30 days	55,764,766	55,334,625
Liquidity coverage ratio	179.39%	152.42%

Notes: Pursuant to the requirements under the Administrative Measures for Liquidity Risk Management of Commercial Banks, a minimum liquidity coverage ratio of 100% is required for commercial banks.

Net stable funding ratio (RMB' 000)	30 June 2021		31 March 2021	
	The Company	The Bank	The Company	The Bank
Available stable funding	281,845,319	279,531,896	267,019,602	264,531,122
Required stable funding	266,484,323	257,797,247	253,379,478	247,521,142
Net stable funding ratio	105.76%	108.43%	105.38%	106.87%

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

For more details on the Company's liquidity risk management, please refer to "Notes to the Unaudited Interim Financial Report - 42(3) Liquidity Risk" of this interim report.

17.3 Market Risk Management

Market risk refers to the risk of loss of on-balance sheet and off-balance sheet businesses due to adverse changes in market factors (interest rates, exchange rates, commodity prices, stock prices, etc.). The market risks faced by the Company mainly include interest rate risk and exchange rate risk.

In accordance with the relevant requirements of the 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, optimize its market risk management policy system, and deepen the construction of the market risk management information system. It 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 responsibilities defined for the Board, senior management and various departments; meanwhile, the Company regularly inspected the policies and systems in relation to market risk management, so as to regulate the identification, monitoring and control 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 generates an independent report.

The Company comprehensively uses information systems including the Banking Financial Institutions Supervision Information System and 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.

17.3.1 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 the 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.

For the interest rate risk exposure in its trading book, the Bank 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. Corresponding to the trading book, the Bank's other 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 employs various techniques such as repricing gap analysis, duration analysis, and net interest income simulation analysis to quantify the impact of interest rate changes on the Company's net interest income and economic value according to various risk sources, and puts forward management recommendations and business adjustment strategies based on the report generated from the analysis results. During the Reporting Period, the Company paid close attention to policy trends and changes in the external interest rate environment to improve the level of refined management on interest rate risk. The Company ensured that the interest rate risk as a whole was within the control by proactively adjusting business pricing and structure strategies of its asset and liability.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

17.3.2 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 30 June 2021 and 31 December 2020.

Unit: RMB'000

Item	30 June 2021 (Decrease)/ Increase	31 December 2020 (Decrease)/ Increase
Change in annualized net interest income		
Interest rate increase by 100 bps	(598,670)	(640,745)
Interest rate decrease by 100 bps	598,670	640,745

Above sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The relevant analysis only measures only 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.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

17.3.3 Analysis of exchange rate risk

The Company's exchange rate risk mainly arises from the currency mismatches of the non-RMB assets and liabilities held in the banking book of the Company. The Company controlled the exchange rate risk of banking book within an acceptable range through strictly managing and controlling risk exposure. 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.

17.3.4 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 30 June 2021 and 31 December 2020.

Unit: RMB'000

Item	30 June 2021 Increase/ (Decrease)	31 December 2020 Increase/ (Decrease)
Change in annualized net profit		
Foreign exchange rate increase by 100 bps	10,007	9,953
Foreign exchange rate decrease by 100 bps	(10,007)	(9,953)

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.

17.4 Operational Risk Management

Operational risk refers to the risk of loss arising from inadequate or problematic internal procedures, employees and 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 Board considers the operational risk as a major risk faced by the Company and has effectively shouldered the ultimate responsibility for monitoring of operational risk management. The senior management has control of the overall condition of the Company's operational risk management and strictly implemented the operational risk management strategies and policies approved by the Board.

The Bank 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 mitigated 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 Bank focused on enhancing its operational risk management in the following areas:

1. Consistently strengthening case prevention and control, as well as staff training to build solid basis of risk prevention and control. The Bank created a linkage mechanism for conducting risk screening and case warning education activities on a regular basis, strengthened the staff training continuously, put emphasis on staff's behavior management and ideological source governance, to improve staff's business operation level and compliance awareness to prevent the risk of non-compliance.
2. Strengthening operational risk control in key areas and strictly controlling the occurrence of operational risks. The online electronic process for the approval of printing is in place and promoting the use of electronic seals; the risk identification and rectification on key businesses and key areas within the Bank is conducted, with the focus of supervision and inspection combined, and the problems rectified through a self-knowledge and self-governance process, as well as the loopholes in operation and management plugged, and nipped the risks in the bud.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

3. Upgrading the operational risk management tools and strengthening risk monitoring and assessment. The Company will make comprehensive use of system monitoring, risk screening, internal inspection, and line supervision to monitor operational risks in all aspects, collect and analyse key operational risk indicators and loss data and provide early warning, capture potential risks and identify control defects, improve internal process construction and block operational risks in all aspects.
4. Optimising business continuity management to ensure the normal operation of the businesses. Promoting the business continuity management continuously, improved the system construction of emergency plans, organized and conducted business continuity drills, and enhanced the relevant personnel's ability to respond to emergencies and their ability to work collaboratively.
5. Strengthening outsourcing business management to prevent potential outsourcing risks. Improving the outsourcing risk management system, strictly examining the entry of outsourcing projects and service providers, increasing the control of outsourcing personnel, controlling the daily operation of outsourcing services strictly, and controlling and preventing the occurrence of outsourcing risks from the source.

18. DEVELOPMENT PLAN IN THE SECOND HALF OF 2021

18.1 Operating Situation Analysis for the Second Half of the Year

In the second half of 2021, the global economic recovery will further accelerate, and the economy in China has shown strong resilience and will continue to maintain a stable recovery in the future. Active fiscal policy will continue to emphasise quality and efficiency, while monetary policy will continue to emphasise flexibility, precision and reasonable moderation. The continued macroeconomic recovery, coupled with targeted policy support in strategic areas of the country, will bring more development opportunities for the banking industry's operations.

18.2 Development Guiding Ideology for the Second Half of the Year

In the second half of 2021, the Bank will continue to adhere to the basic operating guideline of "strengthening the foundation, serving the entity, preventing risks and improving the overall situation", expand the breadth and depth of improvement on the basis of continuous promotion of business management, explore the path of development with special features and ensure high-quality completion of the 14th Five-Year Plan.

18.3 Major Work Measures in the Second Half of the Year

- (1) Strengthening the Company's customer base and increase assets and liabilities simultaneously;
- (2) Continuing to develop retail customer base and exploring and cultivating new growth points;
- (3) Innovating and increasing efficiency in financial markets and strengthening marketing for investment banking;
- (4) Improving business management and enhancing synergies with the group;
- (5) Ensuring stable asset quality and improving the credit approval system;
- (6) Comprehensively promoting digital transformation and continuously optimising business processes;
- (7) Implementing institution building plans and optimising and improving virtual channels;
- (8) Strengthening the learning and education of Party's history to achieve overall enhancement of work.

SECTION IV CORPORATE GOVERNANCE

The Bank will continue to enhance corporate governance as an important foundation to achieve sustainable and high-quality business development. In accordance with the latest requirements of banking supervision and the capital market, the Bank has continued to carry out corporate governance practices, including improving the corporate governance mechanism, enhancing the effectiveness of the “three committees and one floor”, and strengthening the capacity of Directors and Supervisors to perform their duties, actively establishing a standardized, market-oriented and characteristic corporate governance model. 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, coordinating operation, scientific and effectively performed decision-making, supervision and execution duties of each corporate governance entity.

I. CONVENING OF SHAREHOLDERS’ GENERAL MEETING, BOARD MEETING AND SUPERVISORY MEETING DURING THE REPORTING PERIOD

1.1 Shareholders’ general meeting

Session of meeting	Type of meeting	Participation percentage of investors	Date of convening	Date of disclosure	Resolutions of meeting
2021 first extraordinary general meeting	Extraordinary general meeting	74.988409%	26 March 2021	26 March 2021	The meeting considered and approved 9 resolutions, such as the resolution in relation to the proposal for rights issue of Bank of Qingdao Co., Ltd., the resolution in relation to the plan of Bank of Qingdao Co., Ltd. on public issuance of shares by the way of rights issue, the resolution in relation to the authorization to the Board to deal with matters related to rights issue to be proposed in the general meeting, the resolution in relation to the change in registered capital and the corresponding amendments to the relevant clauses in the Articles of Association upon completion of rights issue of Bank of Qingdao Co., Ltd., the resolution in relation to the fulfillment of issue conditions of rights issue of Bank of Qingdao Co., Ltd., the resolution in relation to the report on the use of previously raised funds of Bank of Qingdao Co., Ltd., the resolution in relation to the report on the feasibility of use of proceeds from rights issue of Bank of Qingdao Co., Ltd., the resolution in relation to the risk reminder of and remedial measures for the dilution of current returns by rights issue to original shareholders of Bank of Qingdao Co., Ltd. and commitments by relevant entities and the resolution in relation to the shareholders’ return plan for the next three years (2021-2023) of Bank of Qingdao Co., Ltd.

SECTION IV CORPORATE GOVERNANCE

Session of meeting	Type of meeting	Participation percentage of investors	Date of convening	Date of disclosure	Resolutions of meeting
2021 first A Shares class shareholders' general meeting	Extraordinary general meeting	70.620322%	26 March 2021	26 March 2021	The meeting considered and approved 7 resolutions, such as the resolution in relation to the proposal for rights issue of Bank of Qingdao Co., Ltd., the resolution in relation to the plan of Bank of Qingdao Co., Ltd. on public issuance of shares by the way of rights issue, the resolution in relation to the authorization to the Board to deal with matters related to rights issue to be proposed in the general meeting, the resolution in relation to the change in registered capital and the corresponding amendments to the relevant clauses in the Articles of Association upon the completion of rights issue of Bank of Qingdao Co., Ltd., the resolution in relation to the fulfillment of issue conditions of rights issue of Bank of Qingdao Co., Ltd., the resolution in relation to the report on the feasibility of use of proceeds from rights issue of Bank of Qingdao Co., Ltd., the resolution in relation to the risk reminder of and remedial measures for the dilution of current returns by rights issue to original shareholders of Bank of Qingdao Co., Ltd. and commitments by relevant entities
2021 first H Shares class shareholders' general meeting	Extraordinary general meeting	81.590648%	26 March 2021	26 March 2021	The meeting considered and approved 7 resolutions, such as the resolution in relation to the proposal for rights issue of Bank of Qingdao Co., Ltd., the resolution in relation to the plan of Bank of Qingdao Co., Ltd. on public issuance of shares by the way of rights issue, the resolution in relation to the authorization to the Board to deal with matters related to rights issue to be proposed in the general meeting, the resolution in relation to the change in registered capital and the corresponding amendments to the relevant clauses in the Articles of Association upon the completion of rights issue of Bank of Qingdao Co., Ltd., the resolution in relation to the fulfillment of issue conditions of rights issue of Bank of Qingdao Co., Ltd., the resolution in relation to the report on the feasibility of use of proceeds from rights issue of Bank of Qingdao Co., Ltd., the resolution in relation to the risk reminder of and remedial measures for the dilution of current returns by rights issue to original shareholders of Bank of Qingdao Co., Ltd. and commitments by relevant entities

SECTION IV CORPORATE GOVERNANCE

Session of meeting	Type of meeting	Participation percentage of investors	Date of convening	Date of disclosure	Resolutions of meeting
2020 annual general meeting	Annual general meeting	74.795594%	11 May 2021	11 May 2021	The meeting considered and approved 10 resolutions, such as the work report of the Board of Directors of Bank of Qingdao Co., Ltd. for 2020, the work report of the Board of Supervisors of Bank of Qingdao Co., Ltd. for 2020, the final financial accounts of Bank of Qingdao Co., Ltd. for 2020, the profit distribution plan of Bank of Qingdao Co., Ltd. for 2020, the resolution on the engagement of external auditors of Bank of Qingdao Co., Ltd. for 2021 and their remuneration, the resolution on the election of Directors of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., the resolution on the election of Supervisors of the eighth session of the Board of Supervisors of Bank of Qingdao Co., Ltd., the special report on related party transactions of Bank of Qingdao Co., Ltd. for 2020, the resolution on the estimated amount of the ordinary related party transactions of Bank of Qingdao Co., Ltd. for 2021 and the resolution on the general mandate for the issue of shares by Bank of Qingdao Co., Ltd.

1.2 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.

1.3 Board meetings and meetings of the special committees

During the Reporting Period, the Board of Directors convened 5 meetings, including 2 on-site meetings and 3 correspondence voting meetings, at which a total of 35 proposals were considered and 36 reports were heard. The special committees of the Board held 15 meetings, including 3 meetings of the Strategy Committee, 1 meeting of the Risk Management and Consumer Rights Protection Committee, 3 meetings of the Audit Committee, 2 meetings of the Remuneration Committee, 2 meetings of the Nomination Committee, 3 meetings of the Related Party Transactions Control Committee and 1 meeting of the Network Security and Information Technology Committee, at which a total of 27 proposals were considered and 30 reports were heard.

At the first meeting of the eighth session of the Board of Directors of the Bank, it was agreed that the former “Information Technology Committee” of the Board of Directors would be renamed as “Network Security and Information Technology Committee”. The change will take effect upon the completion of the amendments to the Articles of Association and the Rules of Procedure of the Board of Directors of Bank of Qingdao Co., Ltd.

1.4 Supervisory meetings and and meetings of the special committees

During the Reporting Period, the Board of Supervisors held 4 meetings, including 1 on-site meeting and 3 correspondence voting meetings, at which a total of 21 proposals were considered and 34 reports were heard. The special committees of the Board of Supervisors held 5 meetings, including 3 meetings of the Supervision Committee and 2 meetings of the Nomination and Evaluation Committee, at which a total of 13 proposals were considered and 31 reports were heard.

SECTION IV CORPORATE GOVERNANCE

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Directors of the Bank are nominated by the Board of Directors and elected in accordance with the qualifications and election procedures for Directors as set out in the Articles of Association; the shareholder Supervisors and external Supervisors are nominated by the Board of Supervisors and the employee Supervisors are nominated by the Trade Union Committee and elected in accordance with the election procedures as set out in the Articles of Association. The changes in the Directors, Supervisors and senior management of the Bank are set out in the table below:

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

Save for the above, there were no other changes in the Directors, Supervisors and senior management of the Bank.

As at the date of publication of this report, the Board comprises Mr. GUO Shaoquan, Mr. WANG Lin, Mr. LIU Peng and Ms. LU Lan as executive Directors; Mr. ZHOU Yunjie, Mr. Rosario STRANO, Ms. TAN Lixia, Mr. Marco MUSSITA, Mr. DENG Youcheng and Mr. CHOI Chi Kin, Calvin as non-executive Directors; Mr. Simon CHEUNG, Ms. FANG Qiaoling, Mr. Tingjie ZHANG, Mr. XING Lecheng and Mr. ZHANG Xu as independent non-executive Directors.

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

1. Mr. XING Lecheng, an independent non-executive Director, has been the vice mayor of Shouguang Municipal People's Government (a posting) since 16 June 2021.
2. Mr. JIANG Xinglu, an external Supervisor, has been a director of Sinostar PEC Holdings Limited since 4 July 2021.

Save for the above, there were no other changes in the information on Directors and Supervisors of the Bank during the Reporting Period.

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

The Bank did not distribute cash bonus for ordinary shares, distribute bonus shares and increase share capital with provident fund during the interim period.

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

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

VI. 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 prudential operation within the framework set by laws and policies. The Board of Directors is also responsible for explicitly determining the acceptable risk level, ensuring the senior management to adopt necessary risk control measures, and supervising the senior management on their monitoring and assessment of the adequacy and effectiveness of the risk management and internal control systems.

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 systems; supervising 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 the acceptable risk control level as determined by the Board of Directors and adopting the corresponding risk control measures, establishing and improving the internal organizational structure, ensuring the effective implementation of various risk management and internal control functions as well as conducting supervision and assessment of the adequacy and effectiveness of the risk management and internal control systems.

SECTION IV CORPORATE GOVERNANCE

Based on laws 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 Bank formulates various management systems of the Bank in accordance with national laws, regulations and financial regulatory requirements, and continuously updates them in accordance with changes in laws, regulations and regulatory requirements to ensure that the systems are fully covered, legal and effective. The Bank launched the “Year of System Improvement and Optimization” in 2021. It proposed specific actions and measures in three aspects, including consolidating the fundamentals of the system, improving the evaluation of the system, and strengthening the implementation of the system. It conducted a comprehensive review, revision and improvement of the internal systems of the Bank, which effectively ensured the compliant operation and steady development of various businesses. With the issuance of the first circular titled “Opinions on Carrying out Compliance Project Construction and Promoting Compliant Management Improvement”, the Bank continued to promote the construction of three basic compliance elements, namely compliance culture, compliance system, and compliance system. The Bank initiated measures to get rid of those repeatedly committed and investigated improper behaviors, operational non-compliance of the banking counters and to build a law-abiding BQD and create a new pattern of compliance development. Centering on the tasks highlighted in the “Year of Internal Control and Compliance Management Construction”, the Bank carried out specific self-inspection and self-correction and implementation of rectification, adhered to the integration of one issue with related issues, addressing the issues completely from the roots, which were constructive to the radical solution to repeatedly committed and investigated improper behaviors, and built an effective risk prevention and control mechanism for the long run. The Bank used big data in auditing, strengthened the collaboration between on-site and off-site audits, continuously carried out regular audits, outgoing audits, special audits, so as to achieve full coverage of audits; improved audit rectification mechanisms, carried out follow-up audits, and took various measures simultaneously to improve the effectiveness of audit rectification; strengthened quality control, continuously improved the management system, optimized the audit process, improved the control quality of audit engagement, and enhanced the level of risk management and control across the Bank.

