

BQD  青岛银行

BANK OF QINGDAO CO., LTD.

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

(H Shares Stock Code: 3866)



ANNUAL REPORT

2023

Contents

SECTION I	IMPORTANT NOTICE, CONTENTS AND DEFINITIONS	2
SECTION II	CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS	5
SECTION III	CHAIRMAN'S STATEMENT	12
SECTION IV	PRESIDENT'S STATEMENT	14
SECTION V	MANAGEMENT DISCUSSION AND ANALYSIS	17
SECTION VI	CORPORATE GOVERNANCE	90
SECTION VII	ENVIRONMENTAL AND SOCIAL RESPONSIBILITY	144
SECTION VIII	SIGNIFICANT EVENTS	145
SECTION IX	CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS	157
SECTION X	PREFERENCE SHARES	169
SECTION XI	REPORT OF THE BOARD OF DIRECTORS	170
SECTION XII	REPORT OF THE BOARD OF SUPERVISORS	177
SECTION XIII	INDEPENDENT AUDITOR'S REPORT	178
SECTION XIV	NOTES TO THE FINANCIAL STATEMENTS	194
SECTION XV	UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION	314

Section I Important Notice, Contents and Definitions

1. The Board of Directors, Board of Supervisors, Directors, Supervisors and senior management of the Bank assure that the information in this annual report contains no false records, misleading statements or material omissions, and severally and jointly take full responsibility for the authenticity, accuracy and completeness of the information in this annual report.
2. The proposals on the 2023 Annual Report of Bank of Qingdao Co., Ltd., its summary and the results announcement were considered and approved at the 45th meeting of the eighth session of the Board of Directors of the Bank held on 28 March 2024. There were 14 Directors eligible for attending the meeting, and 14 Directors (among them, 3 Directors were entrusted to attend the meeting. Due to work arrangement, Mr. ZHOU Yunjie entrusted Mr. LIU Peng to attend the meeting and vote on his behalf; Ms. TAN Lixia entrusted Mr. DENG Youcheng to attend the meeting and vote on her behalf; Mr. WU Xianming entrusted Ms. CHEN Shuang to attend and vote on his behalf) actually attended the meeting.
3. The Bank's chairman Mr. JING Zailun, president Mr. WU Xianming, vice president Ms. CHEN Shuang in charge of finance function and general manager Mr. Li Zhenguo in charge of financial planning department assure the authenticity, accuracy and completeness of the financial reports in this annual report.
4. The 2023 financial statements of the Company prepared in accordance with the PRC Accounting Standards for Business Enterprises have been audited by KPMG Huazhen LLP, with standard unqualified auditor's report issued; the 2023 financial statements of the Company prepared in accordance with the International Financial Reporting Standards have been audited by KPMG, with unqualified auditor's report issued.
5. Unless otherwise specified, the currency of the amounts referred to in this annual report is RMB.
6. The profit distribution proposal has been considered and approved by the Board of Directors of the Bank to distribute cash dividend of RMB1.60 (tax inclusive) for every 10 shares to all ordinary shareholders of the Bank based on the total number of shares on the record date of the equity distribution, instead of distributing bonus shares and increasing share capital with provident fund. The profit distribution proposal will be submitted to the general meeting of the Bank for consideration.
7. This report contains certain forward-looking statements about the financial conditions, operating results and business developments of the Company. The report uses the words "will", "may", "strive", "plan", "hope", "endeavor", "expect", "aim" and similar wordings to express forward-looking statements. These statements are made based on current plans, estimates and projections, and although the Company believes that the expectations reflected in these forward-looking statements are reasonable, the Company cannot assure that these expectations will be attained or confirmed to be correct and therefore they do not constitute substantive undertakings of the Company. Investors and relevant individuals should maintain sufficient risk awareness in this regard and understand the difference between plans, forecasts and commitments, should not unduly rely on such statements, and should be aware of investment risks. Please note that these forward-looking statements are related to future events or future financial, business or other performance of the Company, and are subject to certain uncertainties, which may cause the actual results to differ substantially.
8. The Company invites investors to read the full text of this annual report carefully. The Company has described in detail the major risks and countermeasures in this report. For details, please refer to the content related to risk management set out in the section of "Management Discussion and Analysis".

Section I Important Notice, Contents and Definitions

9. Documents Available for Inspection

- (1) Financial statements bearing signatures and seals of Mr. JING Zailun (the chairman of the Bank), Mr. WU Xianming (the president of the Bank), Ms. CHEN Shuang (vice president in charge of finance function) and Mr. LI Zhenguo (general manager in charge of financial planning department);
- (2) Original copy of the audit report containing the seal of the accounting firm and the signatures and seal of the certified public accountants;
- (3) Originals of all the Bank's documents and originals of announcements, which have been disclosed during the Reporting Period;
- (4) The results announcement published on the HKEXnews website of the Hong Kong Stock Exchange.

Definitions

Term	Definition
Company	Bank of Qingdao Co., Ltd. and its subsidiaries
Bank, parent company	Bank of Qingdao Co., Ltd.
BQD Financial Leasing	BQD Financial Leasing Company Limited
BQD Wealth Management	BQD Wealth Management Company Limited
CSRC	China Securities Regulatory Commission
SFC	Securities and Futures Commission of Hong Kong
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)
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 to the Hong Kong Listing Rules
Reporting Period	from 1 January 2023 to 31 December 2023 (both days inclusive)
RMB	the lawful currency of the PRC
Director(s)	director(s) of the Bank
Supervisor(s)	supervisor(s) of the Bank
Board of Directors or Board	the board of Directors of the Bank
Board of Supervisors	the board of Supervisors of the Bank
Hong Kong	The Hong Kong Special Administrative Region of the PRC
Green Credit	the energy saving and environmental protection project and service loans commenced by the Bank as well as loans that comply with Catalog of Projects Backed by Green Bonds (2015 version) issued by the Green Finance Professional Committee of the China Society for Finance and Banking (中國金融學會綠色金融專業委員會). "Energy saving and environmental protection project and service loans" refers to the Notice on Submitting Statistical Table on Green Credit issued by General Office of the CBIRC (Yin Jian Ban Fa [2013] No. 185).
Small and Micro Enterprises	including small and micro enterprises, individual business owners, and the owners of small and micro enterprises.
IFRSs	the International Financial Reporting Standards issued by the International Accounting Standards Board; the International Financial Reporting Standards includes the International Accounting Standards.

Section II Corporate Information and Key Financial Highlights

I. CORPORATE INFORMATION

Stock abbreviation (A shares)	BQD	Stock code (A shares)	002948
Listing stock exchange of A shares	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		
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	JING Zailun		
Authorized representatives	JING Zailun, ZHANG Qiaowen		
Joint company secretaries	ZHANG Qiaowen, YU Wing Sze		
Registered address	Building 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC		
Historical change of registered address	The registered address of the Bank at the time of its establishment was No.17 Hubei Road, Shinan District, Qingdao; In December 2004, it was changed to No.68 Hong Kong Middle Road, Shinan District, Qingdao; In October 2017, it was changed to the current registered address.		
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	ZHANG Qiaowen	LU Zhenzhen
Address	No.6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC	No.6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC
Tel	+86 40066 96588 ext. 6	+86 40066 96588 ext. 6
Fax	+86 (532) 85783866	+86 (532) 85783866
Email	ir@qdbankchina.com	ir@qdbankchina.com

III. INFORMATION DISCLOSURE AND PLACE OF INSPECTION

The websites of the stock exchanges where the

Bank discloses its annual reports

Domestic

the website of the SZSE (<http://www.szse.cn/>)

Overseas

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

The media and website where the Bank discloses its annual reports

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

Place for inspection of annual reports of the Bank

office of the Board of Directors of the Bank

IV. CHANGE OF REGISTRATION

Unified social credit code

91370200264609602K

Change in principal business of the Bank since its listing (if any)

None

Successive changes in controlling shareholder (if any)

The Bank has no controlling shareholders

V. OTHER RELEVANT INFORMATION

(I) Accounting firms engaged by the Bank

Domestic accounting firm

KPMG Huazhen LLP

Office address of the domestic accounting firm

8th Floor, KPMG Tower, Oriental Plaza, 1 East Chang An Avenue, Dongcheng District, Beijing

Signing accountants

HUANG Aizhou, MA Xin

Overseas accounting firm

KPMG (Public Interest Entity Auditor registered in accordance with the Hong Kong Accounting and Financial Reporting Council Ordinance)

Office address of overseas accounting firm

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

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

Name of sponsor	Office address of sponsor	Sponsor representatives	Continuous supervision period
CITIC Securities Co., Ltd.	North Tower, Excellence Times Plaza II, No. 8 Zhong Xin San Road, Futian District, Shenzhen, Guangdong Province	A share rights issue: WANG Chen, PENG Yuan	From 28 January 2022 to 31 December 2023

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

Section II Corporate Information and Key Financial Highlights

(IV) Legal advisors engaged by the Bank

Legal advisor as to PRC law	King & Wood Mallesons Beijing
Legal advisor as to Hong Kong law	DLA Piper Hong Kong

(V) Share registrars of the Bank

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

VI. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS

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

Item	2023	2022	Year-on-year	2021	2020	2019
Business performance (RMB'000)			Change (%)			
Net interest income	9,281,969	8,288,314	11.99	7,645,625	8,146,531	6,846,055
Net non-interest income	3,199,382	3,360,941	(4.81)	3,492,748	2,401,543	2,776,054
Operating income	12,481,351	11,649,255	7.14	11,138,373	10,548,074	9,622,109
Operating expenses	(4,516,428)	(4,218,441)	7.06	(3,915,738)	(3,676,022)	(3,166,762)
Expected credit losses	(4,014,079)	(4,288,828)	(6.41)	(3,966,971)	(4,143,756)	(3,626,792)
Profit before taxation	3,933,397	3,135,959	25.43	3,225,410	2,728,296	2,828,555
Net profit	3,671,420	3,167,525	15.91	2,993,213	2,453,298	2,335,522
Net profit attributable to shareholders of the Bank	3,548,599	3,082,775	15.11	2,922,664	2,394,072	2,284,815
Per share (RMB/share)			Change (%)			
Basic earnings per share ⁽¹⁾	0.57	0.45	26.67	0.51	0.40	0.37
Diluted earnings per share ⁽¹⁾	0.57	0.45	26.67	0.51	0.40	0.37
Dividend per share ⁽²⁾	0.16	0.16	–	0.16	0.18	0.20

Section II Corporate Information and Key Financial Highlights

Item	31 December 2023	31 December 2022	Year-on-year Change (%)	31 December 2021	31 December 2020	31 December 2019
Scale indicators (RMB'000)			Change (%)			
Total assets ⁽³⁾	607,985,372	529,613,992	14.80	522,249,610	459,827,605	373,622,150
Loans and advances to customers:						
Total loans to customers ⁽³⁾	300,089,541	269,029,452	11.55	244,205,480	206,747,221	172,795,443
Add: Accrued interest	758,512	598,681	26.70	829,555	899,064	772,480
Less: Provision for impairment on loans and advances to customers measured at amortised cost	(7,855,127)	(7,109,471)	10.49	(6,426,337)	(5,287,801)	(4,409,632)
Loans and advances to customers	292,992,926	262,518,662	11.61	238,608,698	202,358,484	169,158,291
Provision for loan impairment	(7,997,497)	(7,137,141)	12.05	(6,439,606)	(5,302,582)	(4,422,549)
Of which: Impairment provision for loans and advances to customers at fair value through other comprehensive income	(142,370)	(27,670)	414.53	(13,269)	(14,781)	(12,917)
Total liabilities ⁽³⁾	568,046,129	493,020,697	15.22	488,921,882	428,920,747	343,144,232
Deposits from customers:						
Total deposits from customers ⁽³⁾	386,062,259	341,347,176	13.10	313,524,923	272,231,484	212,790,909
Add: Accrued interest	9,405,100	6,696,131	40.46	4,440,884	3,519,226	2,634,494
Deposits from customers	395,467,359	348,043,307	13.63	317,965,807	275,750,710	215,425,403
Share capital	5,820,355	5,820,355	–	4,509,690	4,509,690	4,509,690
Equity attributable to equity shareholders of the Bank	39,063,939	35,816,312	9.07	32,635,495	30,285,174	29,915,460
Equity attributable to shareholders	39,939,243	36,593,295	9.14	33,327,728	30,906,858	30,477,918
Net capital base	49,247,594	45,212,218	8.93	47,075,226	37,806,580	39,252,505
Of which: Net core tier-one capital	32,404,879	29,169,606	11.09	24,910,985	22,384,998	22,224,697
Other tier-one capital	6,483,769	6,473,571	0.16	7,912,511	7,909,292	7,901,623
Tier-two capital	10,358,946	9,569,041	8.25	14,251,730	7,512,290	9,126,185
Total risk-weighted assets	384,977,512	333,440,925	15.46	297,412,693	267,941,143	265,908,365
Per share (RMB/share)			Change (%)			
Net assets per share attributable to ordinary shareholders of the Bank ⁽⁴⁾	5.61	5.05	11.09	5.20	4.71	4.63

Section II Corporate Information and Key Financial Highlights

Item	2023	2022	Year-on-year	2021	2020	2019
Profitability indicators (%)			Change			
Return on average total assets ⁽⁵⁾	0.65	0.60	0.05	0.61	0.59	0.68
Weighted average return on net assets ⁽¹⁾	10.71	8.95	1.76	10.40	8.56	8.27
Net interest spread ⁽⁶⁾	1.85	1.85	–	1.87	2.14	2.10
Net interest margin ⁽⁷⁾	1.83	1.76	0.07	1.79	2.13	2.13
Net fee and commission income to operating income	12.71	12.41	0.30	17.55	16.04	12.65
Cost-to-income ratio ⁽⁸⁾	34.93	34.95	(0.02)	33.90	33.59	31.86
	31 December 2023	31 December 2022	Year-on-year	31 December 2021	31 December 2020	31 December 2019
Asset quality indicators (%)			Change			
Non-performing loan ratio	1.18	1.21	(0.03)	1.34	1.51	1.65
Provision coverage ratio	225.96	219.77	6.19	197.42	169.62	155.09
Loan provision ratio	2.67	2.65	0.02	2.64	2.56	2.56
Indicators of capital adequacy ratio (%)			Change			
Core tier-one capital adequacy ratio ⁽⁹⁾	8.42	8.75	(0.33)	8.38	8.35	8.36
Tier-one capital adequacy ratio ⁽⁹⁾	10.10	10.69	(0.59)	11.04	11.31	11.33
Capital adequacy ratio ⁽⁹⁾	12.79	13.56	(0.77)	15.83	14.11	14.76
Total equity to total assets ratio	6.57	6.91	(0.34)	6.38	6.72	8.16
Other indicators (%)			Change			
Liquidity coverage ratio	158.11	122.83	35.28	179.54	152.42	142.27
Liquidity ratio	78.23	88.21	(9.98)	73.28	65.44	68.84

Section II Corporate Information and Key Financial Highlights

- Notes:* (1) 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 completed A share and H share rights issue in January and February 2022 respectively. In accordance with the Accounting Standards for Enterprises No. 34 – Earnings per Share and the relevant application guidelines, the earnings per share indicator for the comparative period was recalculated taking into account the bonus issue factors included in the rights issue. Before the recalculation, the basic earnings per share and diluted earnings per share for 2021 were both RMB0.54 per share, for 2020 were both RMB0.42 per share, and for 2019 were both RMB0.39 per share. Both basic earnings per share and weighted average return on net assets for the period achieved an increase as compared with that of the previous year, which was mainly due to the increase in net profit attributable to ordinary shareholders of the Bank. The Bank issued offshore preference shares in 2017, which were redeemed in September 2022 and paid dividends for the current period. The Bank issued perpetual bonds from July to August 2022, which were classified as other equity instruments. In calculating earnings per share and weighted average return on net assets, the dividends of preference shares and perpetual bonds have been deducted from the “net profit attributable to ordinary shareholders of the Bank”, and the effect of the preference shares and perpetual bonds has been deducted from the “weighted average net assets”.
- (2) Dividend per share represents actual dividend per share attributable to ordinary shareholders of the Bank (not adjusted with taking account of the bonus issue factors included in rights issue), and the dividend per share of 2023 is subject to approval by the general meeting.
- (3) For details of the structure of total assets, total liabilities, total loans to customers and total deposits from customers, please refer to “7. Analysis of Major Items of the Statement of Financial Position” under “Section V Management Discussion and Analysis” of this annual 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. The net assets per share attributable to ordinary shareholders of the Bank from 2019 to the end of 2021 has taken account of the bonus issue factors included in the rights issue and was presented as adjusted.
- (5) Return on average total assets = net profit/average balance of total assets at the beginning and at the end of the period, of which total assets at the beginning of 2019 is the balance after the adoption of International Financial Reporting Standard 16 – Leases (“IFRS 16”).
- (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 balance of 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.

VII. 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 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.

VIII. SUPPLEMENTARY INDICATORS

Migration rate %	31 December 2023	31 December 2022	31 December 2021
Normal loan migration rate	1.00	1.01	1.07
Special mention loan migration rate	40.19	43.54	78.54
Substandard loan migration rate	32.47	22.43	19.28
Doubtful loan migration rate	23.54	3.19	2.45
Single largest customer loan ratio	5.35	4.78	5.82
Ten largest customers loan ratio	42.06	38.89	37.30

Note: The migration rate as at 31 December 2021 and at the end of the Reporting Period thereafter is calculated according to the Notice of China Banking and Insurance Regulatory Commission on Revising the Definition and Calculation Formula of Basic Indicators of Off-site Supervision of Banking Industry (Yin Bao Jian Fa [2022] No.2).

Section III Chairman's Statement



Section III Chairman's Statement

The year 2023 marks the first year to fully implement the spirit of the 20th National Congress of the Communist Party of China. We adhered to the guidance of Xi Jinping's thought of socialism with Chinese characteristics in the new era, earnestly implemented the decisions and deployments of the party committees and governments at the higher level and the regulatory authorities, firmly grasped the primary task of high-quality development, and continued to satisfy the development of the economy and society as well as the ever-increasing financial needs of the people. Although there were more unanticipated difficulties, alongside the challenges greater than expected, all the staff of the Bank of Qingdao have overcome the difficulties with a down-to-earth attitude, and gradually eliminated the concepts and practices that were not compatible with high-quality development. During the year, the quality, profitability and scale of the Bank have been steadily improved, and the Bank has maintained a flourishing development trend throughout the year, delivering wonderful annual results.

We continue to improve our governance mechanism, and our management has become increasingly standardized, refined and transparent. We have optimized the management structure of our head office and branches, resulting in more intensive operations and more efficient decision-making. We have gradually improved the system of personnel for promotion and demotion mobility, continued to strengthen the management mechanism for reserve cadres, made cadre training more systematic and pragmatic, and accelerated the development of the talent pipeline. The performance management system continued to be improved, with the stationing approval mode being effective, the internal control system continuously optimized, the post-project evaluation mechanism further implemented, and the cost reduction and efficiency enhancement achieving preliminary results.

We have made solid progress in the implementation of our strategy and continued to improve our financial service capability. The effectiveness of our business restructuring have been prominent, as we have continued to increase lending in key areas such as inclusive and green loans at higher proportion of retail deposits and small- and medium-sized customer deposits, leading to gradually increased capital-light income. Adhering to the orientation of serving the real economy, the Company has been operating its customer base in a hierarchical manner, and its market penetration rate has continued to grow. A breakthrough was achieved in the coordination mechanism, with public-private collaboration further strengthened, inter-departmental collaboration continued to be improved, and the quality and efficiency of the head office's front-line services significantly enhanced. The standard of integrated services continued to rise, the comprehensive risk management system embraced with optimization, and the ability to provide integrated services in both local and foreign currencies continued to be strengthened.

We continue to accelerate our drive force of innovation and cultivate new advantages in high-quality development. We formally launched our custodian business, filling the gap of custodian qualities of local banks corporation in Shandong. We upgraded our digital risk control system by launching a group-level intelligent risk alert platform and the "Inclusive e-Finance" product, built a treasury management platform, and iterated the retail "Digital Butler" and online corporate business halls, significantly improving our intelligent risk control capability and further enhancing our digitalized operation capability. The intelligent risk control capability has been significantly enhanced and the digitalized operation capability has been further strengthened. The Company actively explored the development mode of blue finance, improved the green financial product system, and continued to highlight its blue-green financial characteristics. During the year, the Company was honored with the Paulson Prize, which is one of the most influential awards in the field of sustainable development.

When the spring winds are blowing again, forge ahead to the future with fortitude. The year 2024 is the 75th anniversary of the founding of the People's Republic of China, a critical year for the realization of the objectives and tasks of the "14th Five-Year Plan", and also a ground-breaking year for the Bank of Qingdao to carry on the new triennial strategic plan which inherits the past and ushers in the future. Guided by the spirit of the 20th National Congress of the Party, we will fully implement the various deployments of the Central Financial Work Conference and the Central Economic Work Conference, maintain a sense of urgency and crisis, consummate the five major aspects including technology finance, green finance, inclusive finance, pension finance and digital finance, so as to accelerate the creation of the characteristics of the Bank of Qingdao, and continue to push forward the building of the capacity of compliance management, risk management, cost management and control, resource integration, execution and implementation. In addition, Bank of Qingdao will deeply implant the excellent traditional Chinese culture into its corporate culture, make every effort to promote high-quality development and realize high-efficiency governance, and repay the trust and support of shareholders, customers and investors with superior performance and greater value.



JING Zailun
Chairman of Bank of Qingdao Co., Ltd.

Section IV President's Statement



Section IV President's Statement

The year 2023 marks the starting year for Bank of Qingdao to promote high-quality development. We earnestly implemented the decisions and deployments of the higher authorities, comprehensively promote the implementation of the new triennial strategic plan, and achieved significant improvement in ideological awareness, work style, operational capacity, management capacity, professional capacity of teamwork, digitalization-based guarantee capacity, and market competitiveness.

As at the end of 2023, total assets under management of Qingdao Bank group exceeded RMB800 billion, total assets of the group exceeded RMB600 billion, and total loans exceeded RMB300 billion, realizing steady growth in volume. The non-performing loan ratio was 1.18%, down by 0.03 percentage point, and the quality of assets continued to improve. For the year as a whole, the group's operating income amounted to RMB12.481 billion, representing an increase of 7.11%; net profit amounted to RMB3.671 billion, representing an increase of 15.91%, with profitability significantly enhanced. Various regulatory indicators were met in an all-round way.

