

Management Discussion and Analysis | Capital Management

The Bank's capital management objectives are to ensure reasonable capital adequacy, support the implementation of the Group's strategies, resist various risks including credit risk, market risk and operational risk, ensure the compliance of the Group and related institutions with capital regulatory requirements, promote the Group's transformation towards capital-light business development and improve its capital use efficiency and value creation capabilities.

To achieve the above objectives, the Bank formulated a capital management plan for the 14th Five-year Plan period which was approved by the Shareholders' Meeting. Focusing on the "One Mainstay, Two Engines" strategy and the "Eight Priority Areas for Enhancing Financial Services Capabilities", the capital management plan clarified the principles, objectives and measures of medium- and long-term capital management. In accordance with regulatory policies, the Bank regularly carried out its internal capital adequacy assessment process, revised its capital management rules, and continuously improved its capital management governance structure. It improved the economic capital budget and assessment mechanism, strengthened the application of value creation indicators in resource allocation, and heightened the Group's awareness of capital saving and value creation in order to enhance its capability for endogenous capital accumulation. The Bank expanded the application of advanced approaches of capital

measurement, optimised its on- and off-balance sheet asset structure, strived to reduce capital consumption, actively developed capital-light businesses, and reasonably controlled the risk weight of assets. The Bank replenished capital through external financing channels in a prudent manner in order to consolidate its capital base, strengthened researching and planning on policies on total loss-absorbing capacity, and prepared for those policies' implementation.

In 2021, the Bank successfully issued RMB70.0 billion of undated capital bonds and RMB75.0 billion of tier 2 capital bonds, further enhancing its capital strength. It reinforced the management of existing capital instruments and redeemed RMB28.0 billion of domestic preference shares, effectively reducing the cost of capital. The Bank continually reinforced internal management, with RWA growing at a slower pace than total assets. As at the end of 2021, the Group's capital adequacy ratio reached 16.53%, an increase of 0.31 percentage point from the end of 2020, remaining at a robust and reasonable level in compliance with the objectives of the Group's 14th Five-Year Plan. The Bank shall, as per the principle of attaching equal importance to endogenous accumulation and external replenishment, increase the cohesion of strategic planning, capital replenishment, and performance assessment, continue to enhance risk resistance, and better support the development of the real economy.

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Capital Adequacy Ratios

As at the end of 2021, the capital adequacy ratios calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* are listed below:

Unit: RMB million, except percentages

Items	Group		Bank	
	As at 31 December 2021	As at 31 December 2020	As at 31 December 2021	As at 31 December 2020
Net common equity tier 1 capital	1,843,886	1,704,778	1,563,789	1,441,977
Net tier 1 capital	2,173,731	1,992,621	1,883,294	1,719,467
Net capital	2,698,839	2,451,055	2,391,365	2,162,054
Common equity tier 1 capital adequacy ratio	11.30%	11.28%	11.06%	10.99%
Tier 1 capital adequacy ratio	13.32%	13.19%	13.32%	13.10%
Capital adequacy ratio	16.53%	16.22%	16.91%	16.47%

Please refer to Note VI.6 to the Consolidated Financial Statements for detailed information.

Leverage Ratio

As at the end of 2021, the leverage ratio calculated in accordance with the *Administrative Measures for the Leverage Ratio of Commercial Banks (Revised)* and the *Capital Rules for Commercial Banks (Provisional)* is listed below:

Unit: RMB million, except percentages

Items	As at 31 December 2021	As at 31 December 2020
Net tier 1 capital	2,173,731	1,992,621
Adjusted on- and off-balance sheet assets	28,425,377	25,880,515
Leverage ratio	7.65%	7.70%

Please refer to Supplementary Information II.5 to the Consolidated Financial Statements for detailed information.