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 institution or staff of the Bank participated in or was suspected of being involved in any money laundering or terrorism financing activity.

SECTION V ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

I. MAJOR ENVIRONMENTAL ISSUES

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 (Interim) 《重點排污單位名錄管理規定(試行)》 are produced by 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 future production and operational activities.

II. SOCIAL RESPONSIBILITY

During the Reporting Period, the Bank resolutely implemented the decisions and orders of the Central Committee of the Party, the State Council, Shandong Province, Qingdao City and the regulatory authorities by deepening financial supply-side reforms, serving the real economy, shouldering social responsibilities, and providing strong financial support to the high-quality economic and social development.

In terms of economic responsibility, based on the new development stage, it innovated the financial product system, continuously optimized the ability to serve the real economy, and supported the development of inclusive finance. During the Reporting Period, it increased credit support for strategic emerging industries, people's livelihoods and infrastructure, and adhered to the purpose of financial industry to serve the real economy. It completed the first supply chain bill business in Shandong Province to solve the financing difficulties of small and medium-sized enterprises; innovated "science and technology credit", guaranteed loans to small and micro enterprise and start-up enterprises and other businesses, and continuously improved the financing methods and models for small and micro enterprises; organized the competition of equity and debt dual financing roadshow among Jiaodong Economic Circle, and broadened the financing channels for small and medium-sized technological innovation enterprises.

In terms of environmental responsibility, it continued to deepen the concept of green finance, increase support for green industries such as energy conservation and emission reduction, pollution control, ecological protection and restoration, and support the development of green industries. It strengthened the innovation of green products and services. During the Reporting Period, Shandong Province launched the first "carbon neutral" loan, issued carbon-neutral themed wealth management products, underwrote Qingdao Metro's "carbon-neutral" bonds, innovated green supply chain finance named "carbon E loan" (碳E貸), launched "green ticket" (綠票通). It continued to enrich the green finance offerings so as to become a comprehensive green finance service provider. The Bank achieved initial results in its blue finance project in cooperation with the International Finance Corporation (IFC), a member of the World Bank Group, and held a blue finance press conference to convey the value proposition of developing blue finance and supporting the sustainable development of the ocean.

In terms of social responsibility, it launched the first "charity wealth management" product of wealth management companies in the country, which effectively integrated wealth management with public welfare; it made charitable donations to Rizhuang Town, Laixi City, Qingdao, Shigatse City, Tibet, and Longnan City, Gansu respectively, to support the development of public welfare undertakings, and consolidated the results of poverty alleviation. At the end of the Reporting Period, the Bank's charitable donations amounted to RMB4.8 million; it explored a new service model of "agricultural assistance + medical insurance" to do practical work for the mass people and improve the effectiveness of medical insurance; expanded the green channel for elderly services in the halls, and added a dedicated telephone line for serving elderly people, namely the 96588 telephone banking, and created a friendly "Qingxin" service.

SECTION VI SIGNIFICANT EVENTS

I. UNDERTAKINGS FULFILLED DURING THE REPORTING PERIOD AND NOT FULFILLED AS AT THE END OF THE REPORTING PERIOD BY THE DE FACTO CONTROLLERS, SHAREHOLDERS, RELATED PARTIES, ACQUIRERS, THE BANK AND OTHER PARTIES INVOLVED IN UNDERTAKING

There were no de facto controllers and acquirers of the Bank. There were no 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.

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

During the Reporting Period, there was no appropriation of funds of the Bank by the controlling shareholders and other related parties for non-operating purposes.

III. ILLEGAL EXTERNAL GUARANTEES

The Bank had no illegal external guarantees during the Reporting Period.

IV. ENGAGEMENT OR DISMISSAL OF ACCOUNTING FIRMS

The interim report is unaudited. During the Reporting Period, the Bank did not change the accounting firm.

V. MATTERS RELATED TO BANKRUPTCY AND REORGANIZATION

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

VI. LITIGATION

6.1 Material litigation, arbitration

There was no material litigation and arbitration confronted by the Bank during the Reporting Period.

6.2 Other litigation and arbitration

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 operating results. As at the end of the Reporting Period, the Bank was the defendant in seven pending litigations with total amount of claims at RMB50,454.1 thousand, which would not have material adverse impact on the financial or operating results of the Bank, and no provision has been made.

VII. PUNISHMENT AND RECTIFICATION

As far as the Bank is aware, during the Reporting Period, none of the Bank and Directors, Supervisors or senior management of the Bank was investigated by competent authorities, imposed coercive measures according to laws, received criminal punishment, under formal investigation or administrative penalty by the CSRC, or significant administrative penalties imposed by other administrative authorities, detained by the discipline inspection and supervision agency that prevented him/her from discharging duties, imposed coercive measures by other competent authorities that prevented him/her from discharging duties.

VIII. CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

The Bank has no controlling shareholders or de facto controllers. During the Reporting Period, none of the largest shareholder of the Bank or its de facto controller failed to comply with any effective court judgment or settle any significant debts that have fallen due.

IX. RELATED PARTY TRANSACTIONS

9.1 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 of the Bank, and the amount of all the loans was recovered normally with no non-performing loans.

According to the requirements of the CBIRC, during the Reporting Period, there were two significant related party transaction that needs to be put forth to the Board's review and approval, which involved the related party transaction between Qingdao Haiyongshun Innovation Technology Co., Ltd. (青島海永順創新科技有限公司) and Haier Financial Factoring (Chongqing) Co., Ltd. (海爾金融保理(重慶)有限公司). As at the end of the Reporting Period, the Bank's balance of credit-related significant related party transactions was RMB1,370 million, the details of which are as follows:

SECTION VI SIGNIFICANT EVENTS

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	1.76%
Qingdao Haichen Real Estate Development Co., Ltd.	Loan	Pledged	3.44	3.44	0.76%
Haier Group Finance Co., Ltd.	Interbank bill credit	-	1.18	1.18	0.26%
Qingdao Haili Living Technology Co., Ltd. (青島海驪住居科技股份有限公司)	Commercial bill financing	Guarantee	1.08	1.08	0.24%

According to the provisions of the CSRC and SZSE, the Bank has made a forecast of the daily related party transactions in 2021 and published the Announcement on Estimated Ordinary Related Party Transactions in 2021 (Announcement No.: 2021-015) on CNINFO website dated 29 March 2021. The related party transactions in the Reporting Period have not exceeded the forecast. The details are as follows:

- (1) Haier Group Corporation (海爾集團公司) and its related parties: The balance of credit-related transactions at the end of the Reporting Period was RMB1,370 million;
- (2) Intesa Sanpaolo S.p.A. and its related parties: There is no balance of credit-related transactions at the end of the Reporting Period; the actual amount of non-credit transactions during the Reporting Period was RMB4.7717 million;
- (3) Qingdao Conson Development (Group) Co., Ltd. and its related parties: The balance of credit-related transactions at the end of the Reporting Period was RMB251 million, the actual amount of non-credit transactions during the Reporting Period was RMB17.1948 million;
- (4) BQD Financial Leasing Company Limited: There was no balance of credit-related transactions at the end of the Reporting Period; the actual amount of non-credit transactions during the Reporting Period was RMB2.0217 million;
- (5) Qingyin Wealth Management Company Limited: The actual amount of non-credit transactions during the Reporting Period was RMB52.8268 million;
- (6) Related natural persons: The balance of credit-related transactions at the end of the Reporting Period was RMB215 million, and the risk exposure was RMB215 million.

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

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

9.3 Related party transactions in connection with joint external investment

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

9.4 Related creditors' rights and debts transactions

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

9.5 Transactions with related financial companies and financial companies controlled by the Company

The Bank does not control any financial companies. During the Reporting Period, there were no deposits, loans, credit grants or other financial business between the Bank and the financial companies that were related to the Bank. The facilities of RMB250 million granted by the Bank to Haier Group Finance Co., Ltd was for holders of bank acceptance bills issued by Haier Group Finance Co., Ltd to pledge and discount of bank acceptance bills with the Bank. The Bank has no direct business with Haier Group Finance Co., Ltd.

9.6 Other significant related party transactions

There were no other significant related party transactions of the Bank during the Reporting Period.

X. MATERIAL CONTRACTS AND IMPLEMENTATION THEREOF

10.1 Custody, contracting and leasing

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 occurred during the Reporting Period or in previous periods and carried over into the Reporting Period.

10.2 Significant guarantees

The guarantee business is in the ordinary course of the Bank. There was no significant guarantee matter out of the Bank's normal scope of business that need to be disclosed during the Reporting Period.

10.3 Entrusted wealth management

The Bank did not have any entrusted wealth management out of its normal scope of business during the Reporting Period.

SECTION VI SIGNIFICANT EVENTS

10.4 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.

10.5 Other material contracts

There were no other material contracts of the Bank during the Reporting Period.

XI. OTHER MATTERS OF SIGNIFICANCE

11.1 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.

11.2 Significant commitment and entrusted asset management

During the Reporting Period, save for commitment and entrusted asset management business within the scope of its normal business, the Bank did not have any other significant commitments and entrusted asset management that need to be disclosed. Please refer to the notes to the unaudited interim financial report of this interim report for the specific guarantee and commitments.

11.3 Publishing of interim report

This interim report prepared in both Chinese and English by the Company in accordance with the International Accounting Standards and Hong Kong Listing Rules is available at the HKEXnews website of the Hong Kong Stock Exchange and the website of the Bank. In case of any discrepancy in interpretation between the two versions, the Chinese version shall prevail. This interim report has been reviewed by the Audit Committee of the Board of Directors.

The half-yearly report in Chinese prepared by the Company in accordance with the Accounting Standards for Business Enterprises and the semi-annual report compilation rules is available at the website of SZSE and the website of the Bank.

11.4 REPRESENTATION ON COMPLIANCE WITH THE HONG KONG LISTING RULES

The Bank has adopted the required standard set by the Model Code as the code of conduct for securities transactions by its Directors and Supervisors. Having made enquiries to all Directors and Supervisors, the Bank confirmed that they had complied with the Model Code during the Reporting Period.

During the Reporting Period, the Bank had strictly complied with the 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.

XII. MAJOR ISSUES OF THE BANK'S SUBSIDIARIES

During the Reporting Period, the Bank's subsidiaries had no major issues that need to be disclosed.

XIII. PROTECTION OF CONSUMER RIGHTS

During the Reporting Period, under the guidance of the operating principle of "solidifying foundation, serving the real economy, preventing and mitigating risks and improving comprehensively", the Bank closely followed the regulatory trend, and gave full play to the mechanism and system advantages of corporate bodies in terms of the protection of consumer rights (the "**consumer protection**"). 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, improve work efficiency, improved its assessment and training, enhanced publicity and education, strengthened its sense of responsibility, and carry out all kinds of consumer protection work in a steady manner.

1. Improved the design of top-level systems and strengthened system construction to realize process control

First, the Bank gave full play to the role of the Board, senior management, and the Risk Management and Consumer Rights Protection Committee in the consumer protection work mechanism, deepened ideological understanding and paid more attention to the consumer protection. Second, through reviewing the consumer protection system, the Bank continuously established and improved the basic consumer protection system that matches the organizational structure, business size, and business nature of the Bank. During the Reporting Period, a total of 3 consumer protection systems were revised to provide institutional guarantees for the effective practice of consumer protection. Third, the Bank optimized consumer protection review, imposed strict control on product and service design and development, pricing management, agreement formulation, review and approval, marketing and promotion, after-sales management and other processes, to achieve full process control before, during and after the issue.

2. Continuous innovation publicity and education led by consumer protection brand and through accurate knowledge application

First, guided by the "Qingcheng" consumer protection brands, we continuously upgraded the "five-in-one" education mechanism of "new media, small classroom, lecturer group, care bridge and Xin service" to achieve accurate application of financial knowledge. Second, we proactively carried out themed promotion activities such as "3.15 Consumer Rights Day", "Financial Knowledge Journey", "Financial Knowledge Publicity", Protecting "Money Bags", and Prevention of 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 protection, so as to ensure the effectiveness of promotion and education.

SECTION VI SIGNIFICANT EVENTS

3. Flexible dispute mediation to fully reduce complaints and improve service levels

First, we actively resolved consumer disputes through diversified solutions, and further improved the efficiency of consumer complaint handling. Second, we improved and refined the complaint traceability verification process and assessment mechanism, and made improvements in the governance of consumer complaints in key areas, so as to fundamentally reduce the number of consumer complaints. Third, we conducted a series of service-themed activities to enhance service awareness, improved the level of warm service and gave full play to the role of service window in ways that effectively guide consumers' emotions, satisfy their demands, and safeguard their rights and interests.

XIV. RECEPTION OF ACTIVITIES SUCH AS SURVEYS, COMMUNICATIONS AND INTERVIEWS

Date of reception	Site of reception	Way of reception	Type of recipient	Recipient	Major discussion points and information provided	Index of the basic particulars of the survey
9 April 2021	Head office of the Bank	On-site survey and online interaction	Institutions	<p>On-site: Shen Juan from Huatai Securities, Yuan Zheqi from Ping An Securities, Dong Wenxin from Everbright Securities, Deng Meijun from Zhongtai Securities, Lei Xun from Great Wall Securities, Wu Jiahui from GF Securities, Jin Lanfeng from China Southern Fund, etc.</p> <p>Online: Dai Zhifeng from Zhongtai Securities, Ma Tingting from Guosheng Securities, Yuan Zifang from CICC, Liao Ziyuan from Tianfeng Securities, Li Lei from AMTD Group, Du Nanjiang from UBS Securities, Chen Yulu from Northeast Securities, Xie Weiwei from Haitong Securities, and all kinds of investors who participated in this performance conference through live webcast.</p>	Exchanges on the 2020 performance and operating conditions of the Bank were conducted, and the Bank provided relevant presentations.	Please refer to the Investor Relations Activity Record Form and its attachments published by the Bank on CNINFO website (http://www.cninfo.com.cn/) dated 13 April 2021

SECTION VI SIGNIFICANT EVENTS

Date of reception	Site of reception	Way of reception	Type of recipient	Recipient	Major discussion points and information provided	Index of the basic particulars of the survey
25 June 2021	Head office of the Bank	On-site survey	Institutions	Zhang Yu and Jiang Zhongyu from Guotai Junan, Liang Fengjie from Zhesang Securities, Lin Yingying from BOCI, Jia Jing from Zhongtai Securities, Dong Wenxin from Everbright Securities, Chen Shaoxing, Cao Xintong from Industrial Securities, Shao Chunyu from China Merchants Securities, Wan Sihua from GF Securities, Wang Yu from China Merchants Fund, Zhu Weihao from China Southern Fund, Yang Xue from China Geng Fund, Lu Xiaowei from Guotai Fund, Zhang Hui from Ping An Asset Management, Qiu Peiyu from TPP, Wu Yingying from Yinhua Fund, Gao Mao from CICC Fund, Zhang Yong from China Futures, Chen Jialin from Shicheng Investment.	Exchanges on the development of corporate, retail, wealth management and other business, asset quality management and control, etc. were conducted with the Bank, but the Bank did not provide relevant information.	Please refer to the Investor Relations Activity Record Form published by the Bank on CNINFO website (http://www.cninfo.com.cn/) dated 28 June 2021

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

I. CHANGES IN SHAREHOLDINGS

1.1 Changes in Shareholdings

Unit: share

Item	31 December 2020		Increase/decrease (+/-) during the Reporting Period					30 June 2021	
	Number of shares	Percentage	New issue	Bonus issue	Conversion from reserves	Others	Sub-total	Number of shares	Percentage
I. Shares with selling restrictions	2,141,602,794	47.49%	-	-	-	-375	-375	2,141,602,419	47.49%
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. Shares held by state-owned legal entities	680,564,147	15.09%	-	-	-	-	-	680,564,147	15.09%
3. Shares held by other domestic investors	1,461,038,647	32.40%	-	-	-	-375	-375	1,461,038,272	32.40%
Of which: Shares held by domestic non-state-owned legal entities	1,437,153,187	31.87%	-	-	-	-117,190	-117,190	1,437,035,997	31.87%
Shares held by domestic natural individuals	23,885,460	0.53%	-	-	-	116,815	116,815	24,002,275	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	2,368,087,206	52.51%	-	-	-	375	375	2,368,087,581	52.51%
1. RMB ordinary shares	605,052,226	13.42%	-	-	-	375	375	605,052,601	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%

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

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" and "Securities Issuance and the Listing" in this sub-section. The above changes in shares do not involve share transfer.
- (2) The Bank did not conduct share repurchase during the Reporting Period.
- (3) During the Reporting Period, there was no change in the Bank's total number of shares. The share changes shown in the above table do not involve the impact on financial indicators.