In 2023, Bank of Qingdao demonstrated its responsibility in serving the real economy. The efforts in physical investment was intensified. At the end of the year, the balance of loans to private enterprises amounted to RMB72.459 billion, and the growth rate and proportion of loans to the real economy surged. We fulfilled the original mission of inclusive finance. The mechanism of inclusive franchise has been put into operation in an orderly manner, with the year-end loan balance of RMB33.846 billion with a growth rate of 24.78%, while the average interest rate of inclusive loans dropped by 45 basis points. We endeavored to position ourselves as the brand of "BQD Green Finance". We completed the first blue syndicated loan with the International Finance Corporation (IFC), a member of the World Bank Group, and the first supportive loan for carbon emission disclosure in China, with a year-end green loan balance of RMB26.135 billion, a growth rate of 24.90%.

In 2023, Bank of Qingdao has revitalized by self-innovation. Strengthening product innovation and launching the "Sword Forging Operation", the Bank created 24 products in the fields of international business, supply chain finance and inclusive finance to boost business development. Deepening comprehensive digital transformation and focusing on industry-technology integration, 78 projects were successfully put into operation throughout the year, an increase of 44.44% over the previous year. We promoted the light-weight transformation of our outlets, optimizing the resource structure, upgrading the customer experience and innovating the operation mode to enhance the comprehensive service efficiency of our outlets.

In 2023, Bank of Qingdao has built a solid foundation in stable operation. The Bank consolidated comprehensive risk management, emphasized credit risk management, and formulated a mechanism for reviewing the risk of suspension and resumption of trading. The Bank strengthened post-loan risk warning and investigation, and initially established a comprehensive monitoring system. The reinforcement of internal control and compliance management, the establishment of the Internal Control and Accountability Committee, and the improvement of the construction of the "three lines of defense" for internal control, jointly inject stronger compliance momentum for the Bank's high-quality development.

We'll break winds and waves, and sail toward a brighter future. In 2024, Bank of Qingdao will pay close attention to the two core tasks encompassing customer base building and employee team establishment, focus on the four major areas of development, management, risk control, and innovation, and commit to the "Five Aspects" to promote the overall improvement of the core competence, scale of business, quality of capital, operating efficiency, business structure and brand image. In addition, the Bank will pragmatically fulfill its financial and political responsibilities, local social responsibilities, economic development responsibilities, and employee habitation responsibilities, and overcome difficulties to ride on opportunities against the adversity, so as to contribute the power of BQD to the high-quality development of China's economy.



WU Xianming
President of Bank of Qingdao Co., Ltd.

Chief Supervisor



YANG Fengjiang
Chief Supervisor

Section V Management Discussion and Analysis

1. STATUS OF THE INDUSTRY WHICH THE BANK WAS ENGAGED IN DURING THE REPORTING PERIOD

In 2023, China faced a complex and severe situation at home and abroad. In order to stabilize the macroeconomic situation, China implemented macroeconomic regulation and control with precision and strength, playing a “combined punch” to strengthen counter-cyclical regulation, strengthening the effectiveness of proactive fiscal policy, and stabilizing the monetary policy with precision and strength. Under the escort of the policy, China’s national economy has continued to recover and generally rebound for the better.

In 2023, the economy of Shandong Province and Qingdao continued to rebound and consolidate on the upturn, and the “triumvirate” consisting of investment, consumption and export showed a brilliant performance. Consumption continued to pick up, the role of which as a “cornerstone” for economic growth was gradually increasing. Investment growth prevailed over the national average, with the increasingly accelerated conversion of momentum. Exports remained stable under the trade structure embracing continual optimization.

In 2023, in the face of rapid changes in the macroeconomic and financial environment, China’s banking industry has conquered multiple adverse factors and maintained sound operation as a whole. The synthesis of active implementation of macro-control policies, strengthening efforts to serve the real economy, active reduction in the financing costs of market entities, as well as increasing support for major strategies, key areas and weak links, has facilitated the stabilization of the general economic market. At the same time, China’s banking industry strictly observed each regulatory requirement, persevered in preventing and resolving the risks in major areas such as local debt and real estate, and continuously improved its own level of risk management, so as to build up a solid foundation for maintaining financial stability.

2. THE BANK’S PRINCIPAL BUSINESS DURING THE REPORTING PERIOD

The Bank, the predecessor of which known as Qingdao City Cooperative Bank and Qingdao City Commercial Bank, was established in November 1996 and is headquartered in Qingdao, Shandong Province. Adhering to the steadfast theme of “high-quality development”, the Bank unified “effective improvement of quality” and “reasonable growth of quantity” to build itself as a value-leading bank with “leading quality and efficiency, outstanding features and flexible mechanism”. 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, settlement to its customers, and its development is driven by three major business segments including retail banking, corporate banking and financial market business, which have formed a stronger customer base and shaped new financial business model of distinctive and high-quality development. The Bank’s business is based in Qingdao with a footprint extending to other regions of Shandong Province. As at the end of the Reporting Period, there were 16 branches in major cities of Shandong Province such as Jinan, Yantai and Weihai. The total number of branch offices reached 191. 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 BQD Wealth Management Company Limited (“**BQD Wealth Management**”), which was wholly owned by the Bank. As at the end of the Reporting Period, the Company had more than 5,000 employees.

The Company carried out its operations in conformity with the conditions and trends of industry development. As at the end of the Reporting Period, the Company’s total assets amounted to RMB607.985 billion, total liabilities amounted to RMB568.046 billion, capital adequacy ratio was 12.79%, and the non-performing loan ratio was 1.18%, down by 0.03 percentage point as compared with that at the end of last year. During the Reporting Period, the accumulated net profit was RMB3.671 billion, representing an increase of 15.91% over the same period of last year.

3. 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 value-leading bank with leading quality and efficiency, outstanding features and flexible mechanisms” to achieve high-quality improvement in economies of scale as well as unremitting enhancement of market competitiveness. It is mainly reflected in:

- 1. Party leadership and corporate governance are closely integrated.** The Bank always organically integrates the Party’s leadership into the entire process of corporate governance, which enables the Party Committee to give full play to its core role in guiding the direction, managing the overall situation, focusing on major matters and promoting the implementation, so as to strive to establish a standardized and efficient operation mechanism for corporate governance and constantly improve the standardization and effectiveness of corporate governance. The equity structure is scientific and effective, forming a benign equity structure that is pluralistic and reasonable with mutual checks and balances, under which major shareholders and the Bank form a sound situation of cooperative support. The institutionalization, standardization and transparency of operation and management lay a solid operating foundation for the Bank’s high-quality development.
- 2. Scientific and clear strategic planning improves competitive advantage.** The Bank actively responds to the challenges and opportunities arising from the changes of the external economic circumstances. Taking the three-year strategic plan (2023-2025) as the starting point, it focuses on four strategic themes, namely “adjusting the structure, strengthening the customer base, optimizing the synergies and improving the capabilities”. The Bank concentrates on enhancing its comprehensive operation capabilities, and making breakthroughs in risk management enhancement. Driven by accelerated digital transformation, the Bank is committed to propelling a more high-quality, refined and professional development, and constantly consolidating the foundation of long-term sustainable development.
- 3. “BQD services” upgrades customer experience.** The Bank continues to expand the brand effect of “BQD services”, adheres to the orientation of customer experience, and creates a dual-driven service management model of “product experience + service experience”, which promotes development with services, creates value with services and strengthens proactive service awareness. The Bank continuously broadens the connotation and extension of “BQD services”, so as to better satisfy customers’ expectations for high-quality financial services and unceasingly intensify the cutting-edge superiority of “BQD services” as an industry leader.
- 4. A comprehensive and real-time risk control system ensures sound operation.** The Bank adheres to the priority of compliance, consolidates the management responsibilities of entities at all levels, promotes comprehensive risk management, establishes a normalized risk monitoring mechanism in all respects, enhances differentiated and refined risk management capabilities, and establishes and consolidates the risk management system covering the whole group through the coordination between the Bank and subsidiaries. By dynamically managing the asset quality, strengthening the analysis and foresight on migration and changes in the overall risk situation, and taking control of risk trends in real time, the Bank builds a comprehensive credit risk culture for the group and consummates the comprehensive risk management system, where each business maintains a steady development trend.
- 5. In-depth and systematic digital transformation empowers business development.** The Bank’s digital transformation is customer-oriented and guided by “online operation, mobilization and intellectualization”, forming a top-down and highly coordinated bank-wide promotion mechanism for digital transformation. Focusing on online operation, datamation, intellectualization, platformization, and ecologicalization, the Bank comprehensively promotes the digital remodeling of customers, channels, businesses, products and management. The Bank also formulates a three-year strategic plan for information technology which clarifies the direction and implementation route, seeking to basically achieve the strategic goals including building the mechanisms, consolidating the foundations and exploring the breakthroughs in term of digital transformation.
- 6. Collaborative and efficient integrated operation improves service capacity.** Since inception, the two subsidiaries, BQD Financial Leasing and BQD Wealth Management have relied on collectivized operation to continuously optimize their business structures. With the intensification of the coordinated development between parent company and subsidiaries, the collectivized pattern characterized by “One Core with Two Complements” has taken initial shape. By making interpenetration among business chains of asset management, constantly innovating market tools, giving full play to the collaborative advantages of multiple financial licenses and strengthening combined financial services, the Company is able to provide “packaged solutions” to customers, so as to implement the strategic vision, empower the business and customers, and enhance the abilities of value creation in a continuous manner.

4. HONORS AND AWARDS

In June 2023, the list of 2023 “China’s 500 Most Valuable Brands” was announced in Beijing. With a brand value of RMB27.069 billion, the Bank was selected for the seventh consecutive year, ranking 335th on the list.

In July 2023, The Banker, an authoritative international financial media, announced the list of the Top 1,000 World Banks in 2023. The Bank ranked 289th and had ranked among the top 300 world banks in succession.

In July 2023, the Bank won the 2023 “Tianji Award for Harmonious Investor Relations” organized by the Securities Times under the People’s Daily.

In September 2023, the Bank entered the list of the Asia’s Top 500 Brands for the seventh consecutive year, ranking 423rd as the only selected domestic city commercial bank.

In September 2023, the Bank won the “Paulson Prize for Sustainability”, one of the most influential international awards in the field of sustainable development.

In October 2023, the Bank was awarded the highest rating of A again in the information disclosure assessment of the SZSE for the third consecutive year.

In October 2023, the Bank won the “Best Practice Case” for rural revitalization among listed companies in 2023.

In November 2023, the 25th Listed Company Golden Bull Award was announced. In virtue of the outstanding performance in the areas such as information disclosure and investor relation management, the Bank was granted the “Golden Bull — Golden Information Disclosure Award”.

In November 2023, the Bank was awarded the “Most Competitive City Commercial Bank” under the 2023 CBN (China Business Network) Financial Value Ranking.

In December 2023, the Bank was granted the “Five-Star Diamond Award”, the highest award in the global service field. It was the only city commercial bank that had been granted such award for eight consecutive years.

In December 2023, the list of “2023 Chinese Financial Institution Gold Medal List — Golden Dragon Prize” was announced in Beijing, and the Bank was granted the title of “Most Competitive Bank of the Year”.



5. MAJOR OPERATIONAL MANAGEMENT

5.1 Status Of Key Operational Indicators Achievements

- (1) Total assets amounted to RMB607.985 billion, representing an increase of RMB78.371 billion or 14.80% as compared with that at the end of last year;
- (2) Total loans to customers amounted to RMB300.090 billion, representing an increase of RMB31.060 billion or 11.55% as compared with that at the end of last year;
- (3) Total deposits from customers amounted to RMB386.062 billion, representing an increase of RMB44.715 billion or 13.10% as compared with that at the end of last year;
- (4) Operating income amounted to RMB12.481 billion, representing a year-on-year increase of RMB832 million or 7.14%; net profit amounted to RMB3.671 billion, representing a year-on-year increase of RMB504 million or 15.91%; net profit attributable to shareholders of the Bank amounted to RMB3.549 billion, representing a year-on-year increase of RMB466 million or 15.11%;
- (5) Non-performing loan ratio was 1.18%, representing a decrease of 0.03 percentage point as compared with that at the end of last year; provision coverage ratio was 225.96%, representing an increase of 6.19 percentage points as compared with that at the end of last year; capital adequacy ratio was 12.79%, and core tier-one capital adequacy ratio was 8.42%, representing a decrease of 0.33 percentage point as compared with that at the end of last year;
- (6) Return on average total assets was 0.65%, representing an increase of 0.05 percentage point as compared with that in last year;
- (7) Basic earnings per share were RMB0.57, representing a year-on-year increase of RMB0.12 or 26.67%; weighted average return on net assets was 10.71%, representing an increase of 1.76 percentage points as compared with that in last year.



5.2 Major Tasks of Operational Management

The year of 2023 marks the first year of fully implementation of the spirit of the 20th National Congress, as well as the beginning year of the implementation on the new triennial strategic plan for promoting high-quality development of the Bank. In accordance with the operating philosophy of “consolidating the strength and making up for the weakness, serving the real economy, governing the risks and standardizing the management”, the Bank comprehensively promoted the implementation of strategic plan, seized high-quality assets, improved the quality of liabilities and strengthened the risk management, with a view to achieving steady growth in economies of scale.

- (1) Corporate banking business: consolidated the customer base by hierarchy and category, and constantly optimized the business structure. At the end of the Reporting Period, the total number of corporate customers amounted to 245.5 thousand representing an increase of 18.66% as compared with that at the end of last year; there was a significant increase of new corporate loan customers, of which customers holding loans of less than RMB30 million accounted for over 90%. The balance of corporate loans (including bills discounted and excluding accrued interest) increased by RMB25.356 billion as compared with the end of the previous year, and the growth rate of green loans substantially outstripped that of corporate loans.



In August 2023, Mr. WU Xianming (second from the right) as the deputy secretary to the party committee, an executive Director and the President of the Bank, went to Jinan to conduct profound interviews and surveys with key local customers.

Section V Management Discussion and Analysis

- (2) Retail banking business: achieved remarkable operating results for customer base, and harvested outstanding effect in structural optimization. At the end of the Reporting Period, the number of retail customers of the Bank reached 8.9446 million, representing an increase of 16.02% from the end of the previous year; there were 137.1 thousand new payroll credit retail customers. The balance of retail deposits amounted to RMB188.444 billion, representing an increase of RMB41.116 billion as compared with that at the end of last year; among which, the increment of deposits with maturities of less than 2 years accounted for 47.56%. The balance of the Bank's retail loans (including credit card) was RMB79.084 billion, representing an increase of RMB5.704 billion or 7.77% as compared with that at the end of last year; among which, personal inclusive loans and consumption loans of branches and sub-branches accounted for a total of 12.05%, representing an increase of 3.38 percentage points.
- (3) Inclusive finance services: orderly implemented the franchising mechanism, and gradually consummated the product system. At the end of the Reporting Period, there were 53.4 thousand inclusive loan customers, of which 2,698 were new corporate banking inclusive loan customers, more than double the increment in 2022. The balance of inclusive loans was RMB33.846 billion, representing an increase of RMB6.721 billion as compared with that at the end of last year, or a growth rate of 24.78% which was higher than the growth rate of various loans across the Bank. The balance of agricultural-related loans was RMB53.669 billion, representing an increase of RMB5.193 billion as compared with that at the end of last year, and the balance of inclusive agriculture-related loans amounted to RMB6.714 billion, representing an increase of RMB2.376 billion as compared with that at the end of last year.
- (4) Financial market business: strengthened the synergy to facilitate the development and optimized structure to reduce cost and increase revenue. During the Reporting Period, the Bank established a financial interbank committee to vigorously expand its customer base among the industry peers. The Bank strengthened the interconnected development of financial market business and other businesses, and completed the investment-grade credit ratings for international entities. The Bank also actively adjusted its structure of capital and liabilities, issued green financial bonds of RMB8.0 billion to save the cost of liabilities and increase the revenue of assets. With the successful operation of custodian business, the scale of asset custody has exceeded RMB10.0 billion.
- (5) Risk management: constantly reinforced the ability of risk control, and unremittingly improved its resilience against risks. With the successful implementation of the new rules for impairment, classification and capital, the risk management system continued to improve. At the end of the Reporting Period, the non-performing loan ratio was 1.18%, representing a decrease of 0.03 percentage point. The total proportion of non-performing and special mention loans was 1.72%, representing a decrease of 0.31 percentage point. The provision coverage ratio was 225.96%, representing an increase of 6.19 percentage points.



In September 2023, the Bank was selected as the winner of the 2023 Paulson Prize – Green Innovation • Recognition of Excellence in virtue of its “Blue Finance” project. YANG Fengjiang (second from the left) as the chief Supervisor, attended the award ceremony on behalf of the Bank.

Section V Management Discussion and Analysis

- (6) Technological support: accelerated the digital transformation and improved the effect of technology empowerment. During the Reporting Period, the Bank established the digital strategic transformation committee to formulate the strategic plans for information technology and data management. The Bank launched a new generation of core system projects, with 78 projects successfully put into operation throughout the year, representing an increase of 44.44% over the previous year. The continuous intensification of digital application, together with the constant enrichment and consummation of digital operation and marketing tools, digital services and online products, digital scenario ecology, digital risk control systems and digital management systems, has enabled the continuous improvement of quality and efficiency in the aspect of business management.
- (7) Subsidiaries: strengthened the bank and lease linkage business in an all-round way, and attained excellent performance in wealth management. At the end of the Reporting Period, the asset scale of BQD Financial Leasing exceeded RMB17.0 billion, with an operating income of RMB652 million which represented a growth rate of 27.38%; the net profit amounted to RMB251 million, representing a growth rate of 44.92%; and the non-performing loan ratio dropped to 0.40%. The number of off-bank consignment channels of BQD Wealth Management increased by 12, bringing the total number to more than 30; the scale of off-bank consignment came to RMB95.386 billion, accounting for 45.83%; the product scale of BQD Wealth Management reached RMB208.122 billion, representing an increase of RMB7.307 billion or 3.64%. Amidst the unfavorable environment where the market remained substantial shocks throughout the year, the Bank's product revenue stayed at the forefront of the industry.



In September 2023, the Bank successfully held the second “Huawei Digitalization Leadership at a Glance” training course at the Huawei Training Center in Shenzhen, where nearly 50 middle and senior management members including Mr. JING Zailun (fourth from the left in the first row) as the secretary to the party committee and the Chairman of the Bank, participated in the training.

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

6.1 Financial Performance Summary

In 2023, the Company's net profit amounted to RMB3.671 billion, representing a year-on-year increase of RMB504 million or 15.91%; net profit attributable to shareholders of the Bank amounted to RMB3.549 billion, representing a year-on-year increase of RMB466 million or 15.11%. In 2023, led by the new triennial strategic plan, the Company started the road to high-quality development, actively responded to operational challenges such as the downward trend of interest margin in the banking industry, continued to optimize its business structure, comprehensively carried out cost reduction and efficiency improvement, and achieved solid growth in profit through growth in operating income and decline in credit impairment costs. The following table sets forth the changes in the Company's major profit items during the periods indicated.

Unit: RMB'000

Item	2023	2022	Change in amount	Change (%)
Net interest income	9,281,969	8,288,314	993,655	11.99
Net fee and commission income	1,586,519	1,445,130	141,389	9.78
Other net non-interest income	1,612,863	1,915,811	(302,948)	(15.81)
Operating expenses	(4,516,428)	(4,218,441)	(297,987)	7.06
Expected credit losses	(4,014,079)	(4,288,828)	274,749	(6.41)
Impairment losses on other assets	(17,447)	(6,027)	(11,420)	189.48
Profit before taxation	3,933,397	3,135,959	797,438	25.43
Income tax expense	(261,977)	31,566	(293,543)	929.93
Net profit	3,671,420	3,167,525	503,895	15.91
Of which: Net profit attributable to shareholders of the Bank	3,548,599	3,082,775	465,824	15.11
Net profit attributable to non-controlling interests	122,821	84,750	38,071	44.92

6.2 Operating Income

In 2023, the Company's operating income amounted to RMB12.481 billion, representing a year-on-year increase of RMB832 million or 7.14% and a year-on-year increase of RMB1.508 billion or 13.74% after deducting the effect of redeemed offshore preference shares. In 2023, the Company expanded its business scale in a steady manner and continuously optimized its business structure and reasonably suppressed the cost of liabilities resulting in the increase in net interest income and net fee and commission income which drove the increase in operating income. Among the operating income, net interest income accounted for 74.37%, representing a year-on-year increase of 3.22 percentage points; net fee and commission income accounted for 12.71%, representing a year-on-year increase of 0.30 percentage point. 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	2023		2022		Percentage changes (percentage point)
	Amount	Percentage (%)	Amount	Percentage (%)	
Net interest income	9,281,969	74.37	8,288,314	71.15	3.22
Interest income	21,140,032	169.38	19,830,162	170.23	(0.85)
Among which: Loans and advances to customers	13,630,951	109.21	12,731,942	109.29	(0.08)
Financial investments	5,470,243	43.83	5,210,430	44.73	(0.90)
Deposits with banks and other financial institutions	39,605	0.32	32,124	0.28	0.04
Placements with banks and other financial institutions	434,720	3.48	269,147	2.31	1.17
Financial assets held under resale agreements	138,768	1.11	304,872	2.62	(1.51)
Deposits with the central bank	313,957	2.52	312,506	2.68	(0.16)
Long-term receivables	1,111,788	8.91	969,141	8.32	0.59
Interest expense	(11,858,063)	(95.01)	(11,541,848)	(99.08)	4.07
Net non-interest income	3,199,382	25.63	3,360,941	28.85	(3.22)
Including: Net fee and commission income	1,586,519	12.71	1,445,130	12.41	0.30
Other net non-interest income	1,612,863	12.92	1,915,811	16.44	(3.52)
Operating income	12,481,351	100.00	11,649,255	100.00	-

6.3 Net Interest Income

In 2023, the Company's net interest income amounted to RMB9.282 billion, representing a year-on-year increase of RMB994 million or 11.99%, mainly because the Company continued to adjust its structure and strictly controlled the liability costs while expanding the asset-liability scale, resulting in an increase in net interest margin, an increase in interest income from loans and investments and other matters. However, despite of the increase in interest expense on deposits, the interest expense on issued bonds declined, leading to the growth of interest income faster than that of interest expense, which realized an increase of 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	2023			2022		
	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	281,169,400	13,630,951	4.85%	255,836,423	12,731,942	4.98%
Financial investments	163,181,536	5,470,243	3.35%	143,312,290	5,210,430	3.64%
Deposits and placements with banks and assets held under resale agreements ⁽¹⁾	23,810,638	613,093	2.57%	31,628,745	606,143	1.92%
Deposits with the central bank	22,863,424	313,957	1.37%	23,899,510	312,506	1.31%
Long-term receivables	16,506,017	1,111,788	6.74%	14,948,519	969,141	6.48%
Total	507,531,015	21,140,032	4.17%	469,625,487	19,830,162	4.22%
Interest-bearing liabilities						
Deposits from customers	361,618,498	8,060,870	2.23%	318,841,550	7,046,209	2.21%
Deposits and placements from banks and assets sold under repurchase agreements ⁽²⁾	56,288,449	1,308,238	2.32%	53,283,577	1,242,608	2.33%
Debt securities issued	77,132,969	2,074,024	2.69%	91,954,964	2,709,725	2.95%
Others	16,683,111	414,931	2.49%	21,984,330	543,306	2.47%
Total	511,723,027	11,858,063	2.32%	486,064,421	11,541,848	2.37%
Net interest income	/	9,281,969	/	/	8,288,314	/
Net interest spread	/	/	1.85%	/	/	1.85%
Net interest margin	/	/	1.83%	/	/	1.76%

Notes: 1. Deposits and placements with banks and assets held under resale agreements include deposits and placements with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements.

2. Deposits and placements from banks and assets sold under repurchase agreements include deposits and placements with banks and other financial institutions, placements from banks and other financial institutions and financial assets sold under repurchase agreements.

Section V Management Discussion and Analysis

In 2023, the average balance of interest-earning assets of the Company was RMB507.531 billion, representing a year-on-year increase of RMB37.906 billion or 8.07%. Net interest spread was 1.85%, the same as the previous year, and the net interest margin was 1.83%, representing a year-on-year increase of 0.07 percentage point. In the context of the overall decline in market interest rates and increased concessions to the real economy, the Company continued to adjust the structure of interest-earning assets and interest-bearing liabilities, with an increase in the proportion of the average balance of loans and investments and a decrease in the proportion of the average balance of debt securities issued. At the same time, it strictly controlled the cost ratio of deposits and debt securities issued with a decrease in the cost ratio of interest-bearing liabilities. Thus, the impact of the downward return on assets and the growth of deposit scale was hedged against, and the net interest margin was improved.

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

Unit: RMB'000

Item	2023 vs. 2022		Net increase (decrease)
	Due to volume	Due to rate	
Interest-earning assets			
Loans and advances to customers	1,231,596	(332,587)	899,009
Financial investments	675,419	(415,606)	259,813
Deposits and placements with banks and assets held under resale agreements	(198,637)	205,587	6,950
Deposits with the central bank	(12,889)	14,340	1,451
Long-term receivables	103,781	38,866	142,647
Interest income changes	1,799,270	(489,400)	1,309,870
Interest-bearing liabilities			
Deposits from customers	950,893	63,768	1,014,661
Deposits and placements from banks and assets sold under repurchase agreements	70,958	(5,328)	65,630
Debt securities issued	(396,618)	(239,083)	(635,701)
Others	(132,772)	4,397	(128,375)
Interest expense changes	492,461	(176,246)	316,215
Net interest income changes	1,306,809	(313,154)	993,655

6.4 Interest Income

In 2023, the Company's interest income was RMB21.140 billion, representing a year-on-year increase of RMB1.310 billion or 6.61%, mainly due to the increase in the Company's size of loans and investment, resulting in corresponding growth in interest income. The interest income from loans and advances to customers and from financial investments constituted major components of the interest income of the Company.

Interest income from loans and advances

In 2023, the Company's interest income from loans and advances to customers amounted to RMB13.631 billion, representing a year-on-year increase of RMB899 million or 7.06%, mainly due to the Company's increased credit support for the real economy and continuous expansion in size of loans issued, resulting in a year-on-year increase in the average balance of loans of RMB25.333 billion or 9.90%. Although the rate of return of loans continued to decline due to factors including the decline of market interest rates and benefiting the real economy, the interest income of loans had stable growth in general. 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	2023			2022		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	189,706,118	9,478,638	5.00%	166,742,442	8,396,220	5.04%
Personal loans	68,628,345	3,697,252	5.39%	69,992,516	3,957,348	5.65%
Discounted bills	22,834,937	455,061	1.99%	19,101,465	378,374	1.98%
Total	281,169,400	13,630,951	4.85%	255,836,423	12,731,942	4.98%

Interest income from financial investments

In 2023, the Company's interest income from financial investments amounted to RMB5.470 billion, representing a year-on-year increase of RMB260 million or 4.99%, mainly due to the fact that the Company adjusted its investment structure by increasing the size of bond investments, resulting in an increase in the average balance of financial investments of RMB19.869 billion or 13.86% year-on-year, which hedged against the impact of the downward movement of market interest rates and drove the growth of interest income from financial investments.

Interest income from deposits and placements with banks and assets held under resale agreements

In 2023, the Company's interest income from deposits and placements with banks and assets held under resale agreements amounted to RMB613 million, representing a year-on-year increase of RMB7 million or 1.15%, and remained stable overall.

6.5 Interest Expense

In 2023, the Company's interest expense amounted to RMB11.858 billion, representing a year-on-year increase of RMB316 million or 2.74%, mainly due to the Company's growth in deposit size, while performing strict control of the deposit cost ratio and efforts to suppress the cost of issued bonds, realizing a decrease in the cost ratio of interest-bearing liabilities, which partially offset the factors of growth in the size of liabilities, and the interest expense increased steadily but slightly. Interest expense on deposits from customers constituted the major component of the interest expense of the Company.

Section V Management Discussion and Analysis

Interest expense on deposits from customers

In 2023, the Company's interest expense on deposits from customers was RMB8.061 billion, representing a year-on-year increase of RMB1.015 billion or 14.40%, mainly due to a year-on-year increase in average balances of RMB42.777 billion or 13.42% resulting from the expanded scale of deposit business of the Company, which drove an increase in the interest expenses on deposits. The average cost ratio of deposits was 2.23%, representing a year-on-year increase of 0.02 percentage point, mainly due to an increase in the proportion of time deposits, while the Company tightly controlled the cost ratio of deposits in response to the situation in the deposit market, and the cost ratio of demand and time deposits, as well as corporate and personal deposits all recorded a year-on-year decrease. 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	2023			2022		
	Average balance	Interest expense	Average cost ratio	Average balance	Interest expense	Average cost ratio
Corporate deposits						
Demand	89,825,871	799,774	0.89%	95,028,534	871,078	0.92%
Time	104,061,062	2,831,562	2.72%	97,864,297	2,752,902	2.81%
Sub-total	193,886,933	3,631,336	1.87%	192,892,831	3,623,980	1.88%
Personal deposits						
Demand	28,863,986	61,753	0.21%	26,815,983	77,613	0.29%
Time	138,867,579	4,367,781	3.15%	99,132,736	3,344,616	3.37%
Sub-total	167,731,565	4,429,534	2.64%	125,948,719	3,422,229	2.72%
Total	361,618,498	8,060,870	2.23%	318,841,550	7,046,209	2.21%

Interest expense on deposits and placements from banks and other financial institutions and assets sold under repurchase agreements

In 2023, the Company's interest expense on deposits and placements from banks and other financial institutions and assets sold under repurchase agreements amounted to RMB1.308 billion, representing a year-on-year increase of RMB66 million or 5.28%, mainly due to the fact that the Company adjusted the allocation of funds in response to the interbank market condition, and moderately increased the scale of financial assets sold under repurchase agreements with lower cost ratios, which led to a corresponding increase in the interest expense.

Interest expense on debt securities issued

In 2023, the Company's interest expense on debt securities issued amounted to RMB2.074 billion, representing a year-on-year decrease of RMB636 million or 23.46%, mainly due to a corresponding decrease in the interest expense resulting from the Company's efforts to reduce the scale of high-cost debt securities and certificates of interbank deposit, with the cost rate of the issued debt securities decreasing by 0.26 percentage point as compared to the previous year, and the average balance decreased by RMB14.822 billion, or 16.12%, as compared to the previous year.

Other interest expense

In 2023, the Company's other interest expense amounted to RMB415 million, representing a year-on-year decrease of RMB128 million or 23.63%, mainly due to a corresponding decrease in the interest expense resulting from a decrease in the Company's average balance of borrowings from the central bank.

6.6 Net Non-interest Income

In 2023, the Company's net non-interest income was RMB3.199 billion, representing a year-on-year decrease of RMB162 million or 4.81%, mainly due to the increase in the Company's net fee and commission income, while other net non-interest income decreased. The following table sets forth the components of the Company's net non-interest income for the periods indicated.

Unit: RMB'000

Item	2023	2022
Fee and commission income	2,113,031	1,791,282
Less: Fee and commission expense	(526,512)	(346,152)
Net fee and commission income	1,586,519	1,445,130
Other net non-interest income	1,612,863	1,915,811
Net non-interest income	3,199,382	3,360,941

6.7 Net Fee and Commission Income

In 2023, the Company's net fee and commission income amounted to RMB1.587 billion, representing a year-on-year increase of RMB141 million or 9.78%. This was mainly due to the fact that the Company continuously optimized its business structure and vigorously expanded its intermediary services such as financial management services, wealth management and transaction banking, which led to an increase in fee and commission income. The following table sets forth the components of the Company's net fee and commission income for the periods indicated.

Unit: RMB'000

Item	2023	2022
Fee and commission income	2,113,031	1,791,282
Of which: Wealth management service fees	929,831	859,349
Agency service fees	556,492	458,418
Custody and bank card service fees	377,895	319,653
Settlement fees	97,033	84,663
Financial leasing service fees	–	26,864
Others	151,780	42,335
Less: Fee and commission expense	(526,512)	(346,152)
Net fee and commission income	1,586,519	1,445,130

Section V Management Discussion and Analysis

In 2023, wealth management service fees amounted to RMB930 million, representing a year-on-year increase of RMB70 million or 8.20%, mainly due to the increase in the scale of financial management and management fee income; agency service fees amounted to RMB556 million, representing a year-on-year increase of RMB98 million or 21.39%, mainly due to increased service fees from agency business for insurance; custody and bank card service fees amounted to RMB378 million, representing a year-on-year increase of RMB58 million or 18.22%, mainly due to increased credit card service fees; settlement fees amounted to RMB97 million, representing a year-on-year increase of RMB12 million or 14.61%, mainly due to increased letters of credit fees; others amounted to RMB152 million, representing a year-on-year increase of RMB109 million, mainly due to increased service fees of letter of guarantee; financial leasing service fees representing a year-on-year decrease of RMB27 million, mainly due to leasing subsidiaries' adjustment to the charging mode of leased assets. Fee and commission expense amounted to RMB527 million, representing a year-on-year increase of RMB180 million, mainly due to increased service fees expense arising from wealth management and credit card business.

6.8 Other Net Non-interest Income

In 2023, the Company's other net non-interest income amounted to RMB1.613 billion, representing a year-on-year decrease of RMB303 million or 15.81%. Net gains arising from investments constituted the key component of other net non-interest income, reaching RMB1.623 billion during the period, representing a year-on-year increase of RMB566 million or 53.51%, mainly due to the trend of the bond market prevailed over that of the last year, leading to a stable gains arising from valuation of investments, as compared to the significantly dropped valuation of the previous year. Among other non-interest items, net trading gains or losses amounted to RMB-169 million, representing a year-on-year decrease of RMB910 million, mainly due to the significant reduction of the impact of exchange rate fluctuations on exchange gains and losses after the redemption of offshore preference shares, resulting in a decrease in net trading gains or losses. After excluding the impact of redeemed offshore preference shares, net trading gains or losses decreased by RMB234 million year on year, mainly due to the capital cost of the new foreign exchange swap business. The following table sets forth the components of the Company's other net non-interest income for the periods indicated.

Unit: RMB'000

Item	2023	2022
Net trading gains or losses ^(Note)	(168,992)	741,182
Net gains arising from investments	1,622,863	1,057,175
Other operating income	158,992	117,454
Other net non-interest income	1,612,863	1,915,811

Note: In September 2022, the Company's offshore preference shares in the amount of US\$1.203 billion that had been redeemed. Before redemption, exchange rate fluctuated and the US dollar appreciated, the corresponding US dollar net position of the preference shares accumulated a foreign exchange gains or losses of RMB676 million in 2022. After redemption, as the above US dollar net position was cleared to zero, no such exchange gains or losses were incurred thereafter.

6.9 Operating Expenses

In 2023, the Company's operating expenses amounted to RMB4.516 billion, representing a year-on-year increase of RMB298 million or 7.06%, mainly due to business development, personnel addition, operating income and profits growth, and staff costs increase. At the same time, the Company comprehensively carried out cost reduction and efficiency improvement, and reasonably reduced operation and procurement costs, leading to slightly increased non-employee expenses while remaining stable. The following table sets forth the components of the Company's operating expenses for the periods indicated.

Unit: RMB'000

Item	2023	2022
Staff costs	2,204,507	1,958,817
Property and equipment expenses	836,110	819,713
Tax and surcharges	156,268	146,885
Other general and administrative expenses	1,319,543	1,293,026
Operating expenses	4,516,428	4,218,441

6.10 Expected Credit Losses

In 2023, the Company's expected credit losses amounted to RMB4.014 billion, representing a year-on-year decrease of RMB275 million or 6.41%. Expected credit losses from loans and advances to customers constituted the largest component of the expected credit losses. During the Reporting Period, expected credit losses from loans and advances to customers amounted to RMB2.048 billion, representing a year-on-year decrease of RMB588 million or 22.32%, mainly due to the fact that the Company decreased the cost of credit impairment by deepening risk management and control and continuously improving loan quality while increasing the scale of loans, which resulted in a decrease in provision for impairment. In addition, the total expected credit losses of financial investments amounted to RMB1.428 billion, representing a year-on-year increase of RMB107 million, and the expected credit losses of credit commitment amounted to RMB313 million, representing a year-on-year increase of RMB198 million, both of which were in line with the credit risk profile of the corresponding assets due to the moderate increase in provision for impairment to enhance the ability to offset risks. The following table sets forth the main components of the Company's expected credit losses for the periods indicated.

Unit: RMB'000

Item	2023	2022
Loans and advances to customers	2,047,853	2,636,284
Financial investments measured at amortised cost	1,501,595	1,598,896
Financial investments at fair value through other comprehensive income	(73,881)	(278,471)
Long-term receivables	207,306	183,238
Deposits with banks and other financial institutions	(942)	1,117
Placements with banks and other financial institutions	15,022	22,445
Financial assets held under resale agreements	8,130	(21,110)
Credit commitment	313,125	115,201
Others	(4,129)	31,228
Expected credit losses	4,014,079	4,288,828

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

7.1 Assets

As at the end of 2023, the Company's total assets amounted to RMB607.985 billion, representing an increase of RMB78.371 billion or 14.80% as compared with that at the end of last year. In 2023, the Company strengthened the role of finance in serving and guaranteeing the real economy, enhanced market expansion and business synergies, steadily expanded the scale of assets, increased loans and financial investments, and appropriately increased the deposits with the central bank, placements with banks and other financial institutions, and financial assets held under resale agreements in accordance with the requirements of capital allocation. The following table sets forth the composition of the Company's total assets as at the dates indicated.

Unit: RMB'000

Item	31 December 2023		31 December 2022		Compared with the end of last year		31 December 2021	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Loans and advances to customers	292,992,926	48.19	262,518,662	49.57	11.61	(1.38)	238,608,698	45.69
Financial investments measured at fair value through profit or loss	58,269,523	9.58	47,259,762	8.92	23.30	0.66	55,947,254	10.71
Financial investments measured at fair value through other comprehensive income	114,985,134	18.91	96,678,701	18.25	18.94	0.66	72,613,395	13.90
Financial investments measured at amortised cost	52,756,509	8.68	58,202,665	10.99	(9.36)	(2.31)	61,422,152	11.76
Cash and deposits with the central bank	31,043,664	5.11	27,825,306	5.25	11.57	(0.14)	53,241,394	10.19
Deposits with banks and other financial institutions	2,210,368	0.36	2,301,037	0.43	(3.94)	(0.07)	2,126,922	0.41
Placements with banks and other financial institutions	14,021,225	2.31	8,432,022	1.59	66.29	0.72	5,108,646	0.98
Financial assets held under resale agreements	13,944,652	2.29	–	–	N/A	2.29	12,288,925	2.35
Derivative financial assets	149,377	0.02	108,376	0.02	37.83	–	146,617	0.03
Long-term receivables	16,741,773	2.75	15,280,949	2.89	9.56	(0.14)	11,688,253	2.24
Property and equipment	3,540,989	0.58	3,466,386	0.65	2.15	(0.07)	3,390,193	0.65
Right-of-use assets	838,139	0.14	826,958	0.16	1.35	(0.02)	845,889	0.16
Deferred tax assets	3,793,887	0.63	3,446,343	0.65	10.08	(0.02)	2,505,442	0.48
Other assets	2,697,206	0.45	3,266,825	0.63	(17.44)	(0.18)	2,315,830	0.45
Total assets	607,985,372	100.00	529,613,992	100.00	14.80	–	522,249,610	100.00

7.1.1 Loans and Advances to Customers

As at the end of 2023, the Company's loans and advances to customers amounted to RMB292.993 billion, representing an increase of RMB30.474 billion or 11.61% as compared with that at the end of last year. Total loans to customers (excluding accrued interest and provision for impairment losses, the same below) amounted to RMB300.090 billion, representing an increase of RMB31.060 billion or 11.55% as compared with that at the end of last year. During the Reporting Period, the Company comprehensively adhered to the guidelines of national monetary policy, continued to improve the ability to serve the real economy and enhanced the expansion of customer base, product and channels. Thus, the Company recorded continuous growth in the loan scale. The following table sets forth the components of the loans and advances to customers of the Company by product type as at the dates indicated.

Unit: RMB'000

Item	31 December 2023		31 December 2022		Compared with the end of last year		31 December 2021	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	Change in % of total
Corporate loans	201,564,473	67.17	173,148,215	64.36	16.41	2.81	149,822,068	61.35
Personal loans	79,083,765	26.35	73,380,030	27.28	7.77	(0.93)	76,743,188	31.43
Discounted bills	19,441,303	6.48	22,501,207	8.36	(13.60)	(1.88)	17,640,224	7.22
Total loans to customers	300,089,541	100.00	269,029,452	100.00	11.55	-	244,205,480	100.00
Add: Accrued interest	758,512	/	598,681	/	26.70	/	829,555	/
Less: Provision for impairment on loans and advances to customers measured at amortised cost	(7,855,127)	/	(7,109,471)	/	10.49	/	(6,426,337)	/
Loans and advances to customers	292,992,926	/	262,518,662	/	11.61	/	238,608,698	/

Corporate loans

As at the end of 2023, the Company's corporate loans amounted to RMB201.564 billion, representing an increase of RMB28.416 billion or 16.41% as compared with that at the end of last year, and accounting for 67.17% of the total loans to customers, representing an increase of 2.81 percentage points as compared with that at the end of last year. During the Reporting Period, in accordance with the credit policy guidance the Company strove to develop its green loan business, continued to strengthen its credit support for inclusive business, science and technology, people's livelihood support and high-technology manufacturing industry and other fields, and achieved rapid growth in the corporate loans.

Personal loans

As at the end of 2023, the Company's personal loans amounted to RMB79.084 billion, representing an increase of RMB5.704 billion or 7.77% as compared with that at the end of last year, and accounting for 26.35% of the total loans to customers, representing a decrease of 0.93 percentage point as compared with that at the end of last year. During the Reporting Period, the Company actively expanded its consumer loan business, and personal consumer loans grew rapidly. At the same time, housing mortgage loans and personal business loans increased steadily.

Discounted bills

As at the end of 2023, the Company's discounted bills amounted to RMB19.441 billion, representing a decrease of RMB3.060 billion or 13.60% as compared with that at the end of last year, and accounting for 6.48% of the total loans to customers, representing a decrease of 1.88 percentage points as compared with that at the end of last year. During the Reporting Period, the Company moderately adjusted the allocation of funds and reduced the scale of discounted bills.

Section V Management Discussion and Analysis

7.1.2 Financial Investments

As at the end of 2023, the Company's carrying value of financial investments amounted to RMB226.011 billion, representing an increase of RMB23.870 billion or 11.81% as compared with that at the end of last year. The following table sets forth the components of the Company's financial investment portfolios as of the dates indicated.

Unit: RMB'000

Item	31 December 2023		31 December 2022	
	Amount	% of total	Amount	% of total
Financial investments measured at fair value through profit or loss	58,269,523	25.78	47,259,762	23.38
Financial investments measured at fair value through other comprehensive income	114,985,134	50.88	96,678,701	47.83
Financial investments measured at amortised cost	52,756,509	23.34	58,202,665	28.79
Total financial investments	226,011,166	100.00	202,141,128	100.00

Financial investments measured at fair value through profit or loss

As at the end of 2023, the Company's carrying value of financial investments measured at fair value through profit or loss amounted to RMB58.270 billion, representing an increase of RMB11.010 billion or 23.30% as compared with that at the end of last year, mainly due to the Company's adjustment to the investment structure and increase of investments in the scale of public funds in due course in accordance with the market conditions. The following table sets forth the components of the Company's financial investments measured at fair value through profit or loss as at the dates indicated.

Unit: RMB'000

Item	31 December 2023	31 December 2022
Debt securities issued by government and the central bank	226,777	24,637
Debt securities issued by banks and other financial institutions	5,811,388	2,684,943
Debt securities issued by corporate entities	1,091,864	1,017,848
Fund investments	43,799,513	34,950,084
Asset management plans	6,895,445	7,787,802
Trust fund plans	444,536	791,832
Other investments	—	2,616
Financial investments measured at fair value through profit or loss	58,269,523	47,259,762

Section V Management Discussion and Analysis

Financial investments measured at fair value through other comprehensive income

As at the end of 2023, the Company's carrying value of financial investments measured at fair value through other comprehensive income amounted to RMB114.985 billion, representing an increase of RMB18.306 billion or 18.94% as compared with that at the end of last year, mainly because the Company amplified the investment scale of debt securities issued by banks and other financial institutions and debt securities issued by corporate entities in response to the trend of bond market, taking into account the needs for gains and liquidity management. The following table sets forth the components of the Company's financial investments measured at fair value through other comprehensive income as at the dates indicated.