1.2 Changes of Shares with Selling Restrictions

During the Reporting Period, the Bank did not release the shares with selling restrictions before the initial issue. The change in the shares with selling restrictions of the Bank was due to the release of the shares held by the Directors of the Bank. 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

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

III. NUMBER OF SHAREHOLDERS AND THEIR SHAREHOLDINGS IN THE BANK

Unit: share

Total number of ordinary shareholders at the end of the Reporting Period	75,304	Total number of preference shareholders whose voting rights were resumed at the end of the Reporting Period	–
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SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

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 ordinary shares held		Number of ordinary shares with selling restrictions held	Number of ordinary shares without selling restrictions held	Share pledged, marked or locked-up Status of shares	Number of shares
			as at the end of the Reporting Period	Increase or decrease during the Reporting Period				
Hong Kong Securities Clearing Company Nominees Limited	Overseas legal entity	24.92%	1,123,893,780	-14,001,600	-	1,123,893,780	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	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. (青島華通國有資本運營(集團)有限責任公司)	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	-	-	-

Strategic investors or general legal entities becoming one of the top ten ordinary shareholders as a result of placing of new shares

Not applicable

Description of the related relationships or acting in concert among the above shareholders

During the Reporting Period, Qingdao Haier Investment and Development Co., Ltd. transferred 409,693,339 shares of the Bank held by it to Qingdao Haier Industrial Development Co., Ltd. Upon the completion of such share transfer, Qingdao Haier Investment and Development Co., Ltd. no longer holds the shares of the Bank, while Qingdao Haier Industrial Development Co., Ltd. holds 409,693,339 A Share with selling restrictions in the Bank. 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.

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

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 Industrial Development Co., Ltd. and Qingdao Haier Air-Conditioner Electronics Co., Ltd. have entrusted Haier Smart Home Co., Ltd. to exercise the voting rights of the shareholders corresponding to their shares.

Special description of the existence of a specific repurchase account among the top ten shareholders

Not applicable

Shareholdings of the top ten ordinary shareholders without selling restrictions

Name of shareholders	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	1,123,893,780	Overseas listed foreign shares	1,123,893,780
Intesa Sanpaolo S.p.A.	624,753,980	Overseas listed foreign shares	624,753,980
EAST HARMONY DEVELOPMENT LIMITED	14,000,000	Overseas listed foreign shares	14,000,000
Industrial and Commercial Bank of China – China Southern Baoyuan Bond Fund	10,000,092	RMB ordinary shares	10,000,092
Industrial Bank Co., Ltd. – China Southern Finance-themed Flexible Allocation Hybrid Securities Investment Fund	8,646,800	RMB ordinary shares	8,646,800
Qingdao Biwan Marine Products Co., Ltd.	7,481,316	RMB ordinary shares	7,481,316
Hong Kong Securities Clearing Company Limited	7,182,005	RMB ordinary shares	7,182,005
Xu Yi	5,590,700	RMB ordinary shares	5,590,700
Qingdao Experimental and Innovative Education Management Co., Ltd.	5,500,000	RMB ordinary shares	5,500,000
Qingdao Tainuo Investment Group Co., Ltd.	5,115,146	RMB ordinary shares	5,115,146

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

Explanation on the related relationships or acting in concert among the top ten ordinary shareholders without selling restrictions and that between the top ten ordinary shareholders without selling restrictions and the top ten ordinary shareholders	Hong Kong Securities Clearing Company Nominees Limited is a wholly-owned subsidiary of Hong Kong Securities Clearing Company Limited. Industrial and Commercial Bank of China – China Southern Baoyuan Bond Fund and Industrial Bank Co., Ltd. – China Southern Finance-themed Flexible Allocation Hybrid Securities Investment Fund belong to Southern Asset Management Co., Ltd. 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.
Notes	<ol style="list-style-type: none">1. Among the total number of ordinary shareholders as at the end of the Reporting Period, there are 75,152 A Share shareholders and 152 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.

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

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

During the Reporting Period, there is no any change in the shareholdings of current Directors, Supervisors and senior management of the Bank who have changed their positions during the Reporting Period.

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	Percentage	Long position/ Short position
				of the total number of ordinary shares ^{Note}	of the total number of A Shares ^{Note}	
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 of the Bank at the end of the Reporting Period.

Apart from the above, so far as the Directors, Supervisors and chief executives of the Bank are aware, as at the end of the Reporting Period, there was no other person who 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.

V. CHANGES IN CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

As at the end of the Reporting Period, there was no controlling shareholder or de facto controller of the Bank.

VI. PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE BANK

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

VII. SUBSTANTIAL SHAREHOLDERS OF THE BANK

7.1 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.

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. 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 RMB1,370 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

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

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 4,700 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 approximately 7.1 million customers in the above regions. In addition, Intesa Sanpaolo S.p.A. has set up branches in 25 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. 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 solely funded by the Chinese government and 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, marine industry, and urban information 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.

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 Commission of the Qingdao Municipal People's Government. It has no persons acting in concert, and its ultimate beneficiary is itself. Qingdao Conson Development (Group) Co., Ltd. has declared to the Bank related parties in accordance with regulatory requirements. During the Reporting Period, there were no significant related transactions between the Bank and Qingdao Conson Group.

7.2 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 USD11,744. 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, it is 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. 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.

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.

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

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, it is 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.

VIII. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS UNDER HONG KONG REGULATIONS

As at 30 June 2021, so far as the Directors, Supervisors and chief executives of the Bank are 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	Approximate	Approximate	Long position/ Short position
					percentage of the total number of shares ⁽⁸⁾	percentage of the total number of A Shares ⁽⁸⁾	percentage of the total number of H Shares ⁽⁸⁾	
Haier Group Corporation (海爾集團公司)	1	A Shares	Interest of controlled corporation	812,214,572	18.01	29.57	-	Long position
Haier Kaaosi Co., Ltd. (海爾卡奧斯股份有限公司)	2	A Shares	Interest of controlled corporation	409,693,339	9.08	14.92	-	Long position
Qingdao Haier Industrial Development Co., Ltd. (青島海爾產業發展有限公司)	2	A Shares	Beneficial owner	409,693,339	9.08	14.92	-	Long position
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 position
			Interest of controlled corporation	244,680,795	5.43	8.91	-	Long position

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

Name of shareholders	Notes	Type of		Number of shares held	Approximate	Approximate	Approximate	Long position/ Short position
		shares	Capacity		percentage of the total number of shares ⁽⁶⁾	percentage of the total number of A Shares ⁽⁶⁾	percentage of the total number of H Shares ⁽⁶⁾	
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 position
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 position
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 position
GE Shoujiao (葛守蛟)	4	A Shares	Interest of controlled corporation	152,170,000	3.37	5.54	-	Long position
LENG Qiyuan (冷啟媛)	4	A Shares	Interest of controlled corporation	152,170,000	3.37	5.54	-	Long position
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 position
Intesa Sanpaolo S.p.A. (意大利聯合聖保羅銀行)	-	H Shares	Beneficial owner	624,753,980	13.85	-	35.44	Long position
L.R. Capital Management Company (Cayman) Limited	5	H Shares	Interest of controlled corporation	225,033,531	4.99	-	12.76	Long position
			Interest of controlled corporation	196,882,000	4.37	-	11.17	Short position
L.R. Capital MNP Limited	5	H Shares	Interest of controlled corporation	225,033,531	4.99	-	12.76	Long position
			Interest of controlled corporation	196,882,000	4.37	-	11.17	Short position

SECTION VII 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 position/ Short position
L.R. Capital Holdings Limited	5	H Shares	Interest of controlled corporation	225,033,531	4.99	–	12.76	Long position
			Interest of controlled corporation	196,882,000	4.37	–	11.17	Short position
L.R. Capital Financial Holdings Limited	5	H Shares	Interest of controlled corporation	225,033,531	4.99	–	12.76	Long position
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 position
AMTD Strategic Investment Limited	5	H Shares	Beneficial owner	196,882,000	4.37	–	11.17	Long position
AMTD Investment Solutions Group Limited	5	H Shares	Beneficial owner	28,151,531	0.62	–	1.60	Long 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 position
Ariana Capital Investment Limited	–	H Shares	Beneficial owner	176,766,469	3.92	–	10.03	Long position
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)	6	H Shares	Interest of controlled corporation	100,000,000	2.22	–	5.67	Long position
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 position
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 position
CITIC Securities Co., Ltd. (中信證券股份有限公司)	–	H Shares	Interest of controlled corporation	127,035,574	2.82	–	7.21	Long position
			Interest of controlled corporation	107,479,103	2.38	–	6.10	Short position

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

Name of shareholders	Notes	Type of shares	Capacity	Number of shares held	Approximate	Approximate	Approximate	Long position/ Short position
					percentage of the total number of shares ⁽⁶⁾	percentage of the total number of A Shares ⁽⁶⁾	percentage of the total number of H Shares ⁽⁶⁾	
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 position
Goncius I Limited	-	H Shares	Beneficial owner	488,911,765	10.84	-	27.73	Long position
			Beneficial owner	488,911,765	10.84	-	27.73	Short position
DBS Group Holdings Ltd	-	H Shares	Interest of controlled corporation	89,096,021	1.97	-	5.05	Long position
			Interest of controlled corporation	89,096,021	1.97	-	5.05	Short position

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 Industrial Development Co., Ltd., which is 100% owned by Haier Kaaosi Co., Ltd. Therefore, Haier Kaaosi Co., Ltd. is deemed to be interested in all the shares of the Bank held by Qingdao Haier Industrial Development Co., Ltd..
- (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.
- (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.

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

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 (中民國際資本有限公司) 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 (中民國際資本有限公司), and CM International Capital Limited (中民國際資本有限公司) 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 (中民國際資本有限公司) 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 interest 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 30 June 2021, 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 30 June 2021, save as disclosed above, so far as the Directors, Supervisors and chief executives of the Bank are aware, no person 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 VIII PREFERENCE SHARES

I. ISSUANCE AND LISTING OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the Reporting Period, the Bank did not issue new preference shares.

II. NUMBER OF SHAREHOLDERS OF PREFERENCE SHARES AND THEIR SHAREHOLDINGS

Unit: share

Total number of shareholders of preference shares as at the end of
the Reporting Period 1

Shareholding of shareholders holding 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	Share pledged or locked-up Status of shares	Number of shares
The Bank of New York Depository (Nominees) Limited	Overseas legal entity	100%	60,150,000	-	Unknown	Unknown

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

Shareholders of preference shares of the Bank do not have different settings on other provisions other than dividend distribution and residual properties distribution

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 the related party relationship or acting in concerted relationship between the above shareholders of preference shares and the top 10 shareholders of ordinary shares

III. REPURCHASE OR CONVERSION OF PREFERENCE SHARES

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

IV. 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.

V. 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 IX EMPLOYEES AND INSTITUTIONS

I. EMPLOYEES AND HUMAN RESOURCES MANAGEMENT

1.1 Details of Employees

Number of employees on the payroll of the parent company (persons)	4,219
Number of employees on the payroll of the major subsidiaries (persons)	110
Total number of employees on the payroll (persons)	4,329

Composition by profession

Composition by profession category	Number of persons of composition by profession (persons)
Management personnel	344
Business personnel	3,334
General administrative personnel	651
Total	4,329

Education background

Education background category	Number (persons)
Master's degree or above	831
Bachelor's degree	3,026
College graduates or below	472
Total	4,329

1.2 Policy on Employee Remuneration

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. In order to improve the remuneration incentive and restraint mechanism and overcome short-term behavior in business management, the Bank has established a mechanism related to performance-based remuneration deferred payment and recovery in accordance with regulatory requirements and operational management needs. 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.

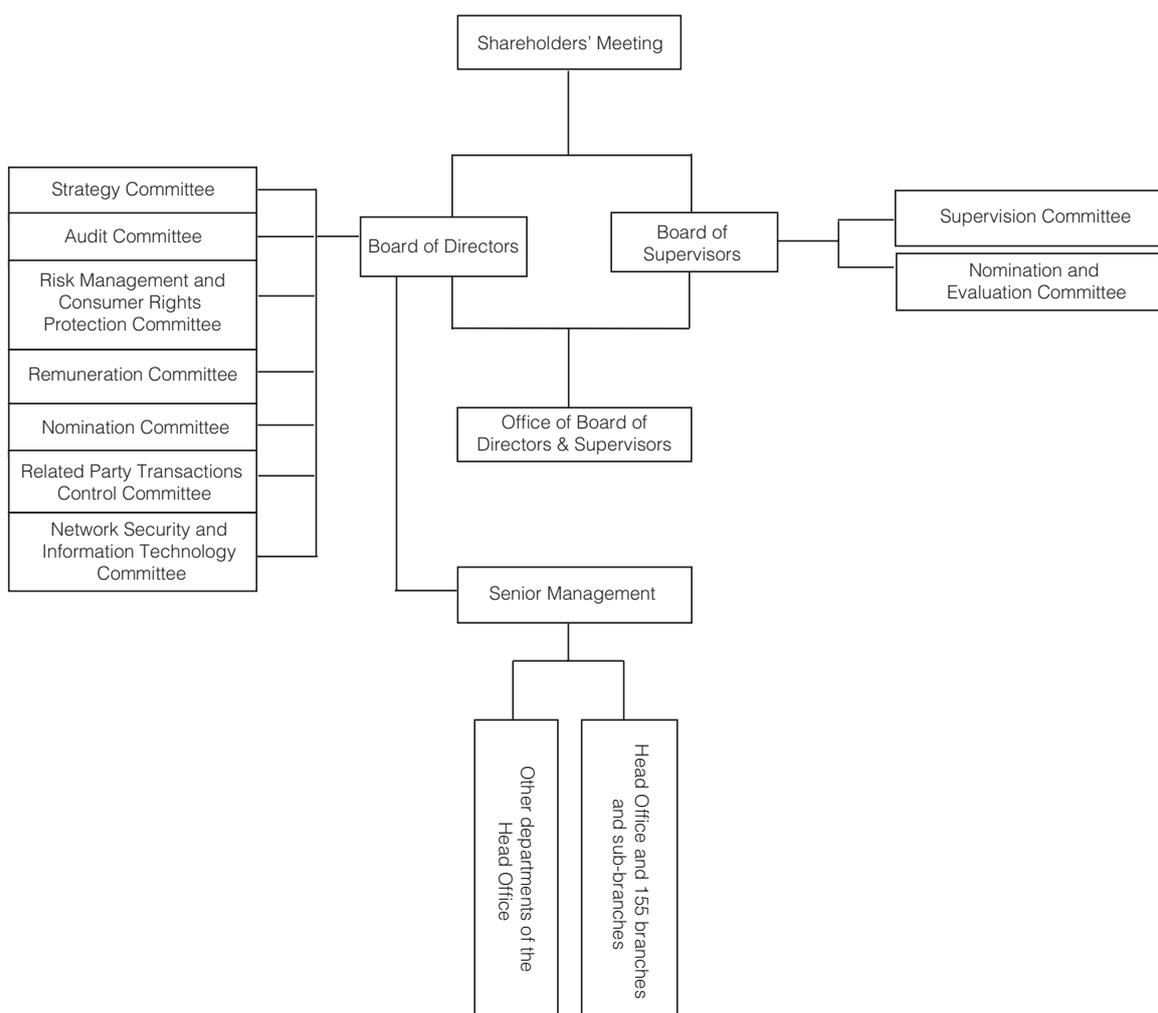
The Bank has formulated scientific evaluation measures, and utilizes such measures as a guideline to optimize resources allocation, actively mobilize employees' initiatives, so as to enhance the Bank's overall efficiency. Employees' performance-based remuneration is decided based on the performance evaluation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

1.3 Training for Employees

SECTION IX EMPLOYEES AND INSTITUTIONS

According to the development strategy, the Bank has formulated the education and training development plan based on the current situation of training work and future development needs, resources for training and learning contents are allocated to all employees at different levels, creating an echelon training system for all employees in the Bank. During the Reporting Period, the Bank actively carried out training programs for management, business personnel and new employees, and it also promoted the digitalization of training, explored the implementation of online training and continuously enriched learning resources, in a bid to ensure the orderly development of various trainings and comprehensively assists the business development.

II. ORGANIZATIONAL STRUCTURE



III. BRANCHES AND SUB-BRANCHES

SECTION IX EMPLOYEES AND INSTITUTIONS

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 88 sub-branches	2,567	3,599.80
2	Jinan Branch	Building 6, Yinfeng Fortune Plaza, No. 1 Longaoxi Road, Lixia District, Jinan	10 sub-branches under it	318	225.46
3	Weihai Branch	No. 112, No. 3-4 Shichang Avenue, Weihai	8 sub-branches under it	196	207.48
4	Yantai Branch	Hongyuan Business Building, No. 29 Jinshajiang Road, Development Zone, Yantai	4 sub-branches under it	140	182.26
5	Weifang Branch	No. 124, Building 7, No. 6636 Fushou East Street, Kuiwen District, Weifang	5 sub-branches under it	132	123.86
6	Zibo Branch	No. 266 Liantong Road, Zhangdian District, Zibo	3 sub-branches under it	131	118.63
7	Jining Branch	Welfare Lottery Building, No. 24 Hongxing Middle Road, Jining	2 sub-branches under it	66	79.01
8	Dongying Branch	No. 72 Fuqian Avenue, Dongying District, Dongying	6 sub-branches under it	162	74.70
9	Binzhou Branch	No. 471 Huanghe 8th Road, Bincheng District, Binzhou	2 sub-branches under it	63	72.33
10	Linyi Branch	Building 9, Hongxing International Plaza, Intersection of Jinan Road and Xiaohe Road, Beicheng New District, Linyi	2 sub-branches under it	83	62.60
11	Zaozhuang Branch	No. 215 Qingtan North Road, Shizhong District, Zaozhuang	5 sub-branches under it	111	61.62
12	Dezhou Branch	No. 717 Dexing Middle Avenue, Decheng District, Dezhou	3 sub-branches under it	108	50.79
13	Tai'an Branch	No. 237 Dongyue Street, Tai'an	1 sub-branches under it	53	34.21
14	Laiwu Branch	No. 57, Wanfu North Road, Laicheng District, Laiwu	1 sub-branches under it	52	14.11
15	Heze Branch	North side of East Gate of Jindu Huating, middle section of Renmin Road, Heze City	-	37	13.86

Review report to the board of directors of Bank of Qingdao Co., Ltd.

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 126 to 220 which comprises the consolidated statement of financial position of Bank of Qingdao Co., Ltd. (the "Bank") and its subsidiary (collectively the "Group") as of 30 June 2021 and the related 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 cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the International Auditing and Assurance Standards Board. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2021 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

KPMG

Certified Public Accountants

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

30 August 2021

SECTION XI UNAUDITED INTERIM FINANCIAL REPORT

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2021 (unaudited)	2020 (unaudited)
Interest income		8,881,975	8,295,162
Interest expense		(4,973,818)	(4,303,950)
Net interest income	3	3,908,157	3,991,212
Fee and commission income		846,442	1,108,169
Fee and commission expense		(76,117)	(64,117)
Net fee and commission income	4	770,325	1,044,052
Net trading (losses)/gains	5	(89,297)	130,994
Net gains arising from investments	6	728,170	909,014
Other operating income	7	9,695	28,867
Operating income		5,327,050	6,104,139
Operating expenses	8	(1,536,404)	(1,456,874)
Credit losses	9	(1,650,058)	(2,787,723)
Profit before taxation		2,140,588	1,859,542
Income tax expense	10	(307,616)	(295,051)
Net profit for the period		1,832,972	1,564,491
Profit attributable to:			
Equity shareholders of the Bank		1,797,590	1,530,517
Non-controlling interests		35,382	33,974
Basic and diluted earnings per share (in RMB)	11	0.40	0.34

The notes on pages 135 to 220 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2021 (unaudited)	2020 (unaudited)
Net profit for the period		1,832,972	1,564,491
Other comprehensive income:			
Item that will not be reclassified to profit or loss			
– Remeasurement of defined benefit liability		(68)	(8)
Items that may be reclassified subsequently to profit or loss			
– Changes in fair value of financial assets measured at fair value through other comprehensive income	37(4)	103,832	(195,645)
– Credit losses of financial assets measured at fair value through other comprehensive income	37(4)	258,275	(19,668)
Other comprehensive income, net of tax		362,039	(215,321)
Total comprehensive income		2,195,011	1,349,170
Total comprehensive income attributable to:			
Equity shareholders of the Bank		2,159,629	1,315,196
Non-controlling interests		35,382	33,974

The notes on pages 135 to 220 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2021 (unaudited)	31 December 2020 (audited)
Assets			
Cash and deposits with central bank	12	46,937,324	47,219,397
Deposits with banks and other financial institutions	13	4,057,970	2,568,919
Placements with banks and other financial institutions	14	451,873	–
Derivative financial assets	15	226,390	286,400
Financial assets held under resale agreements	16	8,862,695	9,726,476
Loans and advances to customers	17	229,631,420	202,358,484
Financial investments:			
– Financial investments measured at fair value through profit or loss	18	49,193,456	37,250,405
– Financial investments measured at fair value through other comprehensive income	19	76,647,978	66,828,002
– Financial investments measured at amortised cost	20	66,408,636	74,157,602
Long-term receivables	22	10,233,394	11,001,178
Property and equipment	23	3,258,291	3,247,768
Right-of-use assets	24	804,678	826,821
Deferred tax assets	25	2,570,590	2,468,017
Other assets	26	2,352,511	1,888,136
Total assets		501,637,206	459,827,605
Liabilities			
Borrowings from central bank	27	14,945,004	11,207,069
Deposits from banks and other financial institutions	28	7,826,483	17,024,732
Placements from banks and other financial institutions	29	14,589,011	12,947,575
Derivative financial liabilities	15	226,436	288,347
Financial assets sold under repurchase agreements	30	31,591,305	33,099,349
Deposits from customers	31	299,307,629	275,750,710
Income tax payable		385,272	431,921
Debt securities issued	32	95,432,222	72,834,508
Lease liabilities	33	456,469	453,671
Other liabilities	34	4,587,250	4,882,865
Total liabilities		469,347,081	428,920,747

The notes on pages 135 to 220 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2021 (unaudited)	31 December 2020 (audited)
Equity			
Share capital	35	4,509,690	4,509,690
Other equity instrument			
Including: preference shares	36	7,853,964	7,853,964
Capital reserve	37(1)	8,337,869	8,337,869
Surplus reserve	37(2)	1,859,737	1,859,737
General reserve	37(3)	5,072,217	5,072,217
Other comprehensive income	37(4)	394,756	32,717
Retained earnings	38	3,604,826	2,618,980
<hr/>			
Total equity attributable to equity shareholders of the Bank		31,633,059	30,285,174
Non-controlling interests		657,066	621,684
<hr/>			
Total equity		32,290,125	30,906,858
<hr/>			
Total liabilities and equity		501,637,206	459,827,605

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

Guo Shaoquan
Legal Representative
(Chairman)

Wang Lin
President

Meng Dageng
Chief Financial Officer

(Company Stamp)

The notes on pages 135 to 220 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

For the six months ended 30 June 2021

	Attributable to equity shareholders of the Bank									Total equity	
	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total		Non-controlling interests
			Note 37(1)	Note 37(2)	Note 37(3)	Note 37(4)					
Balance at 1 January 2021		4,509,690	7,853,964	8,337,869	1,859,737	5,072,217	32,717	2,618,980	30,285,174	621,684	30,906,858
Profit for the period		-	-	-	-	-	-	1,797,590	1,797,590	35,382	1,832,972
Other comprehensive income	37(4)	-	-	-	-	-	362,039	-	362,039	-	362,039
Total comprehensive income		-	-	-	-	-	362,039	1,797,590	2,159,629	35,382	2,195,011
Appropriation of profit:											
- Dividends	38	-	-	-	-	-	-	(811,744)	(811,744)	-	(811,744)
Balance at 30 June 2021 (unaudited)		4,509,690	7,853,964	8,337,869	1,859,737	5,072,217	394,756	3,604,826	31,633,059	657,066	32,290,125

For the six months ended 30 June 2020

	Attributable to equity shareholders of the Bank									Total equity	
	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total		Non-controlling interests
			Note 37(1)	Note 37(2)	Note 37(3)	Note 37(4)					
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 period		-	-	-	-	-	-	1,530,517	1,530,517	33,974	1,564,491
Other comprehensive income	37(4)	-	-	-	-	-	(215,321)	-	(215,321)	-	(215,321)
Total comprehensive income		-	-	-	-	-	(215,321)	1,530,517	1,315,196	33,974	1,349,170
Appropriation of profit:											
- Dividends	38	-	-	-	-	-	-	(901,938)	(901,938)	-	(901,938)
Balance at 30 June 2020 (unaudited)		4,509,690	7,853,964	8,337,869	1,626,662	4,400,258	442,909	3,157,366	30,328,718	596,432	30,925,150

The notes on pages 135 to 220 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2021
(Expressed in thousands of Renminbi, unless otherwise stated)

For the year ended 31 December 2020

	Attributable to equity shareholders of the Bank										
	Note	Share	Other	Capital	Surplus	General	Other	Retained	Total	Non-	Total
		capital	equity instrument	reserve	reserve	reserve	comprehensive income	earnings		controlling interests	
			Note 37(1)	Note 37(2)	Note 37(3)	Note 37(4)					
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	37(4)	-	-	-	-	-	(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	38	-	-	-	233,075	-	-	(233,075)	-	-	-
- Appropriation to general reserve	38	-	-	-	-	671,959	-	(671,959)	-	-	-
- Dividends	38	-	-	-	-	-	-	(1,398,845)	(1,398,845)	-	(1,398,845)
Balance at 31 December 2020 (audited)		4,509,690	7,853,964	8,337,869	1,859,737	5,072,217	32,717	2,618,980	30,285,174	621,684	30,906,858

The notes on pages 135 to 220 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2021 (unaudited)	2020 (unaudited)
Cash flows from operating activities		
Profit before taxation	2,140,588	1,859,542
<i>Adjustments for:</i>		
Credit losses	1,650,058	2,787,723
Depreciation and amortisation	237,321	208,199
Unrealised foreign exchange losses/(gains)	83,708	(129,742)
Net losses on disposal of property and equipment, intangible assets and other assets	408	388
(Gains)/Losses from changes in fair value	(243,160)	194,103
Net gains arising from investment	(486,076)	(1,098,437)
Interest expense on debt securities issued	1,376,898	1,349,986
Interest income from financial investment	(2,616,902)	(2,636,940)
Others	(10,593)	(22,460)
	2,132,250	2,512,362
<i>Changes in operating assets</i>		
Net increase in deposits with central bank	(1,506,275)	(1,151,640)
Net increase in deposits with banks and other financial institutions	(400,000)	(100,000)
Net decrease in placements with banks and other financial institutions	-	1,700,000
Net increase in loans and advances to customers	(28,786,942)	(31,012,452)
Net decrease/(increase) in financial assets held under resale agreements	859,324	(11,289,851)
Net decrease/(increase) in long-term receivables	706,601	(2,077,350)
Net decrease/(increase) in other operating assets	150,607	(160,372)
	(28,976,685)	(44,091,665)

The notes on pages 135 to 220 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

*For the six months ended 30 June 2021
(Expressed in thousands of Renminbi, unless otherwise stated)*

	Six months ended 30 June	
	2021 (unaudited)	2020 (unaudited)
<i>Changes in operating liabilities</i>		
Net increase in borrowings from central bank	3,731,423	2,591,685
Net decrease in deposits from banks and other financial institutions	(9,172,293)	(4,827,783)
Net increase in placements from banks and other financial institutions	1,612,808	2,516,394
Net (decrease)/increase in financial assets sold under repurchase agreements	(1,506,628)	9,782,953
Net increase in deposits from customers	23,379,478	50,980,065
Net (decrease)/increase in other operating liabilities	(429,842)	729,528
	17,614,946	61,772,842
Income tax paid	(591,560)	(468,198)
Net cash flows (used in)/generated from operating activities	(9,821,049)	19,725,341
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	35,459,562	40,682,817
Cash received from investment gains and interest	3,728,016	3,973,515
Proceeds from disposal of property and equipment, intangible assets and other assets	1,152	159
Payments on acquisition of investments	(50,670,542)	(71,886,434)
Payments on acquisition of property and equipment, intangible assets and other assets	(257,877)	(100,854)
Net cash flows used in from investing activities	(11,739,689)	(27,330,797)
Cash flows from financing activities		
Net proceeds from debt securities issued	55,072,378	32,155,562
Repayment of debt securities issued	(32,745,332)	(28,576,432)
Interest paid on debt securities issued	(1,106,230)	(1,343,648)
Dividends paid	(810,994)	(645,216)
Payment of lease liabilities	(61,009)	(68,141)
Net cash flows generated from financing activities	20,348,813	1,522,125

The notes on pages 135 to 220 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the six months ended 30 June 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2021 (unaudited)	2020 (unaudited)
Effect of foreign exchange rate changes on cash and cash equivalents		(17,771)	8,941
Net decrease in cash and cash equivalents		(1,229,696)	(6,074,390)
Cash and cash equivalents as at 1 January		29,279,481	22,500,749
Cash and cash equivalents as at 30 June	39	28,049,785	16,426,359
Net cash flows generated from operating activities include:			
Interest received		6,855,467	5,918,058
Interest paid		(3,433,999)	(2,623,362)

The notes on pages 135 to 220 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(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 formerly 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 (now the Main Board) of Shenzhen Stock Exchange (Stock code: 002948). The share capital of the Bank is RMB4.510 billion as at 30 June 2021.

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 30 June 2021. The principal activities of the Bank and its subsidiaries (collectively the “Group”) are the provision of corporate and personal deposits, loans and advances, settlement, financial market business, financial leasing, wealth management and other services as approved by the regulatory authority. The background information of subsidiary refers to Note 21. 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 BASIS OF PREPARATION AND ACCOUNTING POLICIES

(1) Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue by the Bank’s Board of Directors on 30 August 2021.

The interim financial reports and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”), and should be read in conjunction with the Group’s last annual financial report for the year ended 31 December 2020.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with International Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the International Auditing and Assurance Standards Board (“IAASB”).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(2) Accounting judgements and estimates

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the preparation of the consolidated financial statements for the year ended 31 December 2020.

(3) Changes in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period.

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

The above development does not have a material effect on the group's financial position and financial performance. The Group has not applied any new standard or interpretation that is not yet effective for the accounting period ended 30 June 2021.

3 NET INTEREST INCOME

	Six months ended 30 June	
	2021	2020
Interest income arising from		
Deposits with central bank	191,341	173,372
Deposits with banks and other financial institutions	12,689	3,733
Placements with banks and other financial institutions	83	74,377
Loans and advances to customers		
– Corporate loans and advances	3,748,150	3,317,073
– Personal loans and advances	1,658,178	1,545,390
– Discounted bills	207,090	127,920
Financial assets held under resale agreements	140,753	105,924
Financial investments	2,616,902	2,636,940
Long-term receivables	306,789	310,433
Sub-total	8,881,975	8,295,162
Interest expense arising from		
Borrowings from central bank	(142,444)	(92,296)
Deposits from banks and other financial institutions	(125,018)	(172,453)
Placements from banks and other financial institutions	(226,438)	(204,397)
Deposits from customers	(2,836,680)	(2,290,323)
Financial assets sold under repurchase agreements	(266,340)	(194,495)
Debt securities issued	(1,376,898)	(1,349,986)
Sub-total	(4,973,818)	(4,303,950)
Net interest income	3,908,157	3,991,212

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

	Note	Six months ended 30 June	
		2021	2020
Fee and commission income			
Wealth management service fees		414,948	672,692
Agency service fees		235,461	227,747
Custody and bank card service fees	(i)	102,985	79,338
Financial leasing service fees		52,224	92,729
Settlement fees		34,305	19,636
Others		6,519	16,027
Sub-total		846,442	1,108,169
Fee and commission expense			
		(76,117)	(64,117)
Net fee and commission income			
		770,325	1,044,052

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 for the six months ended 30 June 2020 from fee and commission income to interest income.