Unit: RMB'000

Item	31 December 2023	31 December 2022
Debt securities issued by government and the central bank	24,874,801	34,298,700
Debt securities issued by policy banks	13,527,638	7,179,615
Debt securities issued by banks and other financial institutions	32,336,039	19,761,408
Debt securities issued by corporate entities	42,386,232	33,292,034
Asset management plans	–	712,934
Other equity investments	23,250	23,250
Add: Accrued interest	1,837,174	1,410,760
Financial investments measured at fair value through other comprehensive income	114,985,134	96,678,701

Financial investments measured at amortised cost

As at the end of 2023, the Company's carrying value of financial investments measured at amortised cost amounted to RMB52.757 billion, representing a decrease of RMB5.446 billion or 9.36% as compared with that at the end of last year, mainly because the Company appropriately controlled the scale of investment measured at amortised cost based on the investment strategy and the requirement of liquidity management. The following table sets forth the components of the Company's financial investments measured at amortised cost as at the dates indicated.

Unit: RMB'000

Item	31 December 2023	31 December 2022
Debt securities issued by government and the central bank	28,428,968	29,382,700
Debt securities issued by policy banks	10,718,845	10,720,004
Debt securities issued by banks and other financial institutions	5,771,567	8,957,230
Debt securities issued by corporate entities	3,262,782	801,917
Asset management plans	1,935,620	2,609,200
Trust fund plans	1,596,703	1,738,700
Other investments	4,758,576	6,070,640
Total financial investments measured at amortised cost	56,473,061	60,280,391
Add: Accrued interest	764,409	868,992
Less: Provision for impairment losses	(4,480,961)	(2,946,718)
Financial investments measured at amortised cost	52,756,509	58,202,665

7.2 Liabilities

As at the end of 2023, the Company's total liabilities amounted to RMB568.046 billion, representing an increase of RMB75.025 billion or 15.22% as compared with that at the end of last year. In 2023, the Company strengthened market expansion and seized the opportunities, which resulted in a continuous growth in deposits from customers, and appropriately increased the issuance of low-cost debt securities and interbank certificates of deposit, as well as financial assets sold under repurchase agreements, placements from banks and other financial institutions and borrowings from the central bank, based on its own requirement of capital allocation. The following table sets forth the components of the Company's total liabilities as of the dates indicated.

Unit: RMB'000

Item	31 December 2023		31 December 2022		Compared with the end of last year		31 December 2021	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Deposits from customers	395,467,359	69.62	348,043,307	70.59	13.63	(0.97)	317,965,807	65.03
Deposits from banks and other financial institutions	2,242,331	0.39	6,439,660	1.31	(65.18)	(0.92)	6,341,814	1.30
Placements from banks and other financial institutions	21,090,364	3.71	17,808,095	3.61	18.43	0.10	16,904,500	3.46
Financial assets sold under repurchase agreements	36,880,567	6.49	25,634,354	5.20	43.87	1.29	25,305,596	5.18
Derivative financial liabilities	71,107	0.01	188,147	0.04	(62.21)	(0.03)	144,689	0.03
Borrowings from the central bank	18,235,088	3.21	13,256,605	2.69	37.55	0.52	25,494,116	5.21
Income tax payable	477,981	0.08	703,876	0.14	(32.09)	(0.06)	124,032	0.03
Debt securities issued	89,269,785	15.72	74,866,951	15.19	19.24	0.53	92,218,300	18.86
Lease liabilities	555,035	0.10	515,043	0.10	7.76	-	505,895	0.10
Other liabilities	3,756,512	0.67	5,564,659	1.13	(32.49)	(0.46)	3,917,133	0.80
Total liabilities	568,046,129	100.00	493,020,697	100.00	15.22	-	488,921,882	100.00

7.2.1 Deposits from Customers

As at the end of 2023, the Company's deposits from customers amounted to RMB395.467 billion, representing an increase of RMB47.424 billion or 13.63% as compared with that at the end of last year; total deposits from customers (excluding accrued interest, the same below) amounted to RMB386.062 billion, representing an increase of RMB44.715 billion or 13.10% as compared with that at the end of last year. During the Reporting Period, focusing on the development of customer base and operation, the Company continued to strengthen its customer service, captured the opportunities in the fluctuation of deposit and wealth management markets and enhanced marketing expansion, which resulted in a continuous growth in deposits from customers and further consolidated the fundamental position of deposits in the source of operating funds. The following table sets forth the components of Company's deposits from customers by product type and customer type as of the dates indicated.

Unit: RMB'000

Item	31 December 2023		31 December 2022		Compared with the end of last year		31 December 2021	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Corporate deposits	197,228,438	51.09	193,629,694	56.73	1.86	(5.64)	202,889,723	64.71
Demand deposits	89,927,435	23.30	91,660,860	26.86	(1.89)	(3.56)	118,280,119	37.73
Time deposits	107,301,003	27.79	101,968,834	29.87	5.23	(2.08)	84,609,604	26.98
Personal deposits	188,443,994	48.81	147,328,169	43.16	27.91	5.65	110,430,522	35.22
Demand deposits	29,854,416	7.73	29,571,148	8.66	0.96	(0.93)	29,923,260	9.54
Time deposits	158,589,578	41.08	117,757,021	34.50	34.68	6.58	80,507,262	25.68
Other deposits	389,827	0.10	389,313	0.11	0.13	(0.01)	204,678	0.07
Total customer deposits	386,062,259	100.00	341,347,176	100.00	13.10	-	313,524,923	100.00
Add: Accrued interests	9,405,100	/	6,696,131	/	40.46	/	4,440,884	/
Deposits from customers	395,467,359	/	348,043,307	/	13.63	/	317,965,807	/

As at the end of 2023, personal deposits accounted for 48.81% of the total customer deposits, representing an increase of 5.65 percentage points as compared with that at the end of last year; corporate deposits accounted for 51.09% of total customer deposits, representing a decrease of 5.64 percentage points as compared with that at the end of last year.

7.2.2 Deposits from Banks and Other Financial Institutions

As at the end of 2023, the Company's deposits from banks and other financial institutions amounted to RMB2.242 billion, representing a decrease of RMB4.197 billion or 65.18% as compared with that at the end of last year, mainly because the Company strengthened its interbank liability management and adjusted the structure of interbank liability appropriately, which resulted in a decrease of the ending balance of interbank deposits while the financial assets sold under repurchase agreements kept increasing.

7.2.3 Financial Assets Sold under Repurchase Agreements

As at the end of 2023, the Company's financial assets sold under repurchase agreements amounted to RMB36.881 billion, representing an increase of RMB11.246 billion or 43.87% as compared with that at the end of last year, mainly because the Company strengthened its interbank liability management and increased the business scale of debt securities sold under repurchase agreements with relatively low cost ratio, which resulted in the increase of the ending balance of financial assets sold under repurchase agreements.

7.2.4 Borrowings from the Central Bank

As at the end of 2023, the Company's borrowings from the central bank amounted to RMB18.235 billion, representing an increase of RMB4.978 billion or 37.55% as compared with that at the end of last year, mainly due to the increase of the ending balance of medium-term lending facilities borrowed from the central bank by the Company.

7.2.5 Debt Securities Issued

As at the end of 2023, the Company's debt securities issued amounted to RMB89.270 billion, representing an increase of RMB14.403 billion or 19.24% as compared with that at the end of last year, mainly because the Company issued low-cost green financial bonds and interbank certificates of deposit in response to the trend of capital market and based on its own requirement of capital allocation. For details of the bonds, please refer to "34 Debt Securities Issued under Notes to the Financial Statements" of this annual report.

7.3 Equity Attributable to Shareholders

As at the end of 2023, the shareholders' equity of the Company amounted to RMB39.939 billion, representing an increase of RMB3.346 billion or 9.14% as compared with that at the end of last year; equity attributable to equity shareholders of the Bank amounted to RMB39.064 billion, representing an increase of RMB3.248 billion or 9.07% as compared with that at the end of last year, mainly due to the increase in retained earnings and reserves. During the Reporting Period, the Company distributed RMB931 million of dividends to ordinary shareholders and paid interest of perpetual bonds amounting to RMB233 million. The following table sets forth the components of the Company's shareholders' equity as of the dates indicated.

Unit: RMB'000

Item	31 December 2023	31 December 2022
Share capital	5,820,355	5,820,355
Other equity instruments		
Of which: Perpetual bonds	6,395,783	6,395,783
Capital reserve	10,687,634	10,687,634
Other comprehensive income	947,211	83,726
Surplus reserve	2,718,114	2,388,248
General reserve	7,483,824	6,618,047
Retained earnings	5,011,018	3,822,519
Total equity attributable to equity shareholders of the Bank	39,063,939	35,816,312
Non-controlling interests	875,304	776,983
Total equity	39,939,243	36,593,295

8. ANALYSIS OF THE CASH FLOW STATEMENT

In 2023, the net cash flows generated from operating activities amounted to RMB10.137 billion, representing an increase of RMB11.812 billion from last year, mainly due to the increase in net cash flows of RMB16.893 billion resulting from deposits from customers and the reduction in net cash flows of RMB5.490 billion resulting from decreased loans and advances to customers. Among them, cash outflows generated from operating assets increased by RMB28.018 billion and cash inflows generated from operating liabilities increased by RMB40.836 billion.

The net cash flows generated from investing activities amounted to RMB-17.054 billion, representing a year-on-year decrease of RMB6.787 billion, mainly due to a decrease in proceeds from disposal and redemption of investments of RMB9.420 billion.

The net cash flows generated from financing activities amounted to RMB10.992 billion, representing a year-on-year increase of RMB30.441 billion, mainly due to an increase in proceeds from debt securities issued of RMB35.375 billion.

9. 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	2023		2022	
	Segment operating income	Ratio (%)	Segment operating income	Ratio (%)
Corporate banking	5,750,210	46.07	5,894,085	50.60
Retail banking	3,178,316	25.46	2,301,218	19.75
Financial market business	2,897,879	23.22	2,933,302	25.18
Un-allocated items and others	654,946	5.25	520,650	4.47
Total	12,481,351	100.00	11,649,255	100.00

Unit: RMB'000

Item	2023		2022	
	Segment profit before taxation	Ratio (%)	Segment profit before taxation	Ratio (%)
Corporate banking	2,203,021	56.01	1,460,230	46.56
Retail banking	500,026	12.71	527,519	16.83
Financial market business	893,625	22.72	904,424	28.84
Un-allocated items and others	336,725	8.56	243,786	7.77
Total	3,933,397	100.00	3,135,959	100.00

10. ANALYSIS OF ASSETS AND LIABILITIES

10.1 Significant Changes in Major Assets

10.1.1 Significant Changes in Major Assets

During the Reporting Period, there was no significant change in the Company's major assets. For details of changes in assets, please refer to "7. Analysis of Major Items of the Statement of Financial Position" under "Section V Management Discussion and Analysis" of this annual report.

10.1.2 Major Overseas Assets

Not applicable.

10.2 Assets and Liabilities Measured at Fair Value

Unit: RMB'000

Major item	31 December 2022	Profit or loss from change in fair value during the period	Cumulative changes in fair value recognised in equity	Impairment provided during the current period	31 December 2023
Financial investments measured at fair value through profit or loss	47,259,762	335,022	N/A	N/A	58,269,523
Loans and advances to customers measured at fair value through other comprehensive income	22,694,130	N/A	(6,990)	114,700	20,976,009
Financial investments measured at fair value through other comprehensive income	96,678,701	N/A	1,022,787	(73,881)	114,985,134
Derivative financial assets	108,376	41,001	N/A	N/A	149,377
Derivative financial liabilities	(188,147)	117,040	N/A	N/A	(71,107)
Placements from banks and other financial institutions measured at fair value through profit or loss	–	(11,740)	N/A	N/A	(959,180)

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

Please refer to "46(6) Pledged Assets under Notes to the Financial Statements" of this annual report.

11. ANALYSIS OF QUALITY OF LOANS

During the Reporting Period, the Company continued to strengthen the management and control over the quality of credit assets. While the credit assets grew steadily, the quality of credit assets continued to improve steadily. As at the end of the Reporting Period, the total amount of loans of the Company (excluding accrued interest and provision for impairment) was RMB300.090 billion, in which the non-performing loans totaled RMB3.539 billion, representing a non-performing loan ratio of 1.18%. For the purpose of discussion and analysis, unless otherwise specified, the amount of loans presented in the analysis below excludes accrued interest.

11.1 Distribution of Loans by Five Categories

Unit: RMB'000

Item	31 December 2023		31 December 2022	
	Amount	% of total	Amount	% of total
Normal loan	294,922,238	98.28	263,563,488	97.97
Special mention loan	1,627,944	0.54	2,218,483	0.82
Substandard loan	1,675,737	0.56	1,252,410	0.46
Doubtful loan	711,995	0.24	822,032	0.31
Loss loan	1,151,627	0.38	1,173,039	0.44
Total loans to customers	300,089,541	100.00	269,029,452	100.00
Total non-performing loans	3,539,359	1.18	3,247,481	1.21

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 0.03 percentage point as compared with that at the end of last year to 1.18%, where substandard loans rose by 0.10 percentage point to 0.56% from the end of last year, doubtful loans fell by 0.07 percentage point to 0.24% from the end of last year, and loss loans decreased by 0.06 percentage point to 0.38% from the end of last year.

11.2 Distribution of Loans by Product Type

Unit: RMB'000

Item	31 December 2023		31 December 2022	
	Amount	% of total	Amount	% of total
Corporate loans	221,005,776	73.65	195,649,422	72.72
Working capital loans	138,416,609	46.13	116,039,075	43.13
Fixed asset loans	61,201,456	20.39	56,731,865	21.09
Import and export bills transactions	411,702	0.14	184,352	0.07
Discounted bills	19,441,303	6.48	22,501,207	8.36
Forfeiting	1,534,706	0.51	192,923	0.07
Retail loans	79,083,765	26.35	73,380,030	27.28
Personal residential mortgages	46,945,476	15.64	46,459,431	17.28
Personal consumption loans	21,842,557	7.28	16,931,630	6.29
Personal business loans	10,295,732	3.43	9,988,969	3.71
Total loans to customers	300,089,541	100.00	269,029,452	100.00

11.3 Distribution of Loans by Industry

Unit: RMB'000

Item	31 December 2023				31 December 2022			
	Amount	% of total	Non-performing amount	Non-performing loan ratio %	Amount	% of total	Non-performing amount	Non-performing loan ratio %
Corporate loans	221,005,776	73.65	2,398,931	1.09	195,649,422	72.72	2,592,786	1.33
Wholesale and retail trade	40,112,000	13.37	491,262	1.22	27,177,633	10.10	419,291	1.54
Construction	36,305,398	12.10	117,178	0.32	36,870,337	13.70	303,343	0.82
Leasing and business services	29,443,983	9.81	88	–	22,197,699	8.25	–	–
Manufacturing	27,820,169	9.27	913,358	3.28	30,836,317	11.46	1,409,410	4.57
Water conservancy, environment and public utility management	25,460,916	8.48	44,000	0.17	24,242,353	9.01	44,000	0.18
Real estate	22,645,613	7.55	521,576	2.30	21,744,001	8.08	22,292	0.10
Financial services	15,227,141	5.07	–	–	13,558,837	5.04	–	–
Transportation, storage and postal services	5,858,262	1.95	1,464	0.02	5,031,283	1.87	–	–
Production and supply of electric, heating power, gas and water	5,478,243	1.83	252,782	4.61	4,837,379	1.80	307,170	6.35
Scientific research and technological services	3,874,193	1.29	4,750	0.12	2,788,039	1.04	4,750	0.17
Others	8,779,858	2.93	52,473	0.60	6,365,544	2.37	82,530	1.30
Retail loans	79,083,765	26.35	1,140,428	1.44	73,380,030	27.28	654,695	0.89
Total loans to customers	300,089,541	100.00	3,539,359	1.18	269,029,452	100.00	3,247,481	1.21

11.4 Distribution of Loans by Region

Unit: RMB'000

Region	31 December 2023				31 December 2022			
	Amount	% of total	Non-performing amount	Non-performing loan ratio %	Amount	% of total	Non-performing amount	Non-performing loan ratio %
Shandong Province	300,089,541	100.00	3,539,359	1.18	269,029,452	100.00	3,247,481	1.21
Of which: Qingdao City	163,101,096	54.35	2,348,611	1.44	149,899,130	55.72	1,974,395	1.32

11.5 Distribution of Loans by Type of Collateral

Unit: RMB'000

Item	31 December 2023		31 December 2022	
	Amount	% of total	Amount	% of total
Unsecured loans	61,496,406	20.49	52,463,310	19.50
Guaranteed loans	68,562,521	22.85	56,725,873	21.09
Mortgage loans	114,490,600	38.15	104,787,862	38.95
Pledge loans	55,540,014	18.51	55,052,407	20.46
Total loans to customers	300,089,541	100.00	269,029,452	100.00

11.6 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	2,635,958	0.88
B	Leasing and business services	2,500,000	0.83
C	Leasing and business services	2,490,000	0.83
D	Manufacturing	2,460,278	0.82
E	Leasing and business services	2,033,750	0.68
F	Leasing and business services	2,000,000	0.67
G	Water conservancy, environment and public utility management	1,798,000	0.60
H	Culture, sports and entertainment	1,674,990	0.56
I	Leasing and business services	1,600,000	0.53
J	Leasing and business services	1,518,460	0.50
Total		20,711,436	6.90

11.7 Distribution of Loans by Overdue Period

Unit: RMB'000

Overdue period	31 December 2023		31 December 2022	
	Amount	% of total	Amount	% of total
Not yet overdue	295,832,377	98.58	264,863,448	98.45
Overdue for 3 months (inclusive) or less	1,633,922	0.54	1,572,648	0.59
Overdue for over 3 months to 1 year (inclusive)	926,109	0.31	1,779,981	0.66
Overdue for over 1 year to 3 years (inclusive)	1,477,666	0.50	453,854	0.17
Overdue for over 3 years	219,467	0.07	359,521	0.13
Total loans to customers	300,089,541	100.00	269,029,452	100.00

The Company had adopted a prudential classification standard as to overdue loans, according to which loans overdue for more than 60 days were classified as non-performing loans.

11.8 Repossessed Assets and Provision for Impairment

At the end of the Reporting Period, the Bank had total repossessed assets of RMB6.0561 million, provision for impairment of RMB908.4 thousand, thus the net repossessed assets was RMB5.1477 million.

11.9 Changes in Provision for Impairment of Loans

The Company has performed loan impairment accounting and confirmed loss provision based on expected credit losses. If the credit risk of loan 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; in other situations, the Company measures their loss provisions based on lifetime expected credit losses.

The Company re-measures expected credit losses at the 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 probability of default, loss rate of default and other parameter estimations, as well as 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	2023	2022
Balance at the beginning of the period/year	7,137,141	6,439,606
Provision for the period/year	2,047,853	2,636,284
Write-offs for the period/year	(1,243,813)	(2,046,387)
Transferred out for the period/year	—	—
Recovery of write-offs for the period/year	86,700	122,818
Other changes	(30,384)	(15,180)
Balance at the end of the period/year	7,997,497	7,137,141

The Company maintained a stable 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 RMB7.997 billion, representing an increase of RMB860 million or 12.05% as compared with that at the end of last year. The provision coverage ratio reached 225.96%, representing an increase of 6.19 percentage points as compared with that at the end of last year; the provision rate of loans stood at 2.67%, representing an increase of 0.02 percentage point as compared with that at the end of last year, both provision indicators satisfying regulatory requirements.

11.10 Countermeasures Taken against Non-performing Assets

During the Reporting Period, the Company continued to strengthen comprehensive credit risk management, implemented refined and dynamic control over various asset quality indicators, improved predictive ability in process management and forward-looking analysis, and strictly controlled new non-performing assets. The Company strengthened the coordination and linkage of non-performing asset disposal with the core of improving quality and efficiency by carrying forward its work in an all-round manner, actively broadening the channels for disposal of non-performing assets, and comprehensively implementing various measures such as independent collection, judicial disposal, asset write-off and creditor's rights transfer, which improved the quality and efficiency of non-performing asset disposal. The non-performing loan ratio of the Company declined continuously till the end of the Reporting Period, indicating that the Company would continue to improve its asset quality steadily.

11.11 Credit Extension to Group Customers and Risk Management

The Company adhered to the principles of "unified credit granting, appropriate limits, categorized management, real-time monitoring, and lead bank system" in extending credit to group customers, formulated a risk management system for credit extension business to group customer, established an administrative mechanism and information management system compatible with the characteristics of risk management regarding credit extension business to group customers, built a complete family tree of the group, so as to strengthen the consolidation of group risk data, and optimize the risk monitoring system and post-credit granting management system in group dimension. Meanwhile, continuous efforts are made to improve the system control scheme for credit extension to group customers, unceasingly enhanced the control over the entire process of credit extension to group customers, and continuously improved the risk management level of credit extension business to group customers.

Firstly, the Company implemented unified management for credit extension to group customers, standardized the unified identification of group customers and related information exchange between the Bank and its subsidiaries, and centralized risks control of credit extension to group customers. Secondly, it set up a large-amount credit review committee to be responsible for reviewing and approving bank-wide large-amount credit granting services. Thirdly, it established a sound risk monitoring system at group level, focused on promoting the consolidated management of group risk data, and conducted penetrating and unified monitoring against the risks from group customers. Fourthly, it integrated and analyzed various credit risk information of the group customers focusing on the core enterprises engaged in the group's principal businesses, rationally determined the credit granting program for the group customers and prudently formulated the overall credit limit of the group customers and the sub-limit of each member based on the risk size of the group customers and their own risk-bearing capabilities, so as to prevent excessive concentration of credit risks. Fifthly, it continued to optimize the "control by machine" model for the concentration of credit extension to group customers, and conducted centralized control over credit limits for group customers based on the requirements for risk control. Sixthly, it adopted a lead bank system for credit extension to group customers, with the lead bank responsible for the overall credit extension management of group customers, and reporting the material matters on group customers to the head office as required, so as to realize the unified coordination of risk control. Seventhly, in order to continuously improve the risk warning mechanism for group customers, appropriate risk alert thresholds were set at various points in the process of pre-loan approval based on the industry where the group customers operated and their operating capabilities, which served as an important part of post-loan inspections for forward-looking supervision and risk prevention to ensure the overall controllability of credit risks from group customers. Eighthly, it continued to strengthen post-credit granting management of group customers, established a risk manager team, carried out direct inspections on key group customers and formed risk reports, and conducted closed-loop management of post-loan inspections and on-site monitoring.

11.12 Rescheduled Loans

Unit: RMB'000

Item	31 December 2023		31 December 2022	
	Amount	% of total	Amount	% of total
Rescheduled loans	103,128	0.03	133,287	0.05
Total loans and advances to customers	300,089,541	100.00	269,029,452	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 0.03%, which decreased by 0.02 percentage point as compared to the end of last year.

12. LIABILITY QUALITY ANALYSIS

The Company places emphasis on the liability quality management. Based on the "Measures for Liability Quality Management of Commercial Banks" (《商業銀行負債質量管理辦法》), the Measures for Liability Quality Management of Bank of Qingdao has been formulated, the Company has established a more scientific and reasonable liability quality management system, and defined the responsibilities of liability quality management of the Board, senior management and relevant departments.

The Company has continued to improve its level of liability quality management and provide guidance on laying a solid foundation of liability for the purpose of high-quality development. First, the Company adhered to the balanced development between volume and price in the general deposit business, promotes the steady growth of the deposit size to consolidate the liability base. Second, the Company proactively expanded the source of liabilities, and keeps a reasonable and sufficient liquidity level across the Bank. Third, the Company committed itself to enhancing its level of delicacy management, and manipulates the scale and duration of liabilities in a reasonable manner in the view of regulatory policies, the market environment and its asset-liability allocation strategies.

In 2023, the liability quality of the Company remained sound with all indicators within a reasonable range. As at the end of 2023, the Company's net stable funding ratio was 116.82% and the liquidity coverage ratio was 158.11%, both of which complied with the regulatory requirements. In 2023, the Company's net interest margin was 1.83%, representing a year-on-year increase of 0.07 percentage point; the cost rate of interest-bearing liabilities was 2.32%, representing a year-on-year decrease of 0.05 percentage point; and the average cost ratio of deposits from customers was 2.23%, representing a year-on-year increase of 0.02 percentage point.

13. ANALYSIS OF CAPITAL ADEQUACY RATIO AND LEVERAGE RATIO

The Company continuously optimized its business structure, strengthened capital management, continuously aimed to improve capital risk resistance and capital returns, and on this basis, reasonably determined the capital adequacy ratio target, and guided business development comprehensively with performance appraisal, capital allocation and other means, so as to achieve the coordinated development of the overall strategy, business development, and the capital management strategy.

In terms of internal capital management, the Company strengthened the economic capital allocation management function, overall planned for asset development and capital saving, and enhanced the awareness of operating institutions saving capital. Taking into account each institution's capital consumption and income in the performance assessment plan, the Company gradually optimized the risk adjustment performance assessment plan, and guided branches and management departments to proactively carry out transactions with capital-saving superiority and high returns on capital, so as to maximize the returns on risk-weighted assets. Meanwhile, the Company established and improved the balance control mechanism between capital occupation and risk assets, to ensure continuously conforming capital adequacy ratio.

13.1 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)》) and other relevant regulatory provisions. Weighted approach, standardized approach and basic indicator approach are applied to calculate credit risk-weighted assets, market risk-weighted assets and operational risk-weighted assets, respectively.

As at the end of the Reporting Period, the Company’s capital adequacy ratio was 12.79%, representing a decrease of 0.77 percentage point as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 8.42%, representing a decrease of 0.33 percentage point as compared with that at the end of last year. During the Reporting Period, various businesses of the Company have developed steadily, and risk-weighted assets have increased with the business growth. Although capital adequacy ratios at all levels have declined to some extent, all of them meet regulatory requirements.

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

Unit: RMB’000

The Company	31 December 2023	31 December 2022
Total core tier-one capital	33,328,054	30,003,939
Of which: Share capital	5,820,355	5,820,355
Qualifying portion of capital reserve	10,687,634	10,687,634
Other comprehensive income	947,211	83,726
Surplus reserve	2,718,114	2,388,248
General reserve	7,483,824	6,618,047
Retained earnings	5,011,018	3,822,519
Qualifying portion of non-controlling interests	659,898	583,410
Core tier-one capital deductions	(923,175)	(834,333)
Net core tier-one capital	32,404,879	29,169,606
Other tier-one capital	6,483,769	6,473,571
Net tier-one capital	38,888,648	35,643,177
Tier-two capital	10,358,946	9,569,041
Net capital base	49,247,594	45,212,218
Total risk-weighted assets	384,977,512	333,440,925
Of which: Total credit risk-weighted assets	338,820,835	276,517,007
Total market risk-weighted assets	24,123,989	36,098,490
Total operational risk-weighted assets	22,032,688	20,825,428
Core tier-one capital adequacy ratio (%)	8.42	8.75
Tier-one capital adequacy ratio (%)	10.10	10.69
Capital adequacy ratio (%)	12.79	13.56

Section V Management Discussion and Analysis

As at the end of the Reporting Period, the capital adequacy ratio at the parent company level of the Bank was 12.38%, down by 0.74 percentage point from the end of last year; the core tier-one capital adequacy ratio was 7.91%, representing a decrease of 0.29 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	31 December 2023	31 December 2022
Total core tier-one capital	31,557,980	28,560,297
Of which: Share capital	5,820,355	5,820,355
Qualifying portion of capital reserve	10,687,634	10,687,634
Other comprehensive income	947,211	83,726
Surplus reserve	2,718,114	2,388,248
General reserve	7,072,403	6,316,926
Retained earnings	4,312,263	3,263,408
Core tier-one capital deductions	(2,584,377)	(2,524,326)
Net core tier-one capital	28,973,603	26,035,971
Other tier-one capital	6,395,783	6,395,783
Net tier-one capital	35,369,386	32,431,754
Tier-two capital	9,975,688	9,235,093
Net capital base	45,345,074	41,666,847
Total risk-weighted assets	366,416,657	317,558,522
Of which: Total credit risk-weighted assets	322,030,700	262,068,871
Total market risk-weighted assets	24,123,989	36,098,490
Total operational risk-weighted assets	20,261,968	19,391,161
Core tier-one capital adequacy ratio (%)	7.91	8.20
Tier-one capital adequacy ratio (%)	9.65	10.21
Capital adequacy ratio (%)	12.38	13.12

13.2 Leverage Ratio

According to 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)》), the leverage ratio of a commercial bank shall not be lower than 4%. As at the end of 2023, the Company's leverage ratio calculated according to the "Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)" was 5.83%, higher than that stipulated in regulatory requirements, down by 0.24 percentage point from the end of last year, mainly due to the increase in asset size led by the development of various businesses.

Section V Management Discussion and Analysis

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

Unit: RMB'000

No.	Item	31 December 2023	31 December 2022
1	Total consolidated assets	607,985,372	529,613,992
2	Consolidated adjustments	–	–
3	Customer assets adjustments	–	–
4	Derivative adjustments	1,816,000	2,280,000
5	Securities financing transactions adjustments	–	–
6	Off-balance sheet items adjustments	58,252,231	56,120,991
7	Other adjustments	(923,175)	(834,333)
8	The balance of assets on- and off-balance sheet after adjustments	667,130,428	587,180,650

Section V 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	31 December 2023	31 December 2022
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	593,885,995	529,505,616
2	Less: Tier-one capital deductions	(923,175)	(834,333)
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	592,962,820	528,671,283
4	Replacement cost of various types of derivatives (net of qualified margins)	149,377	108,376
5	Potential risk exposure in various types of derivatives	1,816,000	2,280,000
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	1,965,377	2,388,376
12	The balance of accounting assets for securities financing transactions	13,950,000	-
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	13,950,000	-
17	The balance of items off balance sheet	58,252,231	56,120,991
18	Less: The balance of items off balance sheet reduced due to credit conversion	-	-
19	The balance of items off balance sheet after adjustments	58,252,231	56,120,991
20	Net tier-one capital	38,888,648	35,643,177
21	The balance of assets on- and off-balance sheet after adjustments	667,130,428	587,180,650
22	Leverage ratio (%)	5.83	6.07

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

Unit: RMB'000

Item	31 December 2023	30 September 2023	30 June 2023	31 March 2023
Leverage ratio (%)	5.83	6.01	6.07	5.99
Net tier-one capital	38,888,648	38,306,159	38,012,016	36,520,124
The balance of assets on- and off-balance sheet after adjustments	667,130,428	637,124,318	625,903,430	609,811,550

According to the “Regulatory Requirements on the Information Disclosure Regarding the Capital Composition of the Commercial Banks” (《關於商業銀行資本構成信息披露的監管要求》), 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 (<http://www.qdccb.com/>).

14. INVESTMENT ANALYSIS

14.1 Overview

Unit: RMB'000

Investees	31 December 2023	31 December 2022	Percentage of equity in investees (%)	Cash dividend for the current year
China Unionpay Co., Ltd.	13,000	13,000	0.34	5,800
Shandong City Commercial Banks Alliance Co., Ltd.	10,000	10,000	1.14	-
Service Centre for City Commercial Banks	250	250	0.81	-
Total	23,250	23,250	N/A	5,800

- Notes:*
- The said investments were included under financial investments measured at fair value through other comprehensive income in the statement of financial position.
 - The original name of Service Centre for City Commercial Banks was Clearing Center for City Commercial Banks.

As at the end of 2023, for details of other information concerning the Company's investments, please refer to “7.1.2 Financial Investments” and “17. Analysis of Main Shares Holding Companies and Joint Stock Companies” under “Section V Management Discussion and Analysis” of this annual report.

14.2 Significant Equity Investments Acquired during the Reporting Period

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

14.3 Significant Ongoing Non-equity Investments during the Reporting Period

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

14.4 Financial asset investment

1. Investments in Securities

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

Unit: RMB'000

Type of Security	Investment amount	% of total investment
Debt securities issued by government and the central bank	53,530,546	31.79
Debt securities issued by policy banks	24,246,483	14.39
Debt securities issued by banks and other financial institutions	43,918,994	26.07
Debt securities issued by corporate entities	46,740,878	27.75
Total	168,436,901	100.00

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

Unit: RMB'000

Name of security	Nominal value	Interest rates (%)	Maturity date	Impairment provision
Bond 1	5,930,000	2.52	2028-05	1,084.20
Bond 2	5,170,000	3.39	2050-03	203.96
Bond 3	3,620,000	2.87	2028-02	675.07
Bond 4	3,040,000	2.69	2027-06	555.62
Bond 5	2,740,000	3.18	2026-09	494.70
Bond 6	2,510,000	2.82	2033-05	462.91
Bond 7	2,300,000	2.73	2028-01	426.47
Bond 8	2,250,000	3.55	2040-05	470.93
Bond 9	2,130,000	3.12	2026-12	86.85
Bond 10	2,000,000	3.23	2030-03	372.13

Section V Management Discussion and Analysis

2. Derivative Investments

Unit: RMB'000

Item	31 December 2023			31 December 2022		
	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	79,125,365	149,377	(71,107)	55,095,380	108,376	(188,147)

Notes: 1. Within the risk appetite and its own derivatives market risk framework determined by the Board, the Company followed the requirements for limits and actively conducted various derivatives transactions. As at 31 December 2023, the derivative financial instruments held by the Company included interest rate swap contracts and others.

2. During the Reporting Period, the Company's accounting policies and accounting principles for derivatives had no significant changes compared with the previous reporting period.

14.5 Use of Proceeds Raised

1. General Use of Proceeds Raised

The proceeds raised from previously issued ordinary shares and preferred shares of the Bank, less issuance expenses, had been fully used to replenish the capital of the Bank. During the Reporting Period, there was no additional proceeds of the Bank.

2. Commitment of Use of Proceeds Raised

N/A.

3. Change of Use of Proceeds Raised

During the Reporting Period, the Bank did not have any change of use of proceeds raised.

15. MATERIAL DISPOSAL OF ASSETS AND EQUITY INTEREST

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

16. OTHER FINANCIAL INFORMATION

16.1 Analysis of Off-balance Sheet Items

The Company's off-balance sheet items include credit commitments and capital commitments. Credit commitments are the most important component. As at the end of the Reporting Period, the balance of credit commitments amounted to RMB76.567 billion. For details, please refer to "46 Commitment and Contingencies under Notes to the Financial Statements" of this annual report.

16.2 Overdue and Outstanding Debts

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

16.3 Pledge of Assets

As at the end of the Reporting Period, the Company pledged part of its assets as collaterals under repurchase agreements, collaterals for borrowings from the central bank and deposits from customers. For details, please refer to "46(6) Pledged Assets under Notes to the Financial Statements" of this annual report.

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

Unit: RMB'000

Item	2023	2022	Change (%)	Main Reason
Fee and commission expense	(526,512)	(346,152)	52.10	Increase in the wealth management and credit cards businesses fees
Net trading gains or losses	(168,992)	741,182	(122.80)	Significantly reduced impact of exchange rate fluctuations on exchange gains or losses resulting from the redemption of overseas preference shares
Net gains arising from investments	1,622,863	1,057,175	53.51	Increase in net gains on financial investments measured at fair value through profit or loss
Other net operating income	158,992	117,454	35.37	Increase in gains on disposal of other long-term assets
Impairment losses on other assets	(17,447)	(6,027)	189.48	Increase in impairment losses of precious metals
Income tax expense	(261,977)	31,566	929.93	Increase in pre-tax profits and decrease in tax-exempt income
Net profit attributable to non-controlling interests	122,821	84,750	44.92	Increase in earnings of subsidiaries

Section V Management Discussion and Analysis

Unit: RMB'000

Item	2023	2022	Change (%)	Main Reason
Other comprehensive income, net of tax	863,485	(662,773)	230.28	Increase in change of fair value of financial assets measured at fair value through other comprehensive income
Placements with banks and other financial institutions	14,021,225	8,432,022	66.29	Increase in the placements with non-interbanks and other financial institutions
Derivative financial assets	149,377	108,376	37.83	Increase in fair value revaluation of assets for exchange rate contracts
Financial assets held under resale agreements	13,944,652	—	N/A	Increase in scale of bonds purchased under resale agreements
Borrowings from the central bank	18,235,088	13,256,605	37.55	Increase in closing balance of the medium-term lending facilities borrowed from the central bank
Deposits from banks and other financial institutions	2,242,331	6,439,660	(65.18)	Strengthening of interbank liability management, appropriate adjustment to the structure of interbank liabilities, and appropriate reduction of the scale of interbank deposits while the financial assets sold under repurchase agreements are increased
Derivative financial liabilities	71,107	188,147	(62.21)	Decrease in fair value revaluation of liabilities for exchange rate contracts
Financial assets sold under repurchase agreements	36,880,567	25,634,354	43.87	Strengthening of interbank liability management and increase in the business scale of bond sold under repurchase agreements with relatively low cost ratio
Income tax payable	477,981	703,876	(32.09)	Income tax payable by the Bank greater than the amount of provision
Other liabilities	3,756,512	5,564,659	(32.49)	Decrease in financial liabilities related to gold
Other comprehensive income	947,211	83,726	1,031.32	Increase in change of fair value of financial assets measured at fair value through other comprehensive income
Retained earnings	5,011,018	3,822,519	31.09	Increase in retained earnings

16.5 Changes in Interest Receivables

At the end of the Reporting Period, the Company's interest receivables reached RMB39 million, representing a decrease of RMB1 million or 2.21% from the end of the previous year, mainly attributable to the decrease in interest receivables arising from loans and advances to customers. The following table sets forth the changes in various items of interest receivables of the Company during the period indicated.

Unit: RMB'000

Item	31 December 2022	Increase during the period	Recovery during the period	31 December 2023
Loans and advances to customers	39,810	778,744	(779,625)	38,929
Long-term receivables	–	7,755	(7,755)	–
Total	39,810	786,499	(787,380)	38,929

Note: In accordance with the requirement of the “Format of the Financial Statements of Financial Enterprises for 2018” released by the Ministry of Finance of the People's Republic of China, the “interest receivables” item shall only reflect the interest that has been due and can be collected but has not been received as of the end of the Reporting Period. Since the amount is relatively small, it should be included in the item of “other assets”. The Company has made impairment provision for interest receivables, and implemented bad debt write-off procedures and policies.

16.6 Provision for Bad Debts

At the end of the Reporting Period, the provision for bad debts was RMB40 million, representing an increase of RMB1 million or 2.74% over the end of the previous year. Among them, the bad debt provision for interest receivables was RMB8 million, representing a decrease of RMB16 million from the end of the previous year, while the bad debt provision of other receivables was RMB31 million, representing an increase of RMB17 million from the end of the previous year, both of which were in line with the corresponding business risk conditions. The following table sets forth the Company's interest receivables, other receivables and their provision for bad debts as of the dates indicated.

Unit: RMB'000

Item	31 December 2023	31 December 2022	Change
Interest receivables	38,929	39,810	(881)
Less: Bad debt provision for interest receivables	(8,401)	(24,373)	15,972
Book value of interest receivables	30,528	15,437	15,091
Other receivables	239,751	199,180	40,571
Less: Bad debt provision for other receivables	(31,241)	(14,211)	(17,030)
Book value of other receivables	208,510	184,969	23,541

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

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

Unit: RMB'000

Name of company	Type of company	Main Business	Financial Data					
			Registered capital	Total assets	Net assets	Total operating income	Operating profit	Net profit
BQD Financial Leasing	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	178.80	17.86	6.52	3.35	2.51
BQD Wealth Management	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 National Administration of Financial Regulation.	10.00	18.82	17.05	5.38	4.03	2.99

17.2 Acquisition and Disposal of Subsidiaries during the Reporting Period

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

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

BQD Financial Leasing was established on 15 February 2017, with a registered capital of RMB1.0 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. As the only approved financial leasing company in Qingdao, BQD Financial Leasing continuously improves its political awareness, strengthens its mission and responsibility, focuses on the theme of high-quality development and persists in serving the real economy to effectively prevent and control risks and promote stable development through compliant operations. Based in Shandong with a footprint across the whole country, BQD Financial Leasing fully leverages its own business advantages and characteristics, focusing on technology-based innovative enterprises, agricultural machinery industry, competitive industries in the region, and financing leasing business for small- and medium-sized enterprises, and actively penetrates into the key projects in areas such as people's livelihood guarantee, strategic emerging industries, equipment manufacturing, transportation, and urbanization construction to provide customers with professional and comprehensive financial leasing services, has become a financial leasing company with strong strength, stable operation, distinctive features, and significant benefits.

BQD Wealth Management was established on 16 September 2020, with a registered capital of RMB1.0 billion. It was registered in Qingdao, and was wholly initiated and established by the Bank. BQD 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. Guided by new asset management regulations and supporting policies, BQD Wealth Management is committed to focusing on the essence of asset management business and serving the real economy, and builds a complete and innovative wealth management 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 corporate brand which is "inclusive + distinctive".

18. OVERVIEW OF BUSINESS DEVELOPMENT

18.1 Retail Banking

During the Reporting Period, in term of retail banking business, the Bank has adhered to the “people-oriented” development concept, continued to improve the level of refined operation towards customers with the focus on the diversified needs of customers, and gradually established a closed-loop ecosystem of comprehensive operations customized for retail customer base from multiple dimensions such as product creation, channel construction and digital transformation. During the Reporting Period, the retail banking business of the Company realized operating income of RMB3.178 billion, accounting for 25.46% of the Company’s operating income.

1. Retail customers and customer asset management

Through the refinement of hierarchical construction of customer base, the Bank has made remarkable achievements in strengthening its customer base. The Bank managed its customer base by groups and hierarchies to refine the segmentation of customer base management, with online special areas of mobile banking for seniors, women, etc. to effectively increase its customers of high value. At the end of the Reporting Period, the number of retail customers of the Bank reached 8.9446 million, representing an increase of 1.2349 million or 16.02% from the end of the previous year. The assets of retail customers held by the Bank amounted to RMB317.012 billion, representing an increase of RMB16.536 billion or 5.50% as compared with that at the end of the last year. Among them, the number of mid-to-high-end customers with financial assets of more than RMB200,000 reached 390.3 thousand, representing an increase of 37.2 thousand or 10.54% as compared with that at the end of last year. The assets of such mid-to-high-end customers held by the Bank amounted to RMB272.908 billion, accounting for 86.09% of the assets of all retail customers. By serving the community and rural areas, the Bank deepened the characteristic channels to attract customers. As at the end of the Reporting Period, community banking of the Bank served 46.4 thousand customers, representing an increase of 20.3 thousand or 77.78% as compared with that at the end of the last year. As at the end of the Reporting Period, the Bank had 1,247 integrated agriculture-aided financial service stations opened for business, representing an increase of 220 or 21.42% as compared with that at the end of the last year; 276.1 thousand agriculture-benefit customers, representing an increase of 34.1 thousand or 14.09% as compared with that at the end of the last year. In reliance on the public-private linkage, the Bank promoted bulk acquisition of customers for payroll credit business and payment through digital operations, with an addition of 20.3 thousand new customer companies for payroll credit business during the year, representing an increase of 13.1 thousand as compared with that at the end of the last year and setting a historic high, and the payroll credit business drove steady increase of new customers.



The retail deposits of the Bank have grown steadily with effective structural optimization. Retail deposits continued to maintain steady growth, the share of which continued to rise in Qingdao and within the Bank. As at the end of the Reporting Period, the balance of retail deposits of the Bank amounted to RMB188.444 billion, representing an increase of RMB41.116 billion or 27.91% as compared with that at the end of last year, and representing an increase of RMB4.218 billion as compared with that of the same period for last year. Retail deposits accounted for 48.81% of total deposits, representing an increase of 5.65 percentage points as compared with that at the end of the previous year, with the continuous increase of proportion. The Bank insisted on active structural adjustments during development, and orderly reduced the scale of high-cost products such as time deposits with maturities of more than three years. The costs have been stabilized with slight declining, while the structure of deposits continued to improve. During the Reporting Period, the average cost ratio of retail deposits was 2.64%, representing a decrease of 0.08 percentage point over the same period of last year.

The impetus of digital transformation boosts the development of retail business. Anchoring at the goal of “high-quality development with priority in quality and effectiveness” in the new triennial strategic plan, the Bank has established a strategic development planning for digital retail to promote the digital transformation of its retail business into the “growth stage”. By resorting to data mining, data application and data scenario construction, the Bank sought for valuable clues of data in business practices. The “Five-Star Model of Customers with Potential Value” output by the Digital Compass project enabled the upgrading of front-line customer groups; the in-depth rectification of the digital business model for long-tail customer groups accommodated new growth points to the upward transport among long-tail customer groups; the operation of “Digital Butler – Management Tool for Deposit Customer” further stimulated the production capacity of outlets.