5 NET TRADING (LOSSES)/GAINS

	Note	Six months ended 30 June	
		2021	2020
Net (losses)/gains of foreign exchange and foreign exchange rate derivative financial instruments	(i)	(70,619)	140,203
Net (losses)/gains from debt securities	(ii)	(10,856)	1,002
Net losses from non-exchange derivative financial instruments		(7,822)	(10,211)
Total		(89,297)	130,994

Notes:

- (i) Net (losses)/gains of foreign exchange and foreign exchange rate derivative financial instruments include gains or losses from currency derivative 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

6 NET GAINS ARISING FROM INVESTMENTS

	Six months ended 30 June	
	2021	2020
Net gains on financial investments measured at fair value through profit or loss	623,582	341,379
Net gains on disposal of financial assets measured at fair value through other comprehensive income	104,588	567,635
Total	728,170	909,014

7 OTHER OPERATING INCOME

	Six months ended 30 June	
	2021	2020
Government grants	13,340	27,768
Rental income	499	277
Net losses on disposal of property and equipment, intangible assets and other assets	(408)	(388)
Others	(3,736)	1,210
Total	9,695	28,867

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

8 OPERATING EXPENSES

	Six months ended 30 June	
	2021	2020
Staff costs		
– Salaries, bonuses and allowances	561,495	618,315
– Social insurance and housing allowances	70,215	52,160
– Staff welfare expenses	81,352	50,183
– Staff education expenses	14,577	15,574
– Labor union expenses	11,328	12,459
– Post-employment benefits		
– Defined contribution plans	108,407	55,458
– Supplementary retirement benefits	11,220	5,800
Sub-total	858,594	809,949
Property and equipment expenses		
– Depreciation and amortisation	237,321	208,199
– Electronic equipment operating expenses	42,874	28,218
– Maintenance	38,698	34,357
Sub-total	318,893	270,774
Tax and surcharges	70,741	69,765
Other general and administrative expenses	288,176	306,386
Total	1,536,404	1,456,874

9 CREDIT LOSSES

	Six months ended 30 June	
	2021	2020
Loans and advances to customers	1,262,812	1,944,777
Deposits with banks and other financial institutions	1,251	210
Placements with banks and other financial institutions	335	(10,126)
Financial assets held under resale agreements	6,028	7,456
Financial investments measured at amortised cost	(42,254)	735,614
Financial investments measured at FVOCI		
– Debt instruments	343,563	(28,239)
Long-term receivables	53,731	134,237
Credit commitments	6,139	(2,015)
Others	18,453	5,809
Total	1,650,058	2,787,723

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

10 INCOME TAX EXPENSE

(1) Income tax for the reporting period

	Note	Six months ended 30 June	
		2021	2020
Current tax		530,869	935,781
Deferred tax	25(2)	(223,253)	(640,730)
Total		307,616	295,051

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

	Six months ended 30 June	
	2021	2020
Profit before taxation	2,140,588	1,859,542
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	535,147	464,886
Tax effect of non-deductible expenses for tax purpose		
– Annuity	4,166	1,782
– Entertainment expenses	1,627	1,102
– Others	12,621	2,808
Sub-total	18,414	5,692
Tax effect of non-taxable income for tax purpose (Note (i))	(245,945)	(175,527)
Income tax	307,616	295,051

Note:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

11 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	Six months ended 30 June	
		2021	2020
Weighted average number of ordinary shares (in thousands)	11(1)	4,509,690	4,509,690
Net profit attributable to equity shareholders of the Bank		1,797,590	1,530,517
Less: dividends on preference shares declared		–	–
Net profit attributable to ordinary shareholders of the Bank		1,797,590	1,530,517
Basic and diluted earnings per share (in RMB)		0.40	0.34

Note:

As stated in Note 36, the Bank issued 60,150,000 shares in respect of the USD overseas preference share on 19 September 2017. On 30 June 2021, the carrying amount of the overseas preference share equals to RMB7,854 million.

The above overseas preference share adopts the non-cumulative dividend payment method, that is, the 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. In the case of meeting relevant distribution conditions, dividends of the preference share will be paid on 19 September of each year after the declaration of the Board of Directors of the Bank, the Bank post-pays the dividends each year.

Therefore, in calculating the earnings per share for six months ended 30 June 2021, the Bank did not consider the effects of dividends that may be distributed to shareholders of the overseas preference share in September 2021 on the net profit attributable to shareholders of the ordinary shares of the Bank (Dividends distributed to shareholders of the overseas preference share by the Bank in September 2020 were RMB497 million).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

11 BASIC AND DILUTED EARNINGS PER SHARE (continued)

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

	Six months ended 30 June	
	2021	2020
Number of ordinary shares as at 1 January	4,509,690	4,509,690
Increase in weighted average number of ordinary shares	–	–
Weighted average number of ordinary shares	4,509,690	4,509,690

12 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	30 June 2021	31 December 2020
Cash on hand		528,165	565,606
Deposits with central bank			
– Statutory deposit reserves	12(1)	23,320,530	21,879,514
– Surplus deposit reserves	12(2)	22,814,558	24,566,884
– Fiscal deposits		262,182	196,923
Sub-total		46,397,270	46,643,321
Accrued interest		11,889	10,470
Total		46,937,324	47,219,397

(1) The Bank places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at 30 June 2021, the statutory deposit reserve ratios for RMB deposits applicable to the Bank were 8.0% (31 December 2020: 8.0%). As at 30 June 2021, the statutory deposit reserve ratios for foreign currency deposits applicable to the Bank were 7.0% (31 December 2020: 5.0%). The Bank's subsidiary places statutory deposit reserves with the PBOC in accordance with relevant regulations.

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

13 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2021	31 December 2020
In Mainland China		
– Banks	2,882,257	2,111,834
– Other financial institutions	221,928	74,540
Outside Mainland China		
– Banks	953,104	382,509
Accrued interest	2,841	945
Sub-total	4,060,130	2,569,828
Less: Provision for impairment losses	(2,160)	(909)
Total	4,057,970	2,568,919

14 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2021	31 December 2020
In Mainland China		
– Banks	452,207	–
Accrued interest	1	–
Sub-total	452,208	–
Less: Provision for impairment losses	(335)	–
Total	451,873	–

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

15 DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2021			31 December 2020		
	Nominal amount	Fair value of assets	Fair value of Liabilities	Nominal amount	Fair value of assets	Fair value of Liabilities
Interest rate swap contracts and others	51,196,841	226,390	(226,436)	76,567,494	286,400	(288,347)
Total	51,196,841	226,390	(226,436)	76,567,494	286,400	(288,347)

16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	30 June 2021	31 December 2020
In Mainland China		
– Banks	7,488,250	8,934,700
– Other financial institutions	1,387,006	799,880
Accrued interest	2,107	536
Sub-total	8,877,363	9,735,116
Less: Provision for impairment losses	(14,668)	(8,640)
Total	8,862,695	9,726,476

(2) Analysed by type of security held

	30 June 2021	31 December 2020
Debt securities	8,875,256	9,734,580
Accrued interest	2,107	536
Sub-total	8,877,363	9,735,116
Less: Provision for impairment losses	(14,668)	(8,640)
Total	8,862,695	9,726,476

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS

(1) *Analysed by nature*

	30 June 2021	31 December 2020
Measured at amortised cost:		
Corporate loans and advances		
– Corporate loans	150,431,093	138,776,966
Sub-total	150,431,093	138,776,966
Personal loans and advances		
– Residential mortgage	43,940,272	40,588,284
– Personal consumption loans	12,456,861	9,398,159
– Personal business loans	11,036,878	10,768,653
Sub-total	67,434,011	60,755,096
Accrued interest	800,878	899,064
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost		
– 12-month expected credit loss (“ECL”)	(2,270,681)	(2,113,757)
– lifetime ECL		
– not credit-impaired loans	(982,458)	(923,214)
– credit-impaired loans	(2,832,284)	(2,250,830)
Total provision for impairment losses	(6,085,423)	(5,287,801)
Measured at FVOCI:		
Corporate loans and advances		
– Discounted bills	17,050,861	7,215,159
Net loans and advances to customers	229,631,420	202,358,484

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	30 June 2021	31 December 2020
Unsecured loans	45,799,403	42,739,296
Guaranteed loans	52,117,221	50,477,538
Loans secured by mortgages	91,920,927	84,180,163
Pledged loans	45,078,414	29,350,224
Gross loans and advances to customers	234,915,965	206,747,221

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

	30 June 2021				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	175,978	120,373	21,327	1,103	318,781
Guaranteed loans	599,902	496,613	916,903	88,351	2,101,769
Loans secured by mortgages	211,269	187,504	120,844	139,372	658,989
Total	987,149	804,490	1,059,074	228,826	3,079,539
As a percentage of gross loans and advances to customers	0.42%	0.34%	0.45%	0.10%	1.31%

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 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:

	30 June 2021			Total
	12-month ECL	Lifetime ECL – not credit- impaired	Lifetime ECL – credit- impaired (Note (i))	
Gross loans and advances to customers measured at amortised cost (including accrued interest)	212,377,227	2,720,271	3,568,484	218,665,982
Less: Provision for impairment losses	(2,270,681)	(982,458)	(2,832,284)	(6,085,423)
Net loans and advances to customers measured at amortised cost	210,106,546	1,737,813	736,200	212,580,559
	31 December 2020			
	12-month ECL	Lifetime ECL – not credit- impaired	Lifetime ECL – credit- impaired (Note (i))	Total
Gross loans and advances to customers measured at amortised cost (including accrued interest)	194,027,629	3,210,345	3,193,152	200,431,126
Less: Provision for impairment losses	(2,113,757)	(923,214)	(2,250,830)	(5,287,801)
Net loans and advances to customers measured at amortised cost	191,913,872	2,287,131	942,322	195,143,325

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	30 June 2021			Total
	12-month ECL	Lifetime ECL – not credit- impaired	Lifetime ECL – credit- impaired (Note (i))	
Gross/net loans and advances to customers at FVOCI	17,050,861	–	–	17,050,861
Provision for impairment losses through other comprehensive income	(15,584)	–	–	(15,584)
	31 December 2020			
	12-month ECL	Lifetime ECL-not credit- impaired	Lifetime ECL – credit- impaired (Note (i))	Total
Gross/net loans and advances to customers at FVOCI	7,215,159	–	–	7,215,159
Provision for impairment losses through other comprehensive income	(14,781)	–	–	(14,781)

Note:

(i) The definitions of the credit-impaired financial assets are set out in Note 42(1) Credit risk.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 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:

	Six months ended 30 June 2021			
	12-month ECL	Lifetime ECL – not credit-impaired	Lifetime ECL – credit-impaired	Total
As at 1 January 2021	2,113,757	923,214	2,250,830	5,287,801
Transfer to				
– 12-month ECL	6,153	(6,139)	(14)	–
– Lifetime ECL				
– not credit-impaired loans	(39,942)	46,475	(6,533)	–
– credit-impaired loans	(17,751)	(779,602)	797,353	–
Charge for the period	208,464	798,510	255,035	1,262,009
Write-offs and transfer out	–	–	(799,557)	(799,557)
Recoveries of loans and advances written off	–	–	345,763	345,763
Other changes	–	–	(10,593)	(10,593)
As at 30 June 2021	2,270,681	982,458	2,832,284	6,085,423
		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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 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:

	Six months ended 30 June 2021			
	12-month ECL	Lifetime ECL – not credit- impaired	Lifetime ECL – credit- impaired	Total
As at 1 January 2021	14,781	–	–	14,781
Charge for the period	803	–	–	803
As at 30 June 2021	15,584	–	–	15,584

	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

The Group enters into securitization transactions in the normal course of business. See Note 46 for details.

In addition, in six months ended 30 June 2021 and the year ended 31 December 2020, the Group transferred loans and advances to independent third parties with principal amount of RMB87 million and RMB134 million respectively.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

18 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2021	31 December 2020
Financial investments held for trading	–	–
Financial investments designated as at FVTPL	–	–
Other financial investments measured at FVTPL		
Debt investments issued by the following institutions in Mainland China		
– Banks and other financial institutions	890,020	704,792
– Corporate entities	109,453	178,160
Sub-total	999,473	882,952
Investment funds	35,472,444	24,363,870
Asset management plans	11,148,719	9,998,794
Trust fund plans	1,572,820	2,004,789
Total	49,193,456	37,250,405
Listed	205,622	260,796
Of which: listed outside Hong Kong	205,622	260,796
Unlisted	48,987,834	36,989,609
Total	49,193,456	37,250,405

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>Note</i>	30 June 2021	31 December 2020
Debt securities issued by the following institutions in Mainland China			
– Government		26,630,428	15,330,316
– Policy banks		2,275,354	6,437,969
– Banks and other financial institutions		14,274,980	11,039,796
– Corporate entities		26,607,255	26,338,440
Sub-total		69,788,017	59,146,521
Asset management plans		5,158,950	5,680,647
Other investments		703,251	703,121
Equity investments	<i>19(1)</i>	23,250	23,250
Accrued interest		974,510	1,274,463
Total		76,647,978	66,828,002
Listed	<i>19(2)</i>	16,246,465	26,027,905
Of which: listed outside Hong Kong		16,246,465	26,027,905
Unlisted		60,401,513	40,800,097
Total		76,647,978	66,828,002

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 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 measured at FVOCI, and the details are as follows:

Investees	Six months ended 30 June 2021					
	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Percentage of shareholding in investees (%)	Cash dividend for the year
China UnionPay Co., Ltd.	13,000	-	-	13,000	0.34	-
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		-

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

For the six months ended 30 June 2021 and the year ended 31 December 2020, the Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earning.

- (2) Only includes bonds traded on stock exchanges.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 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 measured at FVOCI are as follows:

	Six months ended 30 June 2021			
	12-month ECL	Lifetime ECL – not credit-impaired	Lifetime ECL – credit-impaired	Total
As at 1 January 2021	51,291	20,935	62,521	134,747
Transfer to				
– 12-month ECL	–	–	–	–
– Lifetime ECL				
– not credit-impaired	(541)	541	–	–
– credit-impaired	(92)	(4,954)	5,046	–
Charge/(Release) for the period	6,485	170,788	166,290	343,563
As at 30 June 2021	57,143	187,310	233,857	478,310

	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

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 UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

	Note	30 June 2021	31 December 2020
Debt securities issued by the following institutions in Mainland China			
– Government		28,231,883	26,717,042
– Policy banks		11,800,375	11,799,924
– Banks and other financial institutions		11,361,586	18,552,129
– Corporate entities		1,562,684	1,823,781
Sub-total		52,956,528	58,892,876
Asset management plans		5,426,670	7,585,510
Trust fund plans		2,030,700	1,434,700
Other investments		6,180,000	6,150,000
Accrued interest		869,004	1,191,036
Less: Provision for impairment losses	20(1)	(1,054,266)	(1,096,520)
Total		66,408,636	74,157,602
Listed	20(2)	699,559	20,497,542
Of which: listed outside Hong Kong		699,559	20,497,542
Unlisted		65,709,077	53,660,060
Total		66,408,636	74,157,602

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST (continued)

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

	Six months ended 30 June 2021			
	12-month ECL	Lifetime ECL – not credit- impaired	Lifetime ECL – credit- impaired	Total
As at 1 January 2021	282,041	541,384	273,095	1,096,520
Transfer to				
– Lifetime ECL				
– not credit-impaired	–	–	–	–
– credit-impaired	–	(184,891)	184,891	–
(Release)/Charge for the period	(109,111)	(5,511)	72,368	(42,254)
As at 30 June 2021	172,930	350,982	530,354	1,054,266
	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

- (2) Only includes bonds traded on stock exchanges.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENT IN SUBSIDIARY

	30 June 2021	31 December 2020
BQD Financial Leasing Company Limited	510,000	510,000
BQD Wealth Management Company Limited	1,000,000	1,000,000
Total	1,510,000	1,510,000

As at 30 June 2021 and 31 December 2020, the subsidiary is as follows:

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

Note:

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

22 LONG-TERM RECEIVABLES

	30 June 2021	31 December 2020
Minimum finance lease receivables	11,297,283	12,125,172
Less: Unearned finance lease income	(808,791)	(930,753)
Present value of finance lease receivables	10,488,492	11,194,419
Accrued interest	86,891	94,343
Sub-total	10,575,383	11,288,762
Less: Provision for impairment losses		
– 12-month ECL	(205,674)	(192,063)
– Lifetime ECL		
– not credit-impaired	(12,554)	(59,446)
– credit-impaired	(123,761)	(36,075)
Net balance	10,233,394	11,001,178

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 LONG-TERM RECEIVABLES (continued)

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

	Six months ended 30 June 2021			Total
	12-month ECL	Lifetime ECL – not credit-impaired	Lifetime ECL – credit-impaired	
As at 1 January 2021	192,063	59,446	36,075	287,584
Transfer to				
– Lifetime ECL				
– credit-impaired	–	(22,956)	22,956	–
Charge/(Release) for the period	13,611	(23,936)	64,056	53,731
Others	–	–	674	674
As at 30 June 2021	205,674	12,554	123,761	341,989

	2020			Total
	12-month ECL	Lifetime ECL – not credit-impaired	Lifetime ECL – credit-impaired	
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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 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:

	30 June 2021			31 December 2020		
	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Repayable on demand	–	–	–	29,679	(4,092)	25,587
Less than 1 year (inclusive)	5,868,151	(489,802)	5,378,349	5,842,581	(562,697)	5,279,884
1 year to 2 years (inclusive)	3,552,142	(211,331)	3,340,811	4,024,894	(265,342)	3,759,552
2 years to 3 years (inclusive)	1,325,635	(56,699)	1,268,936	1,842,646	(79,363)	1,763,283
3 years to 5 years (inclusive)	301,227	(15,571)	285,656	316,025	(12,653)	303,372
Indefinite	250,128	(35,388)	214,740	69,347	(6,606)	62,741
Total	11,297,283	(808,791)	10,488,492	12,125,172	(930,753)	11,194,419

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

23 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	Construction in progress	Total
Cost						
As at 1 January 2020	2,917,848	617,176	64,548	87,136	210,203	3,896,911
Increase	285,368	77,621	5,123	14,728	16,605	399,445
Decrease	(52,419)	(18,747)	(2,532)	(4,610)	–	(78,308)
As at 31 December 2020	3,150,797	676,050	67,139	97,254	226,808	4,218,048
Increase	5,156	30,201	8,007	7,304	39,935	90,603
Decrease	(93)	(16,883)	(3,737)	(1,531)	–	(22,244)
As at 30 June 2021	3,155,860	689,368	71,409	103,027	266,743	4,286,407
Accumulated depreciation						
As at 1 January 2020	(357,707)	(382,324)	(47,795)	(60,272)	–	(848,098)
Increase	(60,601)	(72,715)	(4,904)	(8,227)	–	(146,447)
Decrease	–	17,528	2,405	4,332	–	24,265
As at 31 December 2020	(418,308)	(437,511)	(50,294)	(64,167)	–	(970,280)
Increase	(35,414)	(35,360)	(2,736)	(5,011)	–	(78,521)
Decrease	–	15,978	3,550	1,157	–	20,685
As at 30 June 2021	(453,722)	(456,893)	(49,480)	(68,021)	–	(1,028,116)
Net book value						
As at 30 June 2021	2,702,138	232,475	21,929	35,006	266,743	3,258,291
As at 31 December 2020	2,732,489	238,539	16,845	33,087	226,808	3,247,768

As at 30 June 2021 and 31 December 2020, the Group did not have significant property and equipment which were temporarily idle.