2. Retail loans

The Bank focused on promoting the development of inclusive finance and consumer loans in virtue of product innovation and procedural optimization. The balance of personal loans grew against the negative trend, with a structure increasingly optimized. As at the end of the Reporting Period, the balance of the Bank’s retail loans (including credit card) was RMB79.084 billion, representing an increase of RMB5.704 billion or 7.77% as compared with the end of last year. During the Reporting Period, the Bank realized retail loan interest income of RMB3.697 billion, with an average yield for retail loan of 5.39%.

The Bank enriched the inclusive product system and optimized the process to stimulate its efficiency. During the Reporting Period, the Bank continued to implement the inclusive business principle of “serving small and micro enterprises (SMEs) based on the local economy” to accelerate the innovation and procedural optimization of inclusive products. The launch of inclusive products such as “Fast Mortgage Loans”, “Breeding Loans” and “Planting Loans” promoted the development of online channels, which further diversified the product functions. The comprehensive realization of direct-connected mortgage and withdrawals for all business types in Qingdao positioned the Bank as the first financial institution across the province to realize all-category, full-processes, and interface-based mortgage and withdrawals for personal loan business, which effectively improved mortgage efficiency and risk control levels. As at the end of the Reporting Period, the balance of personal inclusive loans was RMB9.780 billion, among which the growth in personal inclusive loans of branches and sub-branches was 2.89 times of that of the same period of last year. The Bank expanded and promoted the online inclusive loan product of “Hairong Breeding Loan”, with a total of RMB621 million issued during the Reporting Period and a credit balance of RMB345 million as at the end of the Reporting Period. The Bank initiated effective attempt in the sector of retail agriculture-related loans, with a total of RMB875 million issued during the Reporting Period and a credit balance of RMB577 million as at the end of the Reporting Period.

Section V Management Discussion and Analysis

The Bank created an ecosystem of consumer service, carrying out its scenario-based refined operation. During the Reporting Period, the Bank steadily developed the self-operated Internet loan “Hairong Yidai”, and continuously optimized products such as “Citizen Loans”, “Rural Revitalization Loans” and “Parking Space Loans”, thereby improving the business process and enhancing the customer experience. The Bank successfully implemented cooperation with cutting-edge Internet platforms, in strict compliance with regulatory requirements and with a view to steadily scaling up its business. “Parking Space Loans”, as a breakthrough in the expansion of scenario-based consumption loans, has been partially online, and the construction of consumption loan scenarios has achieved preliminary effect. At the end of the Reporting Period, the balance of personal consumption loans of the Bank amounted to RMB21.843 billion, representing an increase of RMB4.911 billion or 29.00% as compared with that at the end of the previous year. At the end of the Reporting Period, “Hairong Yidai” had issued a total of 12,040 loans with an amount of RMB1.356 billion, while the existing business scale stood at RMB463 million. As at the end of the Reporting Period, the balance of individual Internet loans reached RMB13.381 billion, of which 97.92% was granted in the province.

Personal housing mortgage loans kept rising steadily. Against the adverse environment with insufficient market demand, personal housing mortgage loans developed in a steady manner. As at the end of the Reporting Period, the balance of the Bank’s personal housing mortgage loans came to RMB46.945 billion, representing an increase of RMB486 million or 1.05% as compared with that at the end of last year.

3. Credit card business

The customer-acquiring capacity of the Bank through its own channels for credit card business continued to strengthen, represented by the significantly improved activation rate, the increasingly diversified marketing activities, and the constantly enhanced customer experience. As at the end of the Reporting Period, the Bank issued 453.5 thousand new credit cards, and the cumulative number of credit cards issued reached 4.1059 million, representing an increase of 12.42% over the prior year-end. The credit card overdraft amounted to RMB12.451 billion, representing an increase of RMB500 million or 4.18% over the end of last year. During the Reporting Period, the Bank realized the credit card transaction amount of RMB84.478 billion, representing a year-on-year increase of 7.61%. The operating income of the credit card business was RMB1.123 billion, representing a year-on-year increase of 19.98%.

Section V Management Discussion and Analysis

The customer-acquiring capacity through own channels of the Bank continued to strengthen with the activation rate remarkably elevated. Firstly, the Bank practically strengthened its own customer-acquiring capacity building. During the Reporting Period, the Bank issued a total of 402.9 thousand cards through its own channels, accounting for 88.84%. Secondly, focusing on key nodes of life cycle such as post-issuance activation, the Bank continuously improved key indicators such as the activation rate. At the end of the Reporting Period, the activation rate reached 64.48%, representing an increase of 13.21 percentage points over the end of last year, among them, the activation rate of direct sales channel reached 86.68%, representing an increase of 4.32 percentage points over the end of last year; the activation rate of clerk channel reached 56.99%, representing a significant increase of 4.49 percentage points over the end of last year. Thirdly, the Bank cooperated with third-party institutions to issue cards, so as to further expand the customer acquisition channels for our credit cards.

Ever-richer marketing activities continued to improve customer experience. Firstly, the Bank launched more diversified marketing activities from time to time, including online “50% off GO on Saturdays (周六5折GO)”, lucky draw activities among qualified customers, weekly promotions of department store, online shopping discount activities, etc. to increase customer stickiness and stimulate consumption, which in turn continuously consolidated the customer base. Secondly, the Bank continued to enrich its types of credit cards by launching standard unbounded cards for customers to derive pleasure from travel entitlements, and rolling out the unbounded versions of standard cards to facilitate the issuance of activated cards, so as to continuously increasing customer rights and interests with the focus on service experience. Thirdly, the Bank continued to promote product innovation and continuously enriched its installment products. It launched two new installment products, the large-amount installment card “Whale Card (鯨運卡)” and Credit Insurance Finance (信保貸), and two external installment channels including WeChat cash installment and UnionPay Cloud QuickPass general ledger installment to continuously optimize products and services.

4. Wealth management and private banking business

The Bank adhered to the “customer-centric, market-oriented” business service philosophy in wealth management and private banking business. It actively responded to market changes, increased the asset-light revenue contribution of wealth collection, continued to forge a professional service team, and upgraded the “in-depth services, long-term companionship” advisory service model to strengthen the life-cycle management on wealth management business. The Bank dedicated to accelerating the construction of the private banking system, driving the operation of high-end customer base with shelves accommodating diversified high-end wealth products alongside differentiated private banking service systems, and achieving sustainable growth in the number of customer groups and business income. As at the end of the Reporting Period, there were 59,555 retail customers with assets under management of over RMB1 million. During the Reporting Period, the Bank realized wealth management service fees and commission income of RMB321 million which represented an increase of 17.29%, including the income from agency for insurance of RMB247 million, representing an increase of 141.87%.

5. Customer service management

The Bank attached considerable importance to the protection of consumer rights and interests, earnestly fulfilled its responsibility as the entity protecting the rights and interests of financial consumers, and bear in mind the original aspiration of “finance serving the people”. Firstly, the Bank promoted the formation of service reputation, deepened the sound implementation of services, and regarded the implementation of regulatory policies about consumer rights protection as the essential for service and management. In 2023, the Bank’s net promoter score stood at 80.49%, representing a year-on-year increase of 3.79 percentage points; the Bank was granted the “Five-Star Diamond Award”, the highest award in the global service field for the eighth time, maintaining its service reputation in the industry leading position all along. Secondly, the Bank further consummated the system and mechanisms for protecting consumer rights and interests, strictly implemented the closed-loop complaint management mechanism, and ensured that consumer protection work was carried out in accordance with the laws and regulations. Thirdly, the Bank continued to improve the consumer complaint assessment and monitoring mechanism to safeguard the legitimate rights and interests of financial consumers in a feasible manner. Fourthly, the Bank scaled up its resource input to update and iterate the complaint management system. During the Reporting Period, the Bank launched the “BQD Customer Voice Management System” with full-channel coverage and full-cycle monitoring, established a closed-loop management model of one-click transfer, one-click supervision, as well as traceable audit and assessment throughout the entire process, achieving cross-department and cross-institution exchange of customer complaint information and data interconnection, which marked a new stage of value for the digital management on consumer protection of the Bank.



18.2 Corporate Banking

During the Reporting Period, the Bank closely upheld the two principal themes including strategic planning and operational transformation, and focused on strengthening its strengths and making up for weaknesses, enlarging its market share, reinforcing its customer base, seeking refinement in the industry, optimizing its characteristics and creating efficiency through innovation. Focusing on the new triennial strategic plan, the Bank inaugurated the new dimension in corporate business transformation and development characterized by numerous customers, preeminent structure, strong endogenous motivation of deposits, high-quality assets, collaborative capacity improvement and efficient capital conservation, and achieved outstanding results. During the Reporting Period, corporate banking realized operating income of RMB5.750 billion, accounting for 46.07% of the Company's operating income.

1. Corporate deposits

The liability business of the Company has been improved in quality and efficiency, with remarkable effectiveness in adjusting structure and controlling costs. The Bank continued to promote the stabilization and increment of corporate deposits. As at the end of the Reporting Period, the balance of corporate deposits (excluding accrued interest, similarly hereinafter) was RMB197.228 billion, accounting for 51.09% of the balance of various deposits (excluding accrued interest), representing an increase of RMB3.599 billion or 1.86% as compared with that at the end of last year. Specifically, the corporate demand deposits amounted to RMB89.927 billion, accounting for 45.60% of the balance of corporate deposits, and corporate time deposits amounted to RMB107.301 billion, accounting for 54.40% of the balance of corporate deposits. The Bank continued to optimize the liability structure of the Company, and effectively integrated treasury management platforms, cash settlement products, smart trading scenarios, etc. to empower business development. The average cost ratio of corporate deposits was 1.87%, down by 0.01 percentage point from the previous year. During the Reporting Period, the average daily deposits from corporate customers of the Bank was RMB193.887 billion, representing an increase of RMB994 million or 0.52% as compared with that at the end of last year.

2. Corporate loans

Adhering to financial support for the development of the real economy, and continuing to increase the supply of credit. The Bank closely kept in step with national policies and continuously strengthened its credit support to small and micro private enterprises. As at the end of the Reporting Period, the balance of corporate loans (including discounted bills and excluding accrued interest) was RMB221.006 billion, representing an increase of RMB25.356 billion or 12.96% as compared with that at the end of last year, and accounting for 73.65% of the total loans (excluding accrued interest). The business volume of commercial bills discounted continued to increase, with an accrual for commercial bills discounted of RMB15.605 billion, representing a year-on-year increase of RMB11.671 billion or 296.67% and ranking No.1 among urban commercial banks in the province. The customer-acquiring efficiency of bills has improved. At the end of the Reporting Period, the number of credit customers for issuing commercial bills reached 161, representing an increase of 112 or 228.57% as compared with that at the end of last year, whereas the number of customers for commercial bills discounted amounted to 1,257, representing an increase of 633 or 101.44% as compared with that at the end of last year.

Solidly advancing the inclusive finance business in depth and detail, and focusing on agriculture-related finance in the inclusive field. The number of customers of inclusive loans amounted to 53.4 thousand, representing an increase of 3.0 thousand from the end of last year. Among them, the addition of inclusive corporate customers was 2,698, more than twice the increment of the previous year. At the end of the Reporting Period, all first-tier branches of the Bank were able to carry out credit business for SMEs, of which a total of 7 institutions including Jinan Branch, Westcoast Branch, Zibo Branch, Weihai Branch, Linyi Branch, Shibe Sub-branch, and Shinan Sub-branch had established inclusive finance departments. The balance of inclusive loans amounted to RMB33.846 billion, representing an increase of RMB6.721 billion or 24.78% as compared with that at the end of last year, which was higher than the growth rate of various loans of the Bank. The non-performing ratio and the weighted average interest rate were 0.92% and 4.10%, respectively. The Bank completed the assessment requirements of the “dual increase and dual control” in an all-round way. The Bank has achieved steady development in agriculture-related finance, especially by optimizing and innovating a series of agriculture-related specialty products such as “Agriculture-benefit Quick Loan” and carrying out the “One County, One Product” special campaign. During the Reporting Period, the balance of agriculture-related loans reached RMB53.669 billion, representing an increase of RMB5.193 billion or 10.71% from the end of the previous year; the balance of inclusive agriculture-related loans was RMB6.714 billion, representing an increase of RMB2.376 billion or 54.76% from the end of the previous year.

3. Corporate customers

Implementing hierarchical operation and classified management to continuously consolidate the customer base. By forming a standardized work paradigm for small and micro customer groups, reshaping the operation system of strategic customer groups, and smoothing the communication channels for institutional customer groups connecting to banks and government, the Bank’s total customer base and market share have significantly increased. As at the end of the Reporting Period, the total number of corporate customers which had opened accounts with the Bank amounted to 245.5 thousand, representing an increase of 38.6 thousand or 18.66% from the end of the previous year. During the Reporting Period, 44.9 thousand new accounts were opened for the Bank’s corporate customers, hitting a record high, and the provincial market coverage ratio reached 1.73%, representing an increase of 0.19 percentage point. There were 87.2 thousand effective customers with daily average deposits of RMB10 thousand per annum, representing an increase of 13.1 thousand or 17.67% from the end of the previous year; 12.9 thousand valuable customers with daily average deposits of RMB500 thousand per annum, representing an increase of 1,335 or 11.48% over the end of the previous year; 581 strategic customers, representing an increase of 29 or 5.25% over the end of the previous year; and 4,440 institutional customers, representing an increase of 1,037 or 30.47% over the end of the previous year; and hygiene and health customers amounted to 3,991, representing an increase of 678 or 20.46% as compared with that at the end of last year.

Creating an industry-specialized service model, and achieving service upgrades in key industries. The Bank continued to deepen its efforts in manufacturing, public utilities, green finance, hygiene and health to form an industry-specialized service model. The head office and branches collaborated to promote the expansion of customer, optimize the credit process, develop access models and embark on the new journey of high-quality development. The Bank determined the “green finance” development strategy, forged the brand effect of “BQD Green Finance”, expanded the sphere of application of instruments under the carbon emission reduction policies, and innovated an all-embracing system of business scenarios. At the end of the Reporting Period, green loans amounted to RMB26.135 billion, representing an increase of RMB5.211 billion or 24.90% from the end of the previous year. The growth rate of green loans substantially exceeded that of corporate loans.

Section V Management Discussion and Analysis

Steadily expanding transaction banking customer base, with integrative development of triple product segments including international business, supply chain finance and cash management. As at the end of the Reporting Period, there were 3,090 active customers of international business, representing an increase of 787 or 34.17% as compared with that at the end of last year. The international settlement volume of the Bank amounted to US\$13.470 billion, representing an increase of US\$2.900 billion or 27.44%, which marked its market share in Qingdao in term of international business rose from 12th at the beginning of the year to 6th. The Bank had 5,295 supply chain finance customers upstream and downstream, representing an increase of 3,312 or 167.02% as compared with that at the end of last year. The balance of online supply chain financing was RMB8.091 billion, representing an increase of RMB5.635 billion or 229.44% from the end of the previous year. The customers base of cash management contained 7,456 customers, representing an increase of 2,887 or 63.19% as compared with that at the end of last year.



The Bank received the “Bank-Enterprise Collaboration & Attentive Service” banner from customers.

4. Corporate products

Product empowerment demonstrated the power of transformation. The Bank launched the “Sword Forging Operation” of credit extension products, optimizing and polishing 24 flagship products in asset businesses such as “international business, supply chain finance, inclusive finance, technology finance, hygiene and health, personal consumption, and agriculture-aid loans” with the rollout of a digital product “Inclusive e-Financing (普惠e融)”, which attached importance to serving entities and strengthening customer base with a focus on industry perspectives, customer stratification, and transaction chain structures to entitle vigorous market competitiveness to products indeed and solidly promote the Bank’s high-quality development towards transformation. Focusing on account services, payment and settlement, acquiring and cash management products, the Bank launched the settlement product “Sword Forging Operation”, under which the level of online settlement business was significantly improved and the accumulation of basic customer groups and settlement deposits were effectively facilitated.

Exclusively finalized the first order and loan. The Bank finalized the first support loan carbon reduction disclosure across the country and the first central bank loan supporting carbon reduction among local bank corporations in the province, becoming the only financial institution in the province to implement all four types of innovative businesses in relation to green finance promoted by the People’s Bank of China. It completed the first domestic blue syndicated loan with the International Finance Corporation (IFC), a member of the World Bank Group. As the only cooperative bank, the Bank participated in the “Data Empowerment” special action in the province and promoted the innovative implementation of the first nationwide pledge financing business supported by industrial big data of “Phosphorus Factories”. It also finalized the first overseas loan business, realizing the extension of credit business entities from domestic enterprises to overseas enterprises.

18.3 Financial Markets

During the Reporting Period, on the premise of controlling risks and paying attention to compliance, the Bank closely adapted to market changes to actively seize trading opportunities and flexibly adjust its business strategies, thereby continuing to promote the steady development of financial market business. During the Reporting Period, the Bank’s business qualifications and market recognition embraced double enhancement, while the CSRC successfully completed on-site acceptance and business license renewal of its custody business to initiate the formal operation. With the steady development of various businesses in the financial market, the Bank has formed a professional business line with proprietary investment and interbank business as the core while taking business innovation and risk control as the guarantee, which was equipped with a complete set of qualifications and licenses to occupy national competitiveness. During the Reporting Period, the Company’s financial market business achieved operating income of RMB2.898 billion, accounting for 23.22% of the Company’s operating income.

1. Proprietary investment

During the Reporting Period, the Bank strengthened market research and judgment to seize business opportunities, so as to continuously promote high-quality development of businesses in the financial market and further enhance its market influence. The Bank carried out financial market business based on the Group’s annual operating objectives and the new triennial strategic plan to continuously optimize the investment structure, focusing on “stabilizing scale and reducing volatility” while ensuring matching the liability and asset. At the same time, it compressed long-term assets, stabilized the indicators of interest rate sensitivity, so as to reduce the volatility of equity assets. The Bank kept a close eye on the dynamic market trends and practically selected the timing of allocations and transactions, resulting in sound returns on the bond portfolio. Diversified trading strategies, enhanced market research and judgment, and expanded business varieties have steadily improved its trading capabilities and revenue contribution.

The Bank continued to optimize and adjust its proprietary investment structure, and its strength in financial investment scale steadily increased. As at the end of the Reporting Period, the proprietary investment (including accrued interest) of the Bank amounted to RMB225.771 billion, representing an increase of RMB23.318 billion or 11.52% from the end of last year, of which bond investment (including accrued interest) was RMB166.166 billion, representing an increase of RMB18.627 billion or 12.63% from the end of last year; investments in public fund products reached RMB43.800 billion, representing an increase of RMB8.850 billion or 25.32% from the end of last year; non-underlying investment assets (including accrued interest) came to RMB10.879 billion, representing a decrease of RMB2.795 billion or 20.44% from the end of last year; and the value of other debt financing products (including accrued interest) was RMB4.904 billion, representing a decrease of RMB1.364 billion or 21.76% from the end of last year.

The Bank has a complete set of interbank market qualification licenses, laying a solid foundation for financial innovation and business development. The Bank is one of the first founding members of China's market interest rate pricing self-regulatory mechanism, the first approved commercial bank in the non-Tenge regional trading territories, and an institution directly connected with Euroclear through the China Foreign Exchange Trade System (CFETS) platform. The Bank is the first comprehensive city commercial bank spot bond market maker in Shandong province, and has the qualifications for "Northbound Bond Connect" and "Southbound Bond Connect" under Bond Connect and the ordinary derivatives trading business. The Bank has obtained the primary dealer qualification for the open market business for six consecutive years and is a member of the local government bond underwriting syndicate in Shandong Province and Qingdao City. The Bank was re-elected as the "Core Dealer" in the national inter-bank local currency market, and was awarded one of "Top 100 Self-operated Settlement Banks" by China Central Depository & Clearing Co., Ltd. It was also honored with the Excellent Currency Market Trader, the Excellent NCD Issuer and the X-Repo Annual Innovation Award.

2. Interbank business and asset custody

During the Reporting Period, the Bank continued to strengthen the refined management of interbank liabilities, scientifically planned the types and terms of liabilities, actively expanded debt channels, reasonably controlled debt costs, and effectively ensured the stability of financial circulation. Oriented by customers' needs, it continued to deepen its marketing among interbank customers, with its customer volume and cooperative viscosity increasingly enhanced. As at the end of the Reporting Period, the balance of interbank certificates of deposit issued by the Bank was RMB71.008 billion, accounting for 60.37% of interbank liabilities and 12.82% of total liabilities of the Bank. The balance of RMB interbank deposits of the Bank was RMB2.704 billion, accounting for 2.30% of interbank liabilities and 0.49% of total liabilities of the Bank. Specifically, the balance of interbank time deposits was RMB55 million, accounting for 2.03%, and the balance of interbank demand deposits was RMB2.649 billion, accounting for 97.97%.

The asset custody business was successfully launched. During the Reporting Period, the Bank passed the on-site acceptance of custody qualifications of securities investment fund by the CSRC, successfully completed the renewal of its license for securities and futures business, and expanded its business scope to fund custody business. The Bank has safekept 3 public securities investment funds, with the custody scale of public funds exceeding RMB10.0 billion. The custody business relating to asset management products such as fund accounts, securities dealers' asset management plans, and commercial bank wealth management has been promoted in an orderly manner. The spectrum of custody products were increasingly diversified. Benefiting from the formation of various types of business models such as investment-to-custody linkage, sales-to-custody linkage and underwriting-to-custody linkage relying on the group resources, the influence and competitiveness of the custody market have gradually emerged. The sound operation of operation management and service system for custody business demonstrated the preliminary results of establishing custody brand.