The carrying amount of premises with incomplete title deeds of the Group as at 30 June 2021 was RMB12 million (31 December 2020: RMB12 million). Management is in the opinion that the incomplete title deeds would not affect the rights to these assets of the Group.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

23 PROPERTY AND EQUIPMENT (continued)

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:

	30 June 2021	31 December 2020
Held in Mainland China		
– Long-term leases (over 50 years)	16,500	16,695
– Medium-term leases (10 – 50 years)	2,683,442	2,713,504
– Short-term leases (less than 10 years)	2,196	2,290
Total	2,702,138	2,732,489

24 RIGHT-OF-USE ASSETS

	Premises	Others	Total
Cost			
As at 1 January 2020	939,004	4,114	943,118
Increase	162,455	–	162,455
Decrease	(19,803)	–	(19,803)
As at 31 December 2020	1,081,656	4,114	1,085,770
Increase	55,915	–	55,915
Decrease	(4,487)	–	(4,487)
As at 30 June 2021	1,133,084	4,114	1,137,198
Accumulated depreciation			
As at 1 January 2020	(123,539)	(651)	(124,190)
Increase	(140,550)	(651)	(141,201)
Decrease	6,442	–	6,442
As at 31 December 2020	(257,647)	(1,302)	(258,949)
Increase	(75,896)	(326)	(76,222)
Decrease	2,651	–	2,651
As at 30 June 2021	(330,892)	(1,628)	(332,520)
Net book value			
As at 30 June 2021	802,192	2,486	804,678
As at 31 December 2020	824,009	2,812	826,821

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

25 DEFERRED INCOME TAX ASSETS

(1) Analysed by nature

	30 June 2021		31 December 2020	
	Deductible/ (taxable) temporary differences	Deferred Income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred Income tax assets/ (liabilities)
Provision for impairment losses	9,461,938	2,365,485	8,866,008	2,216,502
Deferred interest income from discounted bills	267,168	66,792	100,848	25,212
Change in fair value	150,950	37,737	544,920	136,230
Others	402,303	100,576	360,292	90,073
Total	10,282,359	2,570,590	9,872,068	2,468,017

(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 2020	1,608,814	21,425	(137,255)	88,921	1,581,905
Recognised in profit or loss	613,598	3,787	59,270	952	677,607
Recognised in other comprehensive income	(5,910)	–	214,215	200	208,505
As at 31 December 2020	2,216,502	25,212	136,230	90,073	2,468,017
Recognised in profit or loss	235,074	41,580	(63,882)	10,481	223,253
Recognised in other comprehensive income	(86,091)	–	(34,611)	22	(120,680)
As at 30 June 2021	2,365,485	66,792	37,737	100,576	2,570,590

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, provisions, and other accrued expenses, which are deductible against taxable income when actual payment occurs.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

26 OTHER ASSETS

	Note	30 June 2021	31 December 2020
Continuously involved assets		922,695	583,720
Long-term deferred expense		281,667	256,939
Prepayments		275,687	221,964
Intangible assets	26(1)	256,846	252,518
Precious metals		112,656	112,656
Interest receivable (Note (i))	26(2)	81,131	18,675
Repossessed assets (Note (ii))		56,490	50,090
Deferred expense		12,299	2,355
Others		379,826	399,232
Sub-total		2,379,297	1,898,149
Less: Provision for impairment losses		(26,786)	(10,013)
Total		2,352,511	1,888,136

Notes:

- (i) As at 30 June 2021 and 31 December 2020, the book value of the group's interest receivable after deducting the provision for impairment is RMB58.8602 million and RMB7,359.7 thousand, respectively.
- (ii) Repossessed assets mainly included premises, etc. As at 30 June 2021 and 31 December 2020, there is no need to recognise provision for impairments losses of repossessed assets.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

26 OTHER ASSETS (continued)

(1) Intangible assets

	Six months ended 30 June 2021	2020
Cost		
As at 1 January	659,876	518,914
Additions	50,557	152,982
Decrease	–	(12,020)
As at 30 June/31 December	710,433	659,876
Accumulated amortisation		
As at 1 January	(407,358)	(324,671)
Additions	(46,229)	(82,999)
Decrease	–	312
As at 30 June/31 December	(453,587)	(407,358)
Net value		
As at 30 June/31 December	256,846	252,518
As at 1 January	252,518	194,243

Intangible assets of the Group mainly include software.

(2) Interest receivable

	30 June 2021	31 December 2020
Interest receivable arising from:		
– Loans and advances to customers	68,804	18,042
– Long-term receivables	12,327	633
Total	81,131	18,675

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

27 BORROWINGS FROM CENTRAL BANK

	30 June 2021	31 December 2020
Borrowings	11,141,591	7,337,774
Re-discounted bills	3,792,285	3,864,679
Accrued interest	11,128	4,616
Total	14,945,004	11,207,069

28 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2021	31 December 2020
In Mainland China		
– Banks	330,787	313,382
– Other financial institutions	7,433,733	16,623,431
Accrued interest	61,963	87,919
Total	7,826,483	17,024,732

29 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2021	31 December 2020
In Mainland China		
– Banks	13,623,601	12,850,606
Outside Mainland China		
– Banks	839,813	–
Accrued interest	125,597	96,969
Total	14,589,011	12,947,575

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

30 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) *Analysed by type and location of counterparty*

	30 June 2021	31 December 2020
In Mainland China		
– Central Bank	3,580,000	17,810,000
– Banks	28,006,811	14,783,748
Outside Mainland China		
– Banks	–	499,691
Accrued interest	4,494	5,910
Total	31,591,305	33,099,349

(2) *Analysed by types of collaterals*

	30 June 2021	31 December 2020
Debt securities	20,459,490	31,618,091
Discounted bills	11,127,321	1,475,348
Accrued interest	4,494	5,910
Total	31,591,305	33,099,349

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

31 DEPOSITS FROM CUSTOMERS

	30 June 2021	31 December 2020
Demand deposits		
– Corporate deposits	112,968,000	111,491,369
– Personal deposits	26,753,635	22,899,499
Sub-total	139,721,635	134,390,868
Time deposits		
– Corporate deposits	81,874,236	71,955,873
– Personal deposits	73,836,213	65,439,816
Sub-total	155,710,449	137,395,689
Outward remittance and remittance payables	152,597	428,585
Fiscal deposits to be transferred	26,281	16,342
Accrued interest	3,696,667	3,519,226
Total	299,307,629	275,750,710
Including:		
Pledged deposits	17,524,631	11,767,939

32 DEBT SECURITIES ISSUED

	30 June 2021	31 December 2020
Debt securities issued (<i>Note (i)</i>)	27,985,099	22,487,484
Certificates of interbank deposit issued (<i>Note (ii)</i>)	67,083,382	50,009,437
Accrued interest	363,741	337,587
Total	95,432,222	72,834,508

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

32 DEBT SECURITIES ISSUED (continued)

Notes:

- (i) Financial debts with fixed interest rates were issued by the Group. The details are as follows:
- (a) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB0.5 billion in March 2016. The debts matured on 14 March 2021 with annual interest payments. As at 31 December 2020, the fair value of the debts was RMB0.501 billion.
 - (b) Five-year Green Bonds were issued with 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 30 June 2021, the fair value of the debts was RMB1.003 billion (31 December 2020: RMB1.002 billion).
 - (c) Ten-year tier-two capital bonds 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 30 June 2021, the fair value of the debts was RMB3.044 billion (31 December 2020: RMB2.964 billion).
 - (d) Ten-year tier-two capital bonds 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 30 June 2021, the fair value of the debts was RMB2.030 billion (31 December 2020: RMB1.976 billion).
 - (e) 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 30 June 2021, the fair value of the debts was RMB3.018 billion (31 December 2020: RMB3.009 billion).
 - (f) 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 30 June 2021, the fair value of the debts was RMB1.018 billion (31 December 2020: RMB1.010 billion).
 - (g) 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 30 June 2021, the fair value of the debts was RMB3.020 billion (31 December 2020: RMB3.011 billion).
 - (h) 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 30 June 2021, the fair value of the debts was RMB1.018 billion (31 December 2020: RMB1.010 billion).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

32 DEBT SECURITIES ISSUED (continued)

- (i) 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 30 June 2021, the fair value of the debts was RMB3.017 billion (31 December 2020: RMB2.997 billion).
- (j) 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 30 June 2021, the fair value of the debts was RMB1.014 billion (31 December 2020: RMB1.004 billion).
- (k) 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 30 June 2021, the fair value of the debts was RMB3.016 billion (31 December 2020: RMB2.995 billion).
- (l) 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 30 June 2021, the fair value of the debts was RMB1.013 billion (31 December 2020: RMB1.002 billion).
- (m) Ten-year tier-two capital bonds were issued with an interest rate of 4.80% per annum and with a nominal amount of RMB4.0 billion in March 2021. The debts will mature on 24 March 2031 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 30 June 2021, the fair value of the debts was RMB4.080 billion.
- (n) Ten-year tier-two capital bonds were issued with an interest rate of 4.34% per annum and with a nominal amount of RMB2.0 billion in May 2021. The debts will mature on 28 May 2031 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 30 June 2021, the fair value of the debts was RMB1.999 billion.
- (ii) The Group issued a number of certificates of interbank deposit with duration between 1 month and 1 year. As at 30 June 2021 and 31 December 2020, the fair value of outstanding certificates of interbank deposit was RMB67.145 billion and RMB50.023 billion, respectively.

33 LEASE LIABILITIES

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

	30 June 2021	31 December 2020
Less than 1 year (inclusive)	133,736	123,746
1 year to 2 years (inclusive)	100,955	102,486
2 years to 3 years (inclusive)	84,761	80,705
3 years to 5 years (inclusive)	111,913	121,661
Over 5 years	74,530	73,593
Total undiscounted cash flows of lease liabilities	505,895	502,191
Lease liabilities on statement of financial position	456,469	453,671

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

34 OTHER LIABILITIES

	Note	30 June 2021	31 December 2020
Payable arising from fiduciary activities		1,257,751	1,608,948
Continuously involved liabilities		922,695	583,720
Risk guarantee deposits for leasing business		753,367	728,835
Employee benefits payable	34(1)	616,124	864,886
Settlement payable		449,624	266,424
Taxes payable	34(2)	181,650	166,877
ECL on credit commitments	34(3)	108,402	102,263
Dividend payable		18,516	17,765
Others		279,121	543,147
Total		4,587,250	4,882,865

(1) Employee benefits payable

	30 June 2021	31 December 2020
Salaries, bonuses and allowances payable	432,210	675,187
Social insurance and housing allowances payable	103	103
Staff welfare expenses	31,321	58,920
Staff education expenses	34,867	20,709
Labor union expenses	18,715	17,179
Post-employment benefits-defined contribution plans	10,678	10,678
Supplementary retirement benefits (note (i))	88,230	82,110
Total	616,124	864,886

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 UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

34 OTHER LIABILITIES (continued)

(2) Taxes payable

	30 June 2021	31 December 2020
Value added tax payable	151,114	140,169
Urban construction tax and surcharges payable	29,781	25,205
Others	755	1,503
Total	181,650	166,877

(3) Expected credit loss on credit commitments

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

	Six months ended 30 June 2021			Total
	12-month ECL	Lifetime ECL – not credit- impaired	Lifetime ECL – credit- impaired	
As at 1 January 2021	102,164	99	–	102,263
Transfer to				
– 12-month ECL	5	(5)	–	–
– Lifetime ECL				
– not credit-impaired	(1)	1	–	–
Charge for the period	5,600	539	–	6,139
As at 30 June 2021	107,768	634	–	108,402
	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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

35 SHARE CAPITAL

Authorised and issued share capital

	30 June 2021	31 December 2020
Number of shares authorised, issued and fully paid at nominal value (in thousands)	4,509,690	4,509,690

36 PREFERENCE SHARES

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

Financial instrument outstanding	Issue date	Accounting classification	Initial dividend rate	Issue price	Amount <i>(in thousands of shares)</i>	In original currency <i>(in thousands)</i>	In RMB <i>(in thousands)</i>	Maturity	Conversion
Overseas preference shares	19 Sep 2017	Equity	5.5%	20USD/Share	60,150	1,203,000	7,883,259	None	No
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 for the previous years' losses, contributing to the statutory surplus reserve and general reserve, 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 which will not constitute a default, but such cancellation will require a shareholder's resolution to be passed.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

36 PREFERENCE SHARES (continued)

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

(e) Mandatory conversion trigger events

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

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

(f) Redemption

Under the premise of obtaining the approval of the regulatory authority and condition of redemption, the Bank has right to redeem all or some of overseas preference stocks in first redemption date 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. Preference shareholders are senior to the ordinary shareholders on the right to dividends.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

36 PREFERENCE SHARES (continued)

(3) Changes in preference shares outstanding

1 January 2021		Increase during the period		30 June 2021	
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 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

(4) Interests attribute to equity instruments' holders

Items	30 June 2021	31 December 2020
Total equity attribute to equity holders of the Bank	31,633,059	30,285,174
– Equity attribute to ordinary shareholders of the Bank	23,779,095	22,431,210
– Equity attribute to preference shareholders of the Bank	7,853,964	7,853,964
Total equity attribute to non-controlling interests	657,066	621,684
– Equity attribute to non-controlling interests of ordinary shares	657,066	621,684

37 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 making up for the previous years' losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of the Bank's registered capital.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RESERVES (continued)

(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 appropriate a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets within five years.

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

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

(4) Other comprehensive income

Items	Six months ended 30 June 2021					Balance at the end of the period
	Balance at the beginning of the period	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	(8,191)	(90)	–	22	(68)	(8,259)
Items that may be reclassified to profit or loss Including: Changes in fair value from financial assets measured at FVOCI Credit losses of financial assets measured at FVOCI	(71,238)	243,031	(104,588)	(34,611)	103,832	32,594
	112,146	380,757	(36,391)	(86,091)	258,275	370,421
Total	32,717	623,698	(140,979)	(120,680)	362,039	394,756

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RESERVES (continued)

Items	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 financial assets measured at FVOCI	571,405	(285,652)	(571,206)	214,215	(642,643)	(71,238)
Credit losses of financial assets measured at FVOCI	94,416	72,189	(48,549)	(5,910)	17,730	112,146
Total	658,230	(214,263)	(619,755)	208,505	(625,513)	32,717

38 PROFIT APPROPRIATION

- (1) At the 2020 annual general meeting held on 11 May 2021, the shareholders approved the following profit appropriation for the year ended 31 December 2020:
- Appropriated RMB233 million to statutory 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 (including tax).
- (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 of the Third Year on Offshore Preference Shares of Bank of Qingdao Co., Ltd. for overseas preference shares to be distributed amounts to USD73.5167 million (including 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 (including tax).
- (3) At the 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 statutory 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 (including tax).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents:

	30 June 2021	30 June 2020
Cash	528,165	721,614
Surplus deposit reserves with central bank	22,814,558	13,663,443
Original maturity within three months:		
– Deposits with banks and other financial institutions	3,657,289	2,041,302
– Placements with banks and other financial institutions	452,207	–
– Certificates of interbank deposit issued	597,566	–
Total	28,049,785	16,426,359

40 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
		30 June 2021	31 December 2020				
Intesa Sanpaolo S.p.A. ("ISP")	624,754	13.85%	13.85%	Italy	Commercial banking	Joint stock limited company	Gian Maria GROS-PIETRO
Qingdao Conson Industrial Co., Ltd. ("Qingdao Conson")	503,556	11.17%	11.17%	Qingdao	State-owned assets operation and investment, import and export of goods and technology	Limited liability company	WANG Jianhui
Qingdao Haier Investment and Development Co., Ltd. ("Haier Investment")	–	–	9.08%	Qingdao	Outbound investment	Limited liability company	ZHANG Ruimin
Qingdao Haier Industrial Development Co., Ltd. ("Haier Industrial")	409,693	9.08%	–	Qingdao	Business activities	Limited liability company	XIE Juzhi

Note:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Changes in ordinary shares of the Bank held by major shareholders

	ISP		Qingdao Conson		Haier Investment		Haier Industrial	
	Number <i>(in thousands of shares)</i>	Percentage	Number <i>(in thousands of shares)</i>	Percentage	Number <i>(in thousands of shares)</i>	Percentage	Number <i>(in thousands of shares)</i>	Percentage
As at 1 January 2020	624,754	13.85%	503,556	11.17%	409,693	9.08%	-	-
Increase	-	-	-	-	-	-	-	-
As at 31 December 2020	624,754	13.85%	503,556	11.17%	409,693	9.08%	-	-
(Decrease)/Increase	-	-	-	-	(409,693)	(9.08%)	409,693	9.08%
As at 30 June 2021	624,754	13.85%	503,556	11.17%	-	-	409,693	9.08%

Changes in registered capital of major shareholders

	Currency	30 June 2021	31 December 2020
ISP	EUR	10,084 Million	10,084 Million
Qingdao Conson	RMB	2,000 Million	2,000 Million
Haier Industrial	RMB	4,500 Million	4,500 Million

(b) *Subsidiary of the Bank*

The detailed information of the Bank's subsidiary is set out in Note 21.

(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 UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 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 legal person related parties	Other natural person related parties	Total	Proportion to gross amount/ balance of similar transactions
As at 30 June 2021							
On-balance sheet items:							
Loans and advances to customers <i>(Note (i))</i>	-	-	345,252	-	14,381	359,633	0.15%
Financial investments at FVTPL	-	-	-	2,426,807	-	2,426,807	4.93%
Long-term receivables <i>(Note(ii))</i>	-	-	225,219	-	-	225,219	2.13%
Deposits with banks and other financial institutions	2,802	-	-	-	-	2,802	0.07%
Deposits from customers	240,451	127,781	595,558	2,083,936	91,042	3,138,768	1.05%
Deposits from banks and other financial institutions	-	-	511	60,437	-	60,948	0.78%
Six months ended 30 June 2021							
Interest income	-	-	21,104	-	245	21,349	0.24%
Interest expense	933	1,058	5,058	28,519	1,082	36,650	0.74%
Fee and commission income	-	-	-	16,046	-	16,046	1.90%
Other operating losses	-	-	-	6,300	-	6,300	64.98%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

	ISP and its group	Qingdao Conson and its group	Haier Investment and its group	Other corporate related parties	Other individual related parties	Total	Proportion to gross amount/ balance of similar transactions
As at 31 December 2020							
On-balance sheet items:							
Loans and advances to customers <i>(Note(i))</i>	-	-	372,511	-	11,886	384,397	0.19%
Financial investments at FVTPL	-	-	-	2,457,303	-	2,457,303	6.60%
Long-term receivables <i>(Note(ii))</i>	-	-	300,340	-	-	300,340	2.66%
Deposits with banks and other financial institutions	299	-	-	-	-	299	0.01%
Deposits from customers	160,743	291,355	559,099	1,612,746	87,888	2,711,831	0.98%
Deposits from banks and other financial institutions	-	-	508	28,813	-	29,321	0.17%
Six months ended 30 June 2020							
Interest income	-	8,881	42,027	-	347	51,255	0.62%
Interest expense	1,292	16,027	2,366	7,135	885	27,705	0.64%
Fee and commission income	-	-	71	30,666	-	30,737	2.77%
Other operating losses	-	-	-	2,000	-	2,000	6.93%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Notes:

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

	30 June 2021	31 December 2020
Qingdao Haichen real estate development Co., Ltd.	344,370	371,600
Individuals	14,358	11,866
Total	358,728	383,466

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

	30 June 2021	31 December 2020
Qingdao Haier Global Innovation Model Research Co., Ltd.	225,000	300,000
Total	225,000	300,000

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

41 SEGMENT REPORTING

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, etc.

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, etc.

Financial market business

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

Un-allocated items and others

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

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

(b) Credit risk assessment method

Stage of financial instruments

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

The three risk stages are defined as follows:

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

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

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

Significant increases in credit risk

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

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

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

The Group compares the risk of default of a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics as at the end of the reporting period and its risk of default at the date of initial application to determine changes in the risk of default during the lifetime of a financial instrument or a portfolio of financial instruments.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

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

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

Measuring ECL – the parameters, assumptions and valuation techniques

Based on whether there is significant increase in credit risk and whether the asset has suffered credit impairment, the Group measures provision for loss of different assets with 12-month ECL or lifetime ECL respectively. The expected credit loss is the result of the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account the time value of the currency. The definitions of these terms are as follows:

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan.
- EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan.
- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies due to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

During the six months ended 30 June 2021, there has been no significant changes in the estimate techniques and key assumptions of the Group.

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

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

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

Forward-looking information included in the expected credit loss 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 regularly evaluates alternative macroeconomic indicators, from which the Group identified critical economic indicators that affect the credit risk and ECL of asset portfolios, including gross domestic product (GDP), consumer price index (CPI), 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.

During the six months ended 30 June 2021, the Group has taken into account different macroeconomic scenarios, combined with the impact of other factors such as COVID-19 pandemic on economic development trends, and made forward-looking forecasts of key economic indicators, including the average forecasted year-on-year growth rate of GDP, used to estimate ECL, which is about 9.38% in the neutral scenario for 2021.

The Group has carried out sensitivity analysis of key economic variables, used in forward-looking measurement. As at 30 June 2021 and 31 December 2020, when the key economic indicators in the neutral scenario move up or down by 5%, the ECL will not change by more than 1.5%.

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the ECL were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

Write-off policy

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

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

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

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

(d) *Collaterals and other credit enhancements*

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 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:

	30 June 2021	31 December 2020
Deposits with central bank	46,409,159	46,653,791
Deposits with banks and other financial institutions	4,057,970	2,568,919
Placements with banks and other financial institutions	451,873	–
Derivative financial assets	226,390	286,400
Financial assets held under resale agreements	8,862,695	9,726,476
Loans and advances to customers	229,631,420	202,358,484
Financial investments:		
– Financial investments measured at FVTPL	13,721,012	12,886,535
– Financial investments measured at FVOCI	76,624,728	66,804,752
– Financial investments measured at amortised cost	66,408,636	74,157,602
Long-term receivables	10,233,394	11,001,178
Others	424,967	398,303
Subtotal	457,052,244	426,842,440
Off-balance sheet credit commitments	42,752,353	36,522,967
Total maximum credit risk exposure	499,804,597	463,365,407

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 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 gross loans and advances to customers (excluding accrued interest) by industry is analysed as follows:

	30 June 2021		31 December 2020	
	Amount	Percentage	Amount	Percentage
Manufacturing	33,195,135	14.12%	27,657,606	13.37%
Construction	27,048,564	11.51%	24,704,927	11.95%
Renting and business activities	23,676,010	10.08%	21,806,775	10.55%
Real estate	22,536,532	9.59%	20,970,449	10.14%
Wholesale and retail trade	21,601,677	9.20%	15,003,646	7.26%
Water, environment and public utility management	20,990,253	8.94%	19,600,238	9.48%
Transportation, storage and postal services	4,336,929	1.85%	3,082,904	1.49%
Production and supply of electric and heating power, gas and water	4,099,366	1.75%	3,797,074	1.84%
Financial service	3,036,970	1.29%	1,869,095	0.90%
Scientific Research and Technical Services Industries	2,236,480	0.95%	2,241,260	1.08%
Others	4,724,038	2.01%	5,258,151	2.55%
Subtotal for corporate loans and advances	167,481,954	71.29%	145,992,125	70.61%
Personal loans and advances	67,434,011	28.71%	60,755,096	29.39%
Total for loans and advances to customers	234,915,965	100.00%	206,747,221	100.00%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 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:

	30 June 2021					
	Unrated	AAA	AA	A	Below A	Total
Debt securities (analysed by type of issuers):						
Government	-	54,858,177	-	-	-	54,858,177
Policy banks	-	14,074,529	-	-	-	14,074,529
Banks and other financial institutions	-	24,654,527	1,394,813	-	475,575	26,524,915
Corporate entities	-	9,755,544	14,366,009	159,171	3,997,305	28,278,029
Total	-	103,342,777	15,760,822	159,171	4,472,880	123,735,650
	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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

(g) Analysis on the credit quality of financial instruments

As at 30 June 2021, the Group's credit risk stages of financial instruments are as follows:

Financial assets measured at amortised cost	30 June 2021							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central banks	46,937,324	-	-	46,937,324	-	-	-	-
Deposits with banks and other financial institutions	4,060,130	-	-	4,060,130	(2,160)	-	-	(2,160)
Placements with banks and other financial institutions	452,208	-	-	452,208	(335)	-	-	(335)
Financial assets held under resale agreements	8,877,363	-	-	8,877,363	(14,668)	-	-	(14,668)
Loans and advances to customers								
– General corporate loans and advances	145,472,999	2,438,464	3,157,021	151,068,484	(2,014,024)	(906,709)	(2,545,712)	(5,466,445)
– Personal loans and advances	66,904,228	281,807	411,463	67,597,498	(256,657)	(75,749)	(286,572)	(618,978)
Financial investments	65,561,404	1,126,798	774,700	67,462,902	(172,930)	(350,982)	(530,354)	(1,054,266)
Long-term receivables	10,309,286	50,270	215,827	10,575,383	(205,674)	(12,554)	(123,761)	(341,989)
Total	348,574,942	3,897,339	4,559,011	357,031,292	(2,666,448)	(1,345,994)	(3,486,399)	(7,498,841)

Financial assets measured at FVOCI	30 June 2021							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers								
– Discounted bills	17,050,861	-	-	17,050,861	(15,584)	-	-	(15,584)
Financial investments	74,943,134	1,370,246	311,348	76,624,728	(57,143)	(187,310)	(233,857)	(478,310)
Total	91,993,995	1,370,246	311,348	93,675,589	(72,727)	(187,310)	(233,857)	(493,894)
Off-balance sheet credit commitments	42,732,015	20,288	50	42,752,353	(107,768)	(634)	-	(108,402)

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42 RISK MANAGEMENT (continued)

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)

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 UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 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, etc.

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 UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 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:

	30 June 2021					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	46,937,324	802,236	46,135,088	-	-	-
Deposits with banks and other financial institutions	4,057,970	2,841	3,655,291	399,838	-	-
Placements with banks and other financial institutions	451,873	1	451,872	-	-	-
Financial assets held under resale agreements	8,862,695	2,107	8,860,588	-	-	-
Loans and advances to customers (Note (i))	229,631,420	653,882	51,570,427	138,124,239	36,781,932	2,500,940
Financial investments (Note (ii))	192,250,070	1,864,511	30,299,216	29,616,158	61,267,894	69,202,291
Long-term receivables	10,233,394	84,510	1,529,229	5,499,231	3,120,424	-
Others	9,212,460	9,212,460	-	-	-	-
Total assets	501,637,206	12,622,548	142,501,711	173,639,466	101,170,250	71,703,231
Liabilities						
Borrowings from central bank	14,945,004	11,128	4,446,700	10,487,176	-	-
Deposits from banks and other financial institutions	7,826,483	61,963	4,115,520	3,649,000	-	-
Placements from banks and other financial institutions	14,589,011	125,597	4,330,000	10,133,414	-	-
Financial assets sold under repurchase agreements	31,591,305	4,494	31,586,811	-	-	-
Deposits from customers	299,307,629	3,875,545	178,532,280	42,528,879	74,217,167	153,758
Debt securities issued	95,432,222	363,741	15,294,606	58,787,080	9,995,052	10,991,743
Others	5,655,427	5,198,958	37,218	88,010	273,526	57,715
Total liabilities	469,347,081	9,641,426	238,343,135	125,673,559	84,485,745	11,203,216
Asset-liability gap	32,290,125	2,981,122	(95,841,424)	47,965,907	16,684,505	60,500,015

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

	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:

- (i) For the Group's loans and advances to customers, the category "Less than three months" as at 30 June 2021 includes overdue loans and advances (net of provision for impairment losses) of RMB914 million (31 December 2020: RMB837 million).
- (ii) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI, financial investments measured at amortised cost.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 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	30 June 2021 (Decrease)/ Increase	31 December 2020 (Decrease)/ Increase
Interest rates increase by 100 bps	(598,670)	(640,745)
Interest rates decrease by 100 bps	598,670	640,745

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

- (i) All assets and liabilities that are repriced or mature within three months and after three months but within one year are repriced or mature at the beginning of the respective periods (i.e., all the assets and liabilities that are repriced or mature within three months are repriced or mature immediately, and all the assets and liabilities that are repriced or mature after three months but within one year are repriced or mature immediately after three months);
- (ii) There is a parallel shift in the yield curve and in interest rates; and
- (iii) There are no other changes to the portfolio and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 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:

	30 June 2021			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	46,523,872	409,086	4,366	46,937,324
Deposits with banks and other financial institutions	1,167,294	2,862,963	27,713	4,057,970
Placements with banks and other financial institutions	–	451,873	–	451,873
Financial assets held under resale agreements	8,862,695	–	–	8,862,695
Loans and advances to customers	224,912,608	4,718,812	–	229,631,420
Financial investments (Note (i))	182,444,008	9,806,062	–	192,250,070
Long-term receivables	10,233,394	–	–	10,233,394
Others	9,210,535	–	1,925	9,212,460
Total assets	483,354,406	18,248,796	34,004	501,637,206
Liabilities				
Borrowings from central bank	14,945,004	–	–	14,945,004
Deposits from banks and other financial institutions	7,826,478	5	–	7,826,483
Placements from banks and other financial institutions	11,083,258	3,505,753	–	14,589,011
Financial assets sold under repurchase agreements	31,591,305	–	–	31,591,305
Deposits from customers	293,277,565	6,008,764	21,300	299,307,629
Debt securities issued	95,367,627	64,595	–	95,432,222
Others	5,592,221	60,308	2,898	5,655,427
Total liabilities	459,683,458	9,639,425	24,198	469,347,081
Net position	23,670,948	8,609,371	9,806	32,290,125
Off-balance sheet credit commitments	42,133,045	485,424	133,884	42,752,353

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(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

	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

Note:

- (i) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI and financial investments measured at amortised cost.

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(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

Changes in annualized net profit	30 June 2021 Increase/ (Decrease)	31 December 2020 Increase/ (Decrease)
Foreign exchange rate increase by 100 bps	10,007	9,953
Foreign exchange rate decrease by 100 bps	(10,007)	(9,953)

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

- (i) the foreign exchange sensitivity is the gain or loss recognised as a result of 100 basis point fluctuation in the foreign currency exchange rates against RMB;
- (ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously;
- (iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net foreign exchange gain or loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

(3) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business even if a bank's solvency remains strong. Liquidity risk management is to ensure that the Group has sufficient cash flow to meet payment obligations and fund business operations on a timely basis. To achieve this, the Group should have the ability to make full payment due on demand deposits or early withdrawal of term deposits, make full repayment of placement upon maturity, or meet other payment obligations. The Bank also needs to comply with statutory requirements on liquidity ratios, and actively carry out lending and investment business. The Group monitors the future cash flow according to its liquidity management policies, and keeps its high liquidity assets at an appropriate level.

Under the guidance of the Asset and Liability Management Committee, the Financial Planning Department performs daily management of liquidity risk in accordance with the liquidity management objectives, and to ensure payment of the business.

The Group holds an appropriate amount of liquid assets (such as deposits with central bank, other short-term deposits and securities) to ensure liquidity needs and unpredictable demand for payment in the ordinary course of business. A substantial portion of the Group's assets are funded by deposits from customers. As a major source of funding, customer deposits have been growing steadily in recent years and are widely diversified in terms of type and duration.

The Group principally uses liquidity gap analysis to measure liquidity risk. Stress testing is also adopted to assess the impact of liquidity risk.

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(Expressed in thousands of Renminbi, unless otherwise stated)

42 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:

	30 June 2021							Total
	Indefinite (Note (ii))	Repayable on demand (Note (iii))	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	23,582,712	23,354,612	-	-	-	-	-	46,937,324
Deposits with banks and other financial institutions	-	3,656,013	-	-	401,957	-	-	4,057,970
Placements with banks and other financial institutions	-	-	451,873	-	-	-	-	451,873
Financial assets held under resale agreements	-	-	8,862,695	-	-	-	-	8,862,695
Loans and advances to customers	836,590	232,978	12,692,807	12,356,556	64,168,321	77,615,543	61,728,625	229,631,420
Financial investments (Note (i))	574,704	830	25,202,135	3,996,162	27,146,101	64,756,215	70,573,923	192,250,070
Long-term receivables	92,066	-	416,295	1,096,175	3,838,059	4,790,799	-	10,233,394
Others	7,205,979	4,366	18,857	2,944	38,453	438,679	1,503,182	9,212,460
Total assets	32,292,051	27,248,799	47,644,662	17,451,837	95,592,891	147,601,236	133,805,730	501,637,206
Liabilities								
Borrowings from central bank	-	-	859,909	3,587,867	10,497,228	-	-	14,945,004
Deposits from banks and other financial institutions	-	3,367,635	306,353	461,821	3,690,674	-	-	7,826,483
Placements from banks and other financial institutions	-	-	1,559,851	2,849,991	10,179,169	-	-	14,589,011
Financial assets sold under repurchase agreements	-	-	31,591,305	-	-	-	-	31,591,305
Deposits from customers	-	140,395,557	21,282,499	17,604,135	43,662,252	76,208,516	154,670	299,307,629
Debt securities issued	-	-	3,173,809	12,217,235	59,054,383	9,995,052	10,991,743	95,432,222
Others	124,017	465,833	1,659,283	218,783	659,126	1,459,318	1,069,067	5,655,427
Total liabilities	124,017	144,229,025	60,433,009	36,939,832	127,742,832	87,662,886	12,215,480	469,347,081
Net position	32,168,034	(116,980,226)	(12,788,347)	(19,487,995)	(32,149,941)	59,938,350	121,590,250	32,290,125

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(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

	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:

- (i) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI and financial investments 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".