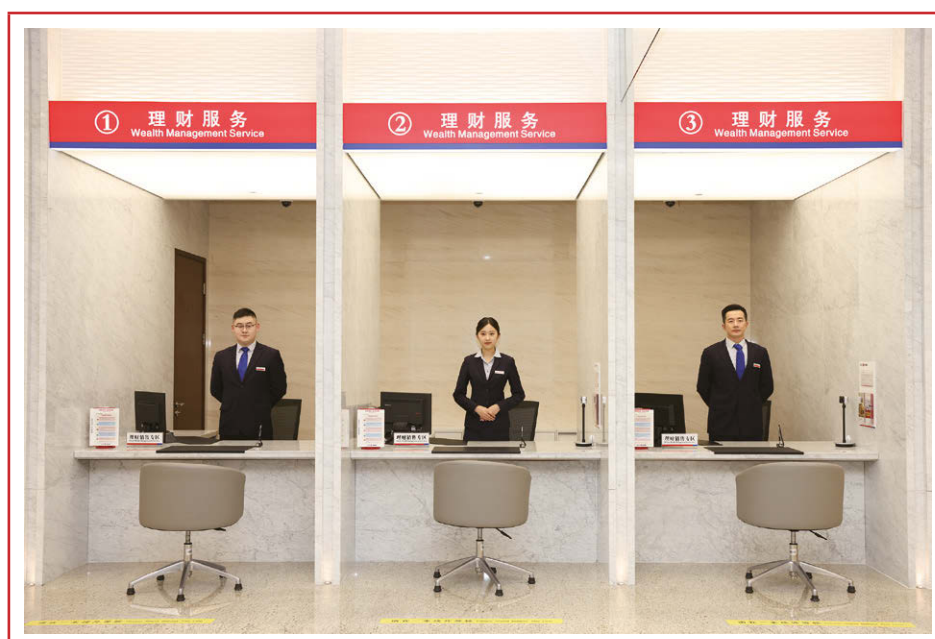
3. Asset management

In 2023, against the background of the continued decline in the scale of banking wealth management in the entire market, the Company's product revenue remained at the forefront of the industry, with constantly consolidated market position, fruitful channel expansion, as well as steadily growing management size and commission income.

As at the end of the Reporting Period, the Bank had 689 wealth management products in existence with a balance of RMB208.122 billion, up by 3.64% as compared with that at the end of last year. During the Reporting Period, the Company issued 520 wealth management products for raised proceeds of RMB618.492 billion in total. During the Reporting Period, the Company earned RMB930 million of service charge and commission income from wealth management products, representing an increase of RMB70 million or 8.20% over the same period of last year.

As at the end of the Reporting Period, the balance of the Company's investment assets from wealth management products was RMB221.977 billion. The assets mainly were directly and indirectly invested in fixed income, non-standardized debt, public fund products, and capital market assets. This included RMB198.081 billion of fixed income assets, accounting for 89.23%, RMB12.681 billion of non-standardized debt assets, accounting for 5.71%, RMB6.938 billion of public fund products, accounting for 3.13% and RMB4.277 billion of capital market assets, accounting for 1.93%.

During the Reporting Period, BQD Wealth Management, a wholly-owned subsidiary of the Bank, won the titles of "Outstanding Wealth Management Company for Return on Investment", "Outstanding Innovative Wealth Management Company" and "Excellent Equity Banking Financial Products" at the "3rd Golden Reputation Awards" hosted by PY Standard due to its outstanding performance. BQD Wealth Management won two awards, the "Golden Bull Award for Banking Wealth Management Products" and the "Golden Bull Award for Banking Wealth Management Companies" in the appraisal of the "4th Golden Bull Awards for Banking Wealth Management of Capital Securities Cup" organized by China Securities Journal, which marked a total of six Golden Bull Awards within three years since its establishment.



4. Investment banking

The scale of investment banking business has steadily increased, which gathered new momentum in business development. During the Reporting Period, the Bank's investment banking business covered two product lines: bond underwriting and credit risk mitigation warrants (CRMW). Among them, the issuance amount of debt financing instruments was RMB51.726 billion with the underwriting quota being RMB30.069 billion, representing an increase of RMB8.237 billion or 37.73% over last year. The issuance amount of wealth management direct financing instruments was RMB9.915 billion, representing an increase of RMB3.646 billion or 58.16% over last year. The issuance amount of credit risk mitigation warrant amounted to RMB2.336 billion, representing an increase of RMB1.836 billion or 367.20% over last year.

Specialized investment banking services stepped into an in-depth and practical stage, and multiple "first orders" ushered in business innovation. During the Reporting Period, the Bank's underwriting scale of debt financing instruments reached a record high, ranking fifth among the principal banking underwriters in Shandong Province. In terms of the underwriting scale of medium- and long-term debt financing instruments, it continued to ranked in the top 2 among the principal banking underwriters in Shandong Province for 4 consecutive years. The Bank completed the underwriting and issuance of the country's first "normal-emergency dual-purpose" debt financing instruments and the first public offering bonds for unrated entity throughout the history of Shandong Province; and served 12 companies that launched debt financing instruments for the first time, accounting for 57.14% of the number of first-time customers in the province. The Bank actively leveraged its advantages in market-oriented bond underwriting business to build a comprehensive service system of "investment banking + commercial banking".

18.4 Distribution Channels

1. Physical distribution channels

The Bank's business outlets are based in Qingdao, expanding throughout Shandong Province. As at the end of the Reporting Period, the Bank had 191 business outlets, including 16 branches, in 15 cities of Shandong Province, including Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Linyi, Jining, Tai'an, Heze and Rizhao. In Qingdao, the Bank had 1 head office, 1 branch and 109 sub-branches. The Bank's controlling subsidiary BQD Financial Leasing and wholly-owned subsidiary BQD Wealth Management are headquartered in Qingdao.

As at the end of the Reporting Period, the Bank had 97 in-bank self-service banks and 415 self-service machines, including 11 automated teller machines (ATM), 273 cash recycling machines (CRM), 119 self-service inquiry terminals and 12 cash teller machine providing customers with banking services including withdrawal, deposit, transfer, inquiry, and payment. During the Reporting Period, the Bank completed 5.0645 million self-service equipment transactions for a total amount of RMB16.792 billion.



In June 2023, the Bank held the 2023 Employee Sports Meeting, unfolding with a splendid display of resonance characterized by employee sports, culture, unity and friendship.

2. Electronic banking channels

The Bank continued to promote the innovation and development of electronic banking business and applied advanced finance technology (Fintech). Focusing on the customers, the Bank continued to optimize online service channels such as mobile banking and online banking, realized the light and mobile channel services, and continuously met the massive and ever-changing service demands of customers.

(1) Mobile finance

The Bank continued to strengthen the construction of its mobile financial platform with mobile banking as its core. The Bank's mobile banking 8.0 took "Happiness • Companionship" as the guideline, combined with the application of digital capabilities to deepen the application scene of financial technology. In terms of wealth management, the "Wealth Advisor" function has been launched to provide personalized services for high net-worth clients. At the same time, the "Fortune" channel has been comprehensively upgraded with the addition of "Blockbuster Recommendation", "Wealth Allocation" modules and "Smart Financial Management" function, which has obvious personalized advantages in product promotion. In addition, mobile banking has recently accommodated a "Fortune Companion" function to provide customers with reminders and suggestions such as product launch reminders, product expiration reminders and up-to-standard performance reminders. In terms of digital capabilities, the Bank achieved "multi-person and multi-faceted" product promotion, in order to more accurately meet customer needs.

During the Reporting Period, with the expansion in the number of retail customers, the number of users of the Bank's mobile banking service was in constant and rapid growth. At the end of the Reporting Period, the number of existing mobile banking users reached 5.0403 million, representing an increase of 461.5 thousand or 10.08% as compared with that at the end of last year. The transaction amount totaled RMB437.531 billion, representing an increase of 8.69% as compared with that in the same period of last year.

(2) Internet banking

With the continuous improvement of the function of mobile banking, a large number of personal online banking customers transferred to mobile banking. During the Reporting Period, the accumulated amount of personal online banking amounted to RMB177.827 billion, representing a decrease of 5.19% as compared with that in the same period of last year. As the number of corporate online banking customers increased, the amount of transfers and the number of transactions also increased. During the Reporting Period, the total transaction amount of corporate online banking amounted to RMB2,251.275 billion, representing an increase of 5.53% as compared with that in the same period of last year.

18.5 Information Technology

In 2023, bracing the new three-year strategic plan, and focusing on the high-quality development goals, the Bank continued to increase investment in technological resources, deepened the mechanism of Fintech innovation, coordinated and promoted the implementation of the digital strategy, and accelerated the construction of key projects, so as to inject strong momentum into strategic transformation.

During the Reporting Period, the Bank strengthened the fine management of science and technology and optimized input costs. In the whole year, 55 new financial science and technology projects were launched, and 78 projects were successfully put into production, representing an increase of 44.44% as compared to the end of last year. The Bank had 319 scientific and technological R&D personnel, representing an increase of 30.20% as compared to the end of last year, accounting for 6.35% of the Bank's total staff. The educational background of R&D personnel was composed of 179 people with master's degree or above and 140 people with bachelor's degree. Among which, 163 people aged 30 and below, 114 people aged 31-40, and 42 people aged 40 above. During the Reporting Period, the investment in information technology was RMB568 million, representing a year-on-year increase of 12.92%, accounting for 4.55% of the Company's operating income.

1. Strengthen top-level design and consolidate the foundation of digital transformation

The Bank strengthened digital top-level design to form a top-down and highly collaborative digital transformation governance structure and mechanism. In virtue of independent planning, overall planning and layout, the Bank formulated the digital transformation plan, clarified and implemented the five major transformation areas including "digital channels and marketing, digital services and products, digital scenario-based ecology, digital operations and risk control, and data technology mid-end" in an orderly manner, published transformation progress and industry monographic study every week, formed effective transformation methods and paths, cultivated a digital culture and atmosphere, systematically established a transformation framework suitable for its own reality, equipped with transformation mechanism and post-project evaluation mechanism, explored the transformation practice in depth, expanded the depth and breadth of the transformation, and basically achieved the strategic goal of "building the mechanism, ramming the foundation and seeking for breakthrough", which solidly advance the goal of "grasping implementation, optimizing capabilities, and seeking practical results" in the next stage.

During the Reporting Period, the Bank formulated a strategic plan for information technology and clarified the development direction and implementation route of information technology.

2. Accelerate innovation and achieve initial results in the digital transformation

Guiding by the principles of “online, mobile, and intelligent”, the Bank, took fast-achieving and easy-to-implement projects as a breakthrough to systematically promote digital transformation and achieve concrete results.

During the Reporting Period, centering on “user experience upgrade”, the Bank successfully released mobile banking 8.0 and independently developed a user experience monitoring platform to enhance the ability of companion in user service throughout the journey. The Bank promoted channel capacity building, and launched remote banks to open online and offline service channels for network customers, and optimized “digital butler” and “smart marketing” to enhance accurate marketing ability. The Bank enriched its online products, launched “Inclusive e-Finance” business and micro-loan products such as Didi Operating Loans, Online Merchants Operating Loans, quickly connected with multiple third-party platforms to establish the internet loan brand, “Hairong Yidai”, as well as put into operation online products of credit card such as “Credit Insurance Loan” and “Whale Luck Card”, so as to improve the credit card product ecosystem. The Bank improved the digital scene ecology, developed the self-built ecology of the “Happy Neighborhood” digital community, created a financial capital management platform to provide one-stop capital management services, which has enrich the connection with the external online supply chain and financial ecological platform, and jointly built the financial digital ecology. The Bank upgraded its digital risk control system, with in-process transaction monitoring phase II and credit risk control decision engine put into operation, launched a group-level intelligent risk warning platform and expected credit loss measurement system.

3. Strengthen the prevention and control of network security and build a solid defense line of high-quality development

The Bank comprehensively consolidated the information technology risk management system, continuously improved the construction of the business continuity management system and the normalized risk monitoring and warning mechanism, and established an intranet intrusion monitoring platform, and a full-process closed-loop network security risk management system. The success rates of changes amounted to 99.82% during the Reporting Period and the Bank dynamically updated the security equipment protection strategy, comprehensively carried out key systems and equipment switching drills to achieve the triple balance of compliance, business efficiency, security and stability, and escort the digital transformation of the Bank. During the Reporting Period, the Bank successfully completed the network security work in important periods, the Bank won the first prize of the team and individual in the Qingdao Network Security Competition, and made excellent achievements in network security attack and defense exercises and other activities of Qingdao.

4. Promote cutting-edge technology research and enhance core technological capabilities

The Bank continued to promote financial technology innovation and application, explored agile development models, improved the independent controllability of key technologies. The Bank actively explored the application of new technologies such as big data and artificial intelligence to realise the automation and intelligence of business processes, which had improved efficiency in multiple business scenarios, enhanced the accuracy and compliance of marketing and risk control, and reduced manpower costs and risks, and empowered rapid business development. The Bank also initiated the construction of a new-generation distributed core systems. Such new core systems will complete the comprehensive transformation from traditional architecture to distributed architecture, so as to achieve unified data standards and development specifications, support parameterized configuration of business products, and achieve flexible and rapid release of products.

During the Reporting Period, the Bank was awarded the title of “Technology Bank of the Year” in the “Excellent Cases of Financial Development in the 21st Century” appraisal, and its “Group-level Intelligent Warning Platform” was awarded the first prize of the “Excellent Financial Technology Project”, which marked the Bank being granted the highest award in the digital financial innovation selection event for the third consecutive year. A number of projects, such as “Management Platform for Public Online Service Hall”, “Retail Intelligent Marketing Management Platform Project”, “Online Transaction Monitoring Platform” and “Remote Banking”, have won awards in various financial technology innovation competitions.



In April 2023, the Bank successfully organized and convened the 2022 Annual Results Presentation.

19. STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

The structured entities controlled by the Company include certain asset-backed securities initiated by the Company and certain asset management plans invested by the Company. As the Company has power over such structured entities to enjoy variable returns by participating in relevant activities, and has the ability to use its power over such structured entities to affect the variable returns, the Company has control over such structured entities. The Company does not provide financial support to the structured entities it controls. For details, please refer to “47(4) Consolidated Structured Entities under Notes to the Financial Statements” of this annual report.

20. RISK MANAGEMENT

20.1 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 Comprehensive 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 credit portfolios (including asset portfolios).

In accordance with the requirements of the “Measures for the Classification of Financial Asset Risks of Commercial Banks” (《商業銀行金融資產風險分類辦法》), the Company regulates the work procedures, risk classification methods and working standards for the implementation, identification and review of the risk classification of financial assets that bear credit risks, so as to achieve the standardization, normalization and institutionalization of classification work.

During the Reporting Period, the Company adhered to a prudent and sound risk appetite, and was committed to building 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 Company achieved continuous optimization of various asset quality indicators and continuous improvement of its credit risk management capability, thus ensuring the Company's high-quality development. During the Reporting Period, the Company focused on strengthening credit risk management in the following aspects:

1. Established a comprehensive risk monitoring system and made continuous improvement. Focusing on the construction of the risk monitoring system and monitoring arrangements at group level, the group has established a monitoring indicator system covering nine major business areas and formulated and published risk management systems for microfinance, credit cards, models, etc., so as to gradually realize effective identification, measurement, monitoring and control of the group's risk situation from various dimensions such as the monitoring system, the monitoring indicator system, the monitoring system, the model management, and risk consolidation management.
2. Continued to optimize credit asset quality. The Company actively promoted the steady implementation of three new regulatory regulations such as the new capital regulations, classification regulations and impairment regulations, formulated working guidelines, organized series of training and raised the awareness of risk and cost across the Bank; implemented the refined dynamic management of various asset quality indicators, strengthened pre-assessment and analysis of the trends of risk migrations and changes, and enhanced pre-processing capabilities for risk signals; strengthened the management of maturing loans and overdue loans, strengthened the disposal of non-performing assets. The loans that were overdue more than 60 days continued to be managed as non-performing loans ratio in order to maintain a downward trend and achieved the management and control target.

Section V Management Discussion and Analysis

- Continued to strengthen risk management and control in key areas. The Bank continued to consolidate the foundation of the “Triple Loan Inspections”, strictly implemented the “post-credit supervision” mechanism, implemented differentiated post-loan management measures, and improved the accuracy and effectiveness of post-loan management. The Bank established a long-term risk investigation mechanism, strengthened risk monitoring in key areas and key customers, and promptly tracked and implemented rectifications once problems were discovered. Centering on the new triennial strategic plan and focusing on the transformation of the manufacturing industry while optimizing collaboration and strengthening driving force, the adjustments of industry approval structures were vigorously promoted, so as to comprehensively build a manufacturing development system.
- Continued to strengthen post-credit risk management. The Bank actively promoted the construction of a post-credit management system, revised the “Measures for Post-credit Management of Qingdao Bank’s Credit Assets”, and re-drafted the template for post-credit inspections, resulting in a total of 69 templates for seven industries, which can be quantified, analyzed, verified, compared, and cited in post-credit inspections. At the same time, a direct post-credit inspection team was formed to conduct direct post-credit inspections over key industries and customers to enhance the risk penetration management of post-credit inspections. Overall, the Bank has continued to optimize its post-credit management mechanism from the perspectives of management system, inspection framework, staffing, and supporting systems, so as to improve the credit risk management and business compliance standards.
- Continuously improved the digital credit management. The Company completed the first phase of the Group’s Intelligent Credit Risk Early Warning Platform, and provided credit risk assessment and warning for credit customers in pre-loan (pre-granting) investigation, review and approval, and post-loan (post-granting) management stages; promoting the development, launching of the expected credit loss management system, the related transaction management system and the collateral platform system, improving the joint management capability of various risk systems and laying the foundation for the construction of a digitalized risk control system.

During the Reporting Period, by taking the said measures, the Company further improved the quality of its assets and effectively controlled credit risks.

20.2 Liquidity Risk Management

Liquidity risk refers to the risk that the Company is unable to obtain adequate capital in a timely manner and at reasonable cost to repay matured debts, perform other payment obligations or meet other capital needs for normal business. The Company attaches great importance to the construction of bank-wide liquidity risk management, and has established a relatively complete liquidity risk management system that meets the Bank’s current development needs based on the principles of comprehensiveness, prudence, and perspectiveness. The liquidity risk management policies and systems comply with regulatory requirements and the Company’s own management needs.

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. In accordance with its development strategies, the Company continuously improves its liquidity risk management level and dynamically adjusts its liquidity risk management strategies to ensure that the bank-wide liquidity risk is within the safe range.

Section V 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 Company measures, monitors, and identifies liquidity risks from the perspectives of short-term provision and maturity structure of assets and liabilities, continuously supervises the status of high-quality liquid assets and the compliance with liquidity risk limits, and conducts regular stress tests and emergency drills.

The Company holds a sufficient amount of liquid assets to ensure the satisfaction of its liquidity needs. 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 prepares and submits an independent audit report to the Board.

The Company pays close attention to the macroeconomic situation and changes in regulatory policies, and deploys in advance and dynamically adjusts its liquidity management strategy based on the Bank's balance sheet structure 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. Moderately increased investment in qualified high-quality bonds and maintained sufficient liquidity reserves;
2. Actively expanded the sources of liabilities and promoted the steady growth of deposits, with the stability of liabilities enhanced;
3. Continued to perform well in the forward-looking management of indicators and fully considered various indicators in the allocation of assets and liabilities to ensure that various liquidity indicators were controlled within the preset threshold level;
4. Conducted daily liquidity risk management, strengthened market analysis and study, and improved the capital utilization efficiency on the basis of ensuring the safety of liquidity across the Bank;
5. Fully considered various macro and micro factors that may affect the Company's liquidity, and conducted stress tests in light of changes in the external operating environment, regulatory requirements, the Company's business characteristics and complexity.

Section V Management Discussion and Analysis

As at the end of the Reporting Period, the Company's liquidity coverage ratio and net stable funding ratio are presented below.

Unit: RMB'000

Item of liquidity coverage ratio	31 December 2023	31 December 2022
Qualified and high-quality current assets	75,270,402	90,470,924
Net cash outflows in next 30 days	47,606,972	73,656,093
Liquidity coverage ratio (%)	158.11	122.83

Note: Pursuant to the "Measures for Liquidity Risk Management of Commercial Banks", the liquidity coverage ratio of commercial banks shall not be lower than 100%.

Unit: RMB'000

Item of net stable funding ratio	31 December 2023		30 September 2023	
	The Company	The Bank	The Company	The Bank
Available stable funding	368,742,355	362,871,595	356,788,521	351,074,469
Required stable funding	315,655,638	294,111,814	305,263,011	283,110,493
Net stable funding ratio (%)	116.82	123.38	116.88	124.01

Note: Pursuant to the "Measures for Liquidity Risk Management of Commercial Banks", the net stable funding ratio of commercial banks shall not be lower than 100%.

For more information on the Company's liquidity risk management, refer to "44(3) Liquidity Risk under Notes to the Financial Statements" of this annual report.

20.3 Market Risk Management

Market risk refers to the risk of loss in commercial banks' on-balance sheet and off-balance sheet operations due to unfavorable changes in market prices (interest rates, exchange rates, stock prices and commodity prices). Market risks affecting the Company's services are dominated by interest rate risks and exchange rate risks, including the trading books and banking books. The Company has established a complete and reliable market risk management system that is compatible with the nature, scale and complexity of the business. The Company's sound and compliant market risk management internal control system defines the responsibilities of, and reporting requirements on, the Board, senior management and various departments under the market risk governance structure, clarifies the market risk management policy and identification, measurement, monitoring and control procedures, and makes clear market risk reporting, information disclosure, emergency response and market risk capital measurement procedures and requirements. The Company has a well-established management system for market risk indicators limits and conducts special internal market risk audits regularly, reports market risk management to senior management and the Board, and prepares independent reports.

20.3.1 Analysis of interest rate risks

The Company distinguishes banking books and trading books according to the regulations of the regulators and traditional banking management practices and adopts market risk identification, measurement, monitoring and control measures based on the different nature and characteristics of banking books and trading books.

Interest rate risk of the Company's trading books are mainly measured and monitored with methods such as sensitivity analysis, stress tests and scenario simulation. During the Reporting Period, the Company continued to strengthen market risk monitoring and reporting, optimize the market risk limit system and improve the market risk policy system to ensure that interest rate risks in trading books were controllable.

Compared with trading books, the Bank's other services are recorded in banking books. The Company quantitatively evaluates the impact of interest rate changes on the Company's net interest income and economic value for different currencies and different sources of risks with methods such as repricing gap analysis, duration analysis, net interest income analysis, economic value analysis and stress tests, and prepares reports based on the analysis results to propose management suggestions and the service adjustment strategy. During the Reporting Period, the Company optimized and adjusted its annual market risk limit management system based on its market risk preferences and annual operating objectives, and conducted dynamic monitoring as required. In addition, the Company paid close attention to external policy trends and changes in the interest rate environment, proactively adjusted its business pricing strategy and its allocation strategy of asset-liability structure, and further refined the interest rate risk management of the corporate banking book to ensure that rate risks of the banking book were controllable to realize growth in net interest income.

20.3.2 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 and equity. The following table sets forth the sensitivity of the Company's net interest income and equity to possible interest rate changes with other variables remaining constant. The impact on net interest income refers to the impact of certain interest rate changes on the net interest income generated by financial assets and liabilities held at the end of the period that are expected to undergo interest rate repricing within one year. The impact on equity includes the impact of certain interest rate changes on equity attributable to the revaluation of fixed interest rate financial assets at fair value through other comprehensive income held at the end of the period.