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42 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 non-derivative financial liabilities at the end of the reporting period:

	30 June 2021								
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central bank	-	-	860,624	3,646,627	10,599,908	-	-	15,107,159	14,945,004
Deposits from banks and other financial institutions	-	3,367,635	306,655	464,299	3,735,951	-	-	7,874,540	7,826,483
Placements from banks and other financial institutions	-	-	1,562,645	2,906,274	10,323,365	-	-	14,792,284	14,589,011
Financial assets sold under repurchase agreements	-	-	31,594,658	-	-	-	-	31,594,658	31,591,305
Deposits from customers	-	140,395,557	21,303,094	17,676,381	44,140,823	83,750,187	185,004	307,451,046	299,307,629
Debt securities issued	-	-	3,184,601	12,280,000	60,855,400	12,709,700	12,744,000	101,773,701	95,432,222
Others	124,017	465,833	1,660,258	216,139	656,951	1,269,340	1,085,883	5,478,421	5,428,991
Total	124,017	144,229,025	60,472,535	37,189,720	130,312,398	97,729,227	14,014,887	484,071,809	469,120,645

	31 December 2020								
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central bank	-	-	759,411	2,717,444	7,855,080	-	-	11,331,935	11,207,069
Deposits from banks and other financial institutions	-	7,847,471	2,223,114	1,971,487	5,082,140	-	-	17,124,212	17,024,732
Placements from banks and other financial institutions	-	-	2,876,667	3,308,604	6,954,249	-	-	13,139,520	12,947,575
Financial assets sold under repurchase agreements	-	-	32,606,741	500,563	-	-	-	33,107,304	33,099,349
Deposits from customers	-	135,345,742	16,536,469	18,101,525	46,360,362	66,111,333	237,474	282,692,905	275,750,710
Debt securities issued	-	-	3,023,542	11,964,083	38,135,975	17,894,600	5,500,000	76,518,200	72,834,508
Others	116,849	307,271	1,929,661	151,622	838,391	1,733,762	739,423	5,816,979	5,768,457
Total	116,849	143,500,484	59,955,605	38,715,328	105,226,197	85,739,695	6,476,897	439,731,055	428,632,400

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

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(Expressed in thousands of Renminbi, unless otherwise stated)

42 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:

	30 June 2021							Contractual undiscounted cash flow
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Derivative cash flows:								
Derivative financial instruments settled on net basis	-	-	(402)	(2,597)	(3,950)	5,305	-	(1,644)
Derivative financial instruments settled on gross basis								
Including: Cash inflow	-	-	35,036	51,657	-	-	-	86,693
Cash outflow	-	-	(33,722)	(52,998)	-	-	-	(86,720)
	-	-	1,314	(1,341)	-	-	-	(27)
	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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 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 regulatory authorities. 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 capability in sound operations and risk management. 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 UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

As at 30 June 2021 and 31 December 2020, the Group calculated the capital adequacy ratios in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) issued by the former CBRC in 2012 and relevant requirements promulgated by the former CBRC as follows:

	30 June 2021	31 December 2020
Total core tier-one capital	24,161,643	22,846,168
– Share capital	4,509,690	4,509,690
– Qualifying portion of capital reserve	8,337,869	8,337,869
– Surplus reserve	1,859,737	1,859,737
– General reserve	5,072,217	5,072,217
– Retained earnings	3,604,826	2,618,980
– Other comprehensive income	394,756	32,717
– Qualifying portion of non-controlling interests	382,548	414,958
Core tier-one capital deductions	(436,956)	(461,170)
Net core tier-one capital	23,724,687	22,384,998
Other tier-one capital	7,904,970	7,909,292
– Additional tier 1 capital instruments and related premium	7,853,964	7,853,964
– Valid portion of minority interests	51,006	55,328
Net tier-one capital	31,629,657	30,294,290
Tier two capital	13,858,971	7,512,290
– Qualifying portions of tier-two capital instruments issued	11,000,000	5,000,000
– Surplus provision for loan impairment	2,756,958	2,401,634
– Qualifying portion of non-controlling interests	102,013	110,656
Net capital base	45,488,628	37,806,580
Total risk weighted assets	286,145,148	267,941,143
Core tier-one capital adequacy ratio	8.29%	8.35%
Tier-one capital adequacy ratio	11.05%	11.31%
Capital adequacy ratio	15.90%	14.11%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 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 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 UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 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

	30 June 2021			Total
	Level 1 Note (i)	Level 2 Note (i)	Level 3 Note (i) ~ (ii)	
Financial investments measured at FVTPL				
– Debt securities	–	999,473	–	999,473
– Asset management plans	–	–	11,148,719	11,148,719
– Trust fund plans	–	–	1,572,820	1,572,820
– Investment funds	–	35,472,444	–	35,472,444
Derivative financial assets	–	226,390	–	226,390
Financial investments measured at FVOCI				
– Debt securities	–	70,620,933	–	70,620,933
– Asset management plans	–	5,294,303	–	5,294,303
– Other investments	–	–	709,492	709,492
– Equity investments	–	–	23,250	23,250
Loans and advances to customers measured at FVOCI	–	–	17,050,861	17,050,861
Total financial assets	–	112,613,543	30,505,142	143,118,685
Derivative financial liabilities	–	224,528	1,908	226,436
Total financial liabilities	–	224,528	1,908	226,436

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 FAIR VALUE (continued)

	31 December 2020			Total
	Level 1 Note (i)	Level 2 Note (i)	Level 3 Note (i) ~ (ii)	
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:

(i) During the reporting period, there were no significant transfers among each level.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 FAIR VALUE (continued)

(ii) Movements in Level 3 of the fair value hierarchy

The Group

	As at 1 January 2021	Transfer into level 3	Transfer out of level 3	Total gains or losses for the period		Purchases, issues, disposals and settlements			As at 30 June 2021
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
Financial investments measured at FVTPL									
– Asset management plans	9,998,794	–	–	107,496	–	2,110,000	–	(1,067,571)	11,148,719
– Trust fund plans	2,004,789	–	–	8,030	–	–	–	(439,999)	1,572,820
– Investment funds	50,390	–	–	(390)	–	–	–	(50,000)	–
Derivative financial assets	995	–	–	(995)	–	–	–	–	–
Financial investments measured at FVOCI									
– Other investments	730,534	–	–	42,124	(21,167)	–	–	(41,999)	709,492
– Equity investments	23,250	–	–	–	–	–	–	–	23,250
Loans and advances to customers measured at FVOCI	7,215,159	–	–	207,350	20,048	24,957,535	–	(15,349,231)	17,050,861
Total financial assets	20,023,911	–	–	363,615	(1,119)	27,067,535	–	(16,948,800)	30,505,142
Derivative financial liabilities	1,726	–	–	182	–	–	–	–	1,908
Total financial liabilities	1,726	–	–	182	–	–	–	–	1,908

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 FAIR VALUE (continued)

	As at 1 January 2020	Transfer into level 3	Transfer out of level 3	Total gains or losses for the period		Purchases, issues, disposals and settlements			As at 31 December 2020
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
Financial investments measured at FVTPL									
- Asset management plans	9,240,047	-	-	249,550	-	6,145,739	-	(5,636,542)	9,998,794
- Wealth management products	1,033,973	-	-	6,727	-	-	-	(1,040,700)	-
- Trust fund plans	2,829,424	-	-	(52,983)	-	2,000,000	-	(2,771,652)	2,004,789
- Investment funds	50,258	-	-	2,321	-	-	-	(2,189)	50,390
Derivative financial assets	5,588	-	-	(4,593)	-	-	-	-	995
Financial investments measured at FVOCI									
- Other investments	732,842	-	-	41,835	(2,143)	-	-	(42,000)	730,534
- Equity investments	23,250	-	-	-	-	-	-	-	23,250
Loans and advances to customers measured at FVOCI	6,249,822	-	-	(219,328)	11,679	30,832,820	-	(29,659,834)	7,215,159
Total financial assets	20,165,204	-	-	23,529	9,536	38,978,559	-	(39,152,917)	20,023,911
Derivative financial liabilities	2,015	-	-	(289)	-	-	-	-	1,726
Total financial liabilities	2,015	-	-	(289)	-	-	-	-	1,726

(3) Level 2 of the fair value hierarchy

A majority of the financial instruments classified as level 2 of the Group are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 FAIR VALUE (continued)

(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*

The estimated fair value of loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and long-term receivables represents the amount of estimated future cash flows expected to be received, discounted at current market rates.

- (iii) *Debt securities financial investments measured at amortised cost*

The fair value for debt securities financial investments measured at amortised cost is based on "bid" market prices or brokers'/dealers' price quotations. If relevant market information is not available, the fair value is based on quoted price of security products with similar characteristics such as credit risk, maturities and yield.

- (iv) *Deposits from customers*

The fair value of checking and savings is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices is estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

- (v) *Debt securities issued*

The fair value of debt securities issued is based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

44 COMMITMENTS AND CONTINGENCIES

(1) Credit commitments

The Group's credit commitments mainly 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.

	30 June 2021	31 December 2020
Bank acceptances	23,544,069	23,968,377
Unused credit card commitments	10,542,581	6,292,802
Letters of credit	7,414,712	5,024,229
Letters of guarantees	1,048,821	1,035,389
Irrevocable loan commitments	202,170	202,170
Total	42,752,353	36,522,967

Irrevocable loan commitments only include unused loan commitments granted to syndicated loans.

The Group may be exposed to credit risk in all the above credit businesses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

For details of ECL of credit commitments, please refer to Note 34(3).

(2) Credit risk-weighted amount

	30 June 2021	31 December 2020
Credit risk-weighted amount of contingent liabilities and commitments	10,523,429	8,550,965

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

44 COMMITMENTS AND CONTINGENCIES (continued)

(3) Capital commitments

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

	30 June 2021	31 December 2020
Contracted but not paid for	62,323	75,802
Authorised but not contracted for	944	–
Total	63,267	75,802

(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 30 June 2021 and 31 December 2020. With the professional advice from counselors, the Group's management believes such litigation will not have a significant impact on the Group.

(5) 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 unpaid interest 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:

	30 June 2021	31 December 2020
Bonds redemption obligations	4,410,391	4,565,939

(6) Pledged assets

	30 June 2021	31 December 2020
Investment securities	35,374,082	41,511,935
Discounted bills	11,127,321	1,475,348
Total	46,501,403	42,987,283

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 12). 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 30 June 2021 and 31 December 2020, the Group did not have these discounted bills under resale agreements. As at 30 June 2021 and 31 December 2020, the Group did not sell or repledge any pledged assets which it has an obligation to resale when they are due.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

45 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 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 30 June 2021 and 31 December 2020 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	30 June 2021			Carrying amount	Maximum exposure
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost		
Asset management plans	11,148,719	5,294,303	5,341,878	21,784,900	21,784,900
Trust fund plans	1,572,820	–	1,137,041	2,709,861	2,709,861
Asset-backed securities	145,496	2,399,122	922,462	3,467,080	3,467,080
Investment funds	35,472,444	–	–	35,472,444	35,472,444
Total	48,339,479	7,693,425	7,401,381	63,434,285	63,434,285

	31 December 2020			Carrying amount	Maximum exposure
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost		
Asset management plans	9,998,794	5,842,695	7,202,596	23,044,085	23,044,085
Trust fund plans	2,004,789	–	864,969	2,869,758	2,869,758
Asset-backed securities	202,415	1,366,797	583,637	2,152,849	2,152,849
Investment funds	24,363,870	–	–	24,363,870	24,363,870
Total	36,569,868	7,209,492	8,651,202	52,430,562	52,430,562

The maximum exposures to loss in the above structured entities are the amortised cost or the fair value of the assets held by the Group at the end of the reporting period in accordance with the line items of these assets recognised in the statement of financial position.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

45 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 30 June 2021 and 31 December 2020, the carrying amounts of the management fee receivables being recognised are not material in the statement of financial position.

As at 30 June 2021, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, was RMB156.719 billion (31 December 2020: RMB124.123 billion).

In addition, the unconsolidated structured entities sponsored by the Group also include asset-backed securities held and initiated by the Group. As at 30 June 2021, the balances of these asset-backed securities was RMB0.085 billion (31 December 2020: RMB0.208 billion).

(3) *Structured entities sponsored and issued by the Group after 1 January but matured before the end of the reporting period in which the Group no longer holds an interest*

During the six months ended 30 June 2021, the amount of fee and commission income recognised from the above mentioned structured entities by the Group was RMB5 million (six months ended 30 June 2020: RMB54 million).

During the six months ended 30 June 2021, the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January but matured before 30 June was RMB3.975 billion (six months ended 30 June 2020: RMB20.883 billion).

46 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.

(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 UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

46 TRANSFERRED FINANCIAL ASSETS (continued)

(2) Asset securitization

The Group enters into securitization 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”).

During the six months ended 30 June 2021, the Group transferred a portfolio of customer loans with a book value of RMB1.766 billion (2020: RMB8.393 billion) to an unconsolidated securitization vehicle managed by an independent trust company, which issued asset-backed securities to investors. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognised.

Under the servicing arrangements with the independent trust company, the Group collects the cash flows of the transferred assets on behalf of the unconsolidated securitization vehicle. In return, the Group receives a fee that is expected to compensate the Group for servicing the related assets.

47 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 30 June 2021, the entrusted loans balance of the Group was RMB3.179 billion (31 December 2020: RMB2.773 billion).

48 THE IMPACT OF COVID-19

The outbreak of the COVID-19 in the beginning of 2020 has brought some uncertainties to the Group’s operating environment and impacted on the financial and operational results of the Group to some extent. The Group earnestly implemented the requirements of the “Notice on Further Enhancing Financial Support for Prevention and Control of the COVID-19 (《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》)” and other relevant policies and regulations jointly published by the PBOC, the MOF, the CBIRC, the CSRC and the State Administration of Foreign Exchange, 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.

49 SUBSEQUENT EVENTS

Up to the approval date of the report, the Group has no other significant subsequent events for disclosure.

50 COMPARATIVE FIGURES

For financial statements disclosure purpose, the Group made reclassification adjustments to some comparative figures.

SECTION XII UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the unaudited interim financial report, 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 30 June 2021	As at 31 December 2020
Qualified and high-quality current assets	100,034,369	84,342,175
Net cash outflows in next 30 days	55,764,766	55,334,625
Liquidity coverage ratio (RMB and foreign currency)	179.39%	152.42%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, a minimum liquidity coverage ratio of 100% is required.

(2) Leverage ratio

	As at 30 June 2021	As at 31 December 2020
Leverage ratio	5.89%	6.14%

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 30 June 2021	As at 31 March 2021
Available stable funding	281,845,319	267,019,602
Required stable funding	266,484,323	253,379,478
Net stable funding ratio	105.76%	105.38%

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 XII UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

2 CURRENCY CONCENTRATIONS

	30 June 2021			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	18,248,796	18,780	15,224	18,282,800
Spot liabilities	(9,639,425)	(12,337)	(11,861)	(9,663,623)
Forward purchases	42,257	–	–	42,257
Forward sales	106,858	–	–	106,858
Net long position	8,758,486	6,443	3,363	8,768,292
Structural position	(129,202)	–	–	(129,202)

	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)

SECTION XII UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(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 recognised 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.

	30 June 2021			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	407,943	8,030,946	8,834,038	17,272,927
– of which attributed to Hong Kong	–	5,162,454	–	5,162,454
– North and South America	–	934,851	–	934,851
– Europe	–	9,449	–	9,449
	407,943	8,975,246	8,834,038	18,217,227
	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

SECTION XII UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	30 June 2021	31 December 2020
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	294,363	272,235
– between 6 months and 1 year (inclusive)	510,127	724,238
– over 1 year	1,287,900	950,620
Total	2,092,390	1,947,093
As a percentage of total gross loans and advances (excluding accrued interest)		
– between 3 and 6 months (inclusive)	0.13%	0.13%
– between 6 months and 1 year (inclusive)	0.21%	0.35%
– over 1 year	0.55%	0.45%
Total	0.89%	0.93%