Unit: RMB'000

Item	31 December 2023 (Decrease)/Increase	31 December 2022 (Decrease)/Increase
Change in annualized net interest income		
Interest rate increase by 100 bps	(731,924)	(831,337)
Interest rate decrease by 100 bps	731,924	831,337

Unit: RMB'000

Item	31 December 2023 (Decrease)/Increase	31 December 2022 (Decrease)/Increase
Change in annualized equity		
Interest rate increase by 100 bps	(2,301,467)	(2,782,794)
Interest rate decrease by 100 bps	2,465,394	3,051,735

Section V Management Discussion and Analysis

The above sensitivity analysis is based on the fact of assets and liabilities having a static interest rate risk structure. The analysis reflects the impact of repricing of the Company's assets and liabilities on the Company's annualized calculation of net interest income and equity, based on the following assumptions:

1. Regardless of subsequent changes after the date of statement of financial position, the analysis is based on the static gap at the date of statement of financial position;
2. In measuring the effect of changes in interest rates on net interest income, all assets and liabilities that are repriced or matured within three months, after three months but within one year, or already matured are assumed to be repriced or matured at the beginning of the respective periods;
3. Interest rates for deposits with the central bank and demand deposits placed and taken are remain unchanged;
4. There is a parallel shift in the yield curve and in interest rates;
5. There are no other changes to the portfolio and all positions will be retained and rolled over upon maturity;
6. Other variables (including exchange rates) remain unchanged;
7. No consideration of impact on customers' behavior, market price and off-balance sheet business resulting from interest rate changes.

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 and equity resulting from changes in interest rates may differ from the results of the sensitivity analysis based on the above assumptions.

20.3.3 Analysis of exchange rate risk

The Company's exchange rate risks mainly arise from mismatched currencies in non-RMB assets and liabilities. The Company controls the exchange rate risks to be acceptable to the Company by strictly controlling risk exposures. The Company's exchange rate risk measurement and analysis methods mainly include foreign exchange exposure analysis, scenario simulation analysis and stress tests. During the Reporting Period, the Company paid close attention to exchange rate trends, proactively analyzed the impact of exchange rate changes based on the domestic and foreign macroeconomic situation, and proposed an asset-liability optimization plan. Given the prudent foreign exchange risk appetite, as at the end of the Reporting Period, the scale of the Company's foreign exchange risk exposure has no significant change, and the exchange rate risk level was controllable.

Section V Management Discussion and Analysis

20.3.4 Analysis of exchange rate sensitivity

The Company uses sensitivity analysis to measure the possible impact of exchange rate changes on the Company's net profit and equity. The following table sets forth the results of the analysis of exchange rate sensitivity based on the current assets and liabilities on 31 December 2023 and 31 December 2022.

Unit: RMB'000

Item	31 December 2023 Increase/(Decrease)	31 December 2022 (Decrease)/Increase
Change in annualized net profit and equity		
Foreign exchange rate increase by 100 bps	4	(10)
Foreign exchange rate decrease by 100 bps	(4)	10

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

1. the foreign exchange sensitivity is the gain or loss recognised as a result of 100 basis points fluctuation in the foreign currency exchange rates against RMB (central parity rate) at the closing on the reporting date;
2. the fluctuation of exchange rates by 100 basis points at the reporting date is based on the anticipated exchange rates movement over the next year;
3. the exchange rates against RMB for all foreign currencies change in the same direction simultaneously;
4. since the Company's assets and liabilities in other foreign currencies (excluding in USD) are not significant in proportion to the total assets and total liabilities, the possible impact of other foreign currencies on the Company's net profit and equity is calculated at the amount converted into USD in the above sensitivity analysis;
5. 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;
6. other variables (including interest rates) remain unchanged;
7. no consideration of impact on customers' behavior and market price resulting from exchange rate changes.

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 Company's gain or loss and equity resulting from changes in foreign exchange rates may differ from the results of this sensitivity analysis.

20.4 Operational Risk Management

Operational risk refers to the risk of loss arising from problematic internal procedures, employees, information technology systems, and external events. The Board regards operational risk as one of the major risks faced by the Company and assumes the ultimate responsibility for operational risk management. The senior management has a comprehensive grasp of the overall status of the Company's operational risk management and assumes the responsibility for the implementation of operational risk management.

During the Reporting Period, the Company actively implemented the internal and external requirements for operational risk management by improving the operational risk management system, effectively identifying, assessing, monitoring, controlling and mitigating operational risks, vigorously promoting the improvement of operational risk management, and controlling operational risks well. During the Reporting Period, the Company focused on strengthening operational risk management in the following aspects:

1. Implementation of the new standard approach on operational risks. In accordance with the implementation requirements stipulated in the new capital regulations, the Bank carried out capital calculation for operational risk, and sorted out and improved the measurement requirements under the new standard approach.
2. Construction of operational risk management system. The Bank has established three major management tools for normalized operational risks, namely, developing the operational risk management system, improving the basic functions of management tools, and promoting the effectiveness of operational risk prevention and control.
3. Reinforced management and control for operational risk in key fields. The Bank integrated technological means and big data technology into the processes of business operation, and took full advantage of digital management tools to prevent and control its operational risks, thereby improving the level of digital intelligence in operational risk management.
4. Continuous efficient performance in case prevention and control. By carrying out investigation against both case risk and illegal fund-raising risk in multiple dimensions and through diversified channels, and strengthening the training and publicity of operational risk, the Bank has improved the business operation standards and compliance awareness of employees to guard against the risk of personnel operating in violation of regulations.
5. Strengthened outsourcing risk management. The Bank improved the outsourcing risk management measures by intensifying the risk management and control on outsourcing contract, tightening the management and control over outsourcing personnel, strictly controlling the normal operation of outsourcing services and preventing the occurrence of outsourcing risks.

21. PROSPECTS FOR THE FUTURE DEVELOPMENT OF THE COMPANY

21.1 Industry Landscape and Trend for the New Year

In 2024, China's economy will continue to recover, and the Central Economic Working Conference has put forward the work requirements of "seeking progress while maintaining stability" based on the general keynote of "promoting stability through progress", sending a more positive signal. Policies to stabilize growth will promote the recovery of demand, and proactive fiscal policies will facilitate the acceleration of infrastructure construction. As new momentum for development continues to accumulate, exports are expected to embrace continuous improvement. Monetary policies will continue to exert counter-cyclical and cross-cyclical regulating efforts, strengthen the adjustments to both aggregate and structure and promote a stable economic growth. In the context of sustaining strict supervision in the banking industry, the regulatory authorities will make substantive efforts to improve the effectiveness of financial supervision and continue to effectively prevent and resolve the risks in key areas such as real estate, local debt, and small- and medium-sized financial institutions. Overall, the macroeconomic environment for the steady development of the banking industry remains unchanged.

21.2 Development Guiding Ideology for the New Year

In 2024, the Bank will adhere to the operating guiding ideology of "strategy improvement, characteristic intensification, mechanism optimization and management refinement", focusing on the high-quality development of Shandong Province and Qingdao, and deepening the implementation of strategic tasks and the realization of strategic goals. It will strengthen its characteristics in the fields of inclusive loans for small and micro enterprises, technological manufacturing and green development through comprehensive operations, and optimize the market-oriented competitive mechanism, so as to improve the Bank's refined management level. Centering on the strategic goal of "being a value-leading bank with quality and efficiency in priority, outstanding features and flexible mechanisms", the Bank will promote the in-depth high-quality development in a constant manner.

Strategy improvement: the Bank will continue to strengthen strategic execution in accordance with the established strategic direction to ensure the implementation of strategic initiatives and the achievement of strategic goals. It will also keep up with the changes, carefully evaluate strategic content, rationally adjust strategic goals and optimize strategic management mechanisms, while focusing on strengthening the setting and assessment of qualitative goals such as capability improvement and mechanism optimization.

Characteristic intensification: being headquartered in Qingdao with in-depth penetration in Shandong Province to radiate nationwide, the Bank will persevere in "localized characteristic operation". Focusing on "five key aspects", the Bank will give full play to its advantages in collectivization and comprehensive operation, continue to forge and strengthen its unique advantages such as inclusive small and micro enterprises, technological manufacturing, green development and digital finance, while making active exploration into pension finance.

Mechanism optimization: the Bank will continue to improve the construction of coordination mechanism, and strengthen departmental coordination, head-branch collaboration and parent-subsidiary synergy to enhance its overall operating capabilities. The Bank will also continue to optimize the organizational structure, improve the assessment and incentive mechanism as well as strengthen the talent screening and cultivation mechanism, while maintaining and strengthening the market-oriented competitive mechanism.

Management refinement: green banks will promote cost reduction and efficiency improvement, capital-light transformation will drive the intensive development of asset, and standardized institutional processes will facilitate the improvements in operational and internal functioning efficiency. The Bank will continue to improve the level of refined management to fulfill the refinement in the aspects of cost effectiveness, business operation, management quality, team construction, product development, as well as customer extension and retaining.

21.3 Main Work Measures for the New Year

In 2024, the Bank will continue to focus on management coordination, solid foundation, intensified risk control, income growth, cost reduction, structural adjustment, quality improvement, innovation pursuit, capabilities optimization and characteristics creation, attaching importance to the following nine aspects:

1. Corporate business: consolidating the customer base by hierarchy and category and improving the structure of product optimization;
2. Retail business: consolidating the customer base by level and group, and enriching its products for the purpose of profits creation and revenue increase;
3. Inclusive business: continuing to drive the growth of customer base and expand the business scale;
4. Financial market business: strengthening the management of investment and liability, and reinforcing the interconnected and coordinated development;
5. Subsidiaries: strengthening the linkage and optimizing the structure of BQD Financial Leasing, and expanding the pipeline and refining the products of BQD Wealth Management;
6. Technological support: improving the information technology management system, and deepening the transformation to empower business development;
7. Risk management: improving the risk management system to collaboratively promote business development;
8. Internal control over operation: continuing to improve operational efficiency and improving the construction of “three lines of defense”;
9. Comprehensive management: deepening the integration of party building business, strengthening the detailed assessment of the team, and comprehensively improving management efficiency.

22. RECEPTION OF ACTIVITIES SUCH AS SURVEYS, COMMUNICATIONS AND INTERVIEWS DURING THE REPORTING PERIOD

The contact telephone of the Bank's investor relations:

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The official website of the Bank:

<http://www.qdccb.com/>

Date of reception	Place of reception	Form of reception	Type of recipient	Recipient	Major discussion points and information provided	Index of the basic particulars of the survey
14 April 2023	Head office of the Bank	Field research and online interaction	Institutions	Dai Zhifeng from Zhongtai Securities, Jiang Zhaopeng from Southern Fund, Liang Fengjie and Zhou Yuan from Zheshang Securities, Fan Haishuo and Li Yue from CLSA, Ouyang Fangjia from Goldman Sachs, Guo Qiwei and Fu Siyu from Tianfeng Securities, Liao Zhiming from China Merchants Securities, Lin yuanyuan and Ding Huangshi from BOCI Securities, Yuan Zheqi from Ping An Securities, Chen Shaoxing and Cao Xintong from Industrial Securities, Zhang Yu and Jiang Zhongyu from Guotai Junan Securities, An Na from Huatai Securities, Wu Jiahui from GF Securities, Dong Wenxin from Everbright Securities, Zhang Xiaohui from Western Securities, Hou Dekai from Research Department of CICC, Jiangjiang Songyuan from Guosheng Securities, Ma Zhihao from Northeast Securities, and other various investors who participated in this performance briefing through live webcast	Communications on the 2022 performance and operating conditions of the Bank, with the relevant presentation document having been provided by the Bank.	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 18 April 2023.
29 May 2023	Head office of the Bank	Field research	Institutions	Li Shuang and Chen Huiqin from Essence Securities	Communications on the interest spread and interest margin, wealth management, etc. of the Bank, with the relevant information not having been provided by the Bank.	Please refer to the Investor Relations Activity Record Form published by the Bank on CNINFO website (http://www.cninfo.com.cn/) dated 31 May 2023.

Section V Management Discussion and Analysis

Date of reception	Place of reception	Form of reception	Type of recipient	Recipient	Major discussion points and information provided	Index of the basic particulars of the survey
31 May 2023	Head office of the Bank	Field research	Institutions	Liu Zhiping and Li Qingyang from Huaxi Securities	Communications on the credit allocation, collectivization development, commission income, etc. of the Bank, with the relevant information not having been provided by the Bank.	Please refer to the Investor Relations Activity Record Form published by the Bank on CNINFO website (http://www.cninfo.com.cn/) dated 2 June 2023.
7 September 2023	Panorama Network Investor Relations Interactive Platform	Online communication on network platform	Others	Investors who participated in the 2023 semi-annual performance briefing of the Bank through Panorama Network Investor Relations Interactive Platform (https://ir.p5w.net)	Communications on the retail business, asset quality, profitability, etc. of the Bank, with the relevant information not having been provided by the Bank.	Please refer to the Investor Relations Activity Record Form published by the Bank on CNINFO website (http://www.cninfo.com.cn/) dated 7 September 2023.
8 November 2023	Panorama Network Investor Relations Interactive Platform	Online communication on network platform	Others	Investors who participated in the Online Collective Reception Day for Investors through Panorama Network Investor Relations Interactive Platform (https://ir.p5w.net)	Communications on the effect of new capital regulations, dividend distribution, market capitalization performance, etc. of the Bank, with the relevant information not having been provided by the Bank.	Please refer to the Investor Relations Activity Record Form published by the Bank on CNINFO website (http://www.cninfo.com.cn/) dated 8 November 2023.

Section VI Corporate Governance

I. BASIC INFORMATION OF CORPORATE GOVERNANCE

Standardized and sound corporate governance is the cornerstone for ensuring the stable operation and sustainable development of financial institutions. The Bank attaches great importance to the standardized operation of the corporate governance system, and has always made excellence in corporate governance a relentless pursuit, sparing no effort to promote the modernization of corporate governance capabilities. During the Reporting Period, the general meeting, the Board of Directors, the Board of Supervisors and the senior management of the Bank operated independently, with effective checks and balances and high efficiency, and complied with the responsibilities of each of the corporate governance entities in terms of decision-making, supervision and execution.

The Bank adheres to the leadership of party building, continues to promote the organic integration of party leadership and corporate governance, and effectively exert the function of the Party Committee in overseeing the overall situation and coordinating all parties; adheres to the establishment of mechanisms to create a corporate governance structure and scientific operation mechanism characterized by “support from shareholders, decision-making by the Board, supervision by the Board of Supervisors, and execution by the management”; perseveres in the deepening of the operation of the three meetings, and expands the breadth and depth of deliberation to enhance the operation efficiency of the three meetings to give full play to the corporate governance functions; adheres to the strengthening of shareholding management, and improves the system of shareholders and shareholding management with a focus on the management of “key minority” such as substantial shareholders, so as to continuously promote shareholders to fulfill their obligations and standardize the exercise of rights in accordance with the law.

During the Reporting Period, the Bank, through careful self-examination, did not find any significant difference between the actual situation of its corporate governance and the laws, administrative regulations and the requirements under the regulatory documents issued by the CSRC regarding listed company governance. The Bank strictly complied with the code provisions set out in the Corporate Governance Code contained in Appendix C1 to the Hong Kong Listing Rules, and adopted the suggested best practices as set out therein as appropriate.

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

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

III. HORIZONTAL COMPETITION

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

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

4.1 Shareholders' general meeting during the Reporting Period

Session of meeting	Type of meeting	Participation percentage of investors	Meeting place	Date of convening	Date of disclosure	Resolutions of meeting
2023 first extraordinary general meeting	Extraordinary general meeting	64.812843%	Head Office, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province	10 February 2023	10 February 2023	6 resolutions, such as the resolution regarding the election of Mr. WU Xianming as an executive Director of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., the resolution regarding the election of Mr. CHEUNG Man Chor, Elton as an independent Director of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., the resolution on the amendments to the Articles of Association of the Bank of Qingdao Co., Ltd., the resolution on the amendments to the Rules of Procedure of Shareholders' General Meetings of Bank of Qingdao Co., Ltd., the resolution on the amendments to the Rules of Procedure of Board of Directors of Bank of Qingdao Co., Ltd. and the resolution on the amendments to the Rules of Procedure of the Board of Supervisors of Bank of Qingdao Co., Ltd. were considered and approved.
2022 annual general meeting	Annual general meeting	68.799789%	Head Office, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province	31 May 2023	31 May 2023	8 resolutions, such as the work report of the Board of Directors of Bank of Qingdao Co., Ltd. for 2022, the work report of the Board of Supervisors of Bank of Qingdao Co., Ltd. for 2022, the final financial accounts of Bank of Qingdao Co., Ltd. for 2022, the profit distribution plan of Bank of Qingdao Co., Ltd. for 2022, the resolution on the engagement of external auditors of Bank of Qingdao Co., Ltd. for 2023 and their remuneration, the special report on related party transactions of Bank of Qingdao Co., Ltd. for 2022, the resolution on the estimated amount of the ordinary related party transactions of Bank of Qingdao Co., Ltd. for 2023 and the resolution on the general mandate for the issue of shares by Bank of Qingdao Co., Ltd., were considered and approved.
2023 second extraordinary general meeting	Extraordinary general meeting	63.811044%	Head Office, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province	28 July 2023	28 July 2023	2 resolutions, such as the resolution regarding the election of Ms. CHEN Shuang as an executive Director of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., and the resolution regarding the election of Mr. DU Ning as an independent Director of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd. were considered and approved.

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

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

V. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Basic information

The basic information of Directors, Supervisors and senior management of the Bank and their holding of shares of the Bank are as follows:

Name	Position	Status of office	Gender	Age	Term of office commencing on	Term of office ending on	Shareholding at the beginning of the Reporting Period (shares)	Changes during the Reporting Period (shares)	Shareholding at the end of the Reporting Period (shares)	Reasons for changes
JING Zailun	Chairman	Incumbent	Male	54	21 July 2022	10 May 2024	-	-	-	-
	Executive Director				21 July 2022	10 May 2024				
WU Xianming	Executive Director	Incumbent	Male	51	20 March 2023	10 May 2024	-	-	-	-
	President				20 March 2023	10 May 2024				
CHEN Shuang	Executive Director	Incumbent	Female	56	7 November 2023	10 May 2024	455,000	-	455,000	-
	Vice President				22 January 2017	10 May 2024				
LIU Peng	Executive Director	Incumbent	Male	43	2 July 2021	10 May 2024	-	-	-	-
	Vice President				30 October 2019	10 May 2024				
ZHOU Yunjie	Non-executive Director	Incumbent	Male	57	9 June 2015	10 May 2024	-	-	-	-
Rosario STRANO	Non-executive Director	Incumbent	Male	60	15 June 2012	10 May 2024	-	-	-	-
TAN Lixia	Non-executive Director	Incumbent	Female	53	25 May 2012	10 May 2024	487	-487	-	Reduction
Marco MUSSITA	Non-executive Director	Incumbent	Male	64	22 December 2011	10 May 2024	-	-	-	-
DENG Youcheng	Non-executive Director	Incumbent	Male	52	27 June 2018	10 May 2024	-	-	-	-
FANG Qiaoling	Independent non-executive Director	Incumbent	Female	48	27 June 2018	10 May 2024	-	-	-	-
XING Lecheng	Independent non-executive Director	Incumbent	Male	61	2 July 2021	10 May 2024	-	-	-	-
ZHANG Xu	Independent non-executive Director	Incumbent	Male	54	2 July 2021	10 May 2024	-	-	-	-
CHEUNG Man Chor, Elton	Independent non-executive Director	Incumbent	Male	51	17 April 2023	10 May 2024	-	-	-	-
DU Ning	Independent non-executive Director	Incumbent	Male	46	21 December 2023	10 May 2024	-	-	-	-
YANG Fengjiang	Chief Supervisor	Incumbent	Male	59	30 March 2020	10 May 2024	650,000	-	650,000	-
	Employee Supervisor				26 March 2020	10 May 2024				
HE Liangjun	Shareholder Supervisor	Incumbent	Male	51	15 October 2019	10 May 2024	-	-	-	-
WANG Dawei	Employee Supervisor	Incumbent	Male	50	15 May 2018	10 May 2024	-	-	-	-
MENG Xianzheng	Employee Supervisor	Incumbent	Male	56	15 May 2018	10 May 2024	481,391	-	481,391	-
HAO Xianjing	External Supervisor	Incumbent	Male	58	11 May 2021	10 May 2024	-	-	-	-
JIANG Xinglu	External Supervisor	Incumbent	Male	52	11 May 2021	10 May 2024	-	-	-	-
LU Kun	External Supervisor	Incumbent	Male	44	11 May 2021	10 May 2024	-	-	-	-
ZHANG Meng	Vice President	Incumbent	Male	51	19 July 2023	10 May 2024	-	-	-	-
ZHANG Chihong	Vice President	Incumbent	Male	45	19 July 2023	10 May 2024	-	-	-	-
ZHANG Qiaowen	Secretary to the Board	Incumbent	Female	46	19 May 2023	10 May 2024	-	-	-	-
WANG Lin	Former executive Director	Resigned	Male	60	31 March 2012	18 January 2023	650,000	-	650,000	-
	Former President				31 March 2012	18 January 2023				
Simon CHEUNG	Former independent non-executive Director	Resigned	Male	53	24 July 2017	21 December 2023	-	-	-	-
Tingjie ZHANG	Former independent non-executive Director	Resigned	Male	52	13 February 2020	17 April 2023	-	-	-	-
WANG Yu	Former vice President	Resigned	Female	56	5 September 2007	13 April 2023	650,000	-	650,000	-
Total	-	-	-	-	-	-	2,886,878	-487	2,886,391	-

5.2 Departure of Directors and Supervisors or dismissal of senior management personnel during their term of office

As at the date for disclosure of this report, there was departure of Directors and senior management personnel, and there was no departure of Supervisors or dismissal of senior management personnel during their term of office of the Bank. The Directors who resigned during their term of office were WANG Lin, Simon CHEUNG and Tingjie ZHANG, and the senior management personnel who resigned during their term of office were WANG Lin and WANG Yu. For the reasons for the resignation of the aforesaid personnel, please refer to “Changes in Directors, Supervisors and Senior Management” in this section.

5.3 Changes in Directors, Supervisors and Senior Management

Directors of the Bank are nominated by the Board and elected in accordance with the qualifications of Directors and election procedures as specified in the Articles of Association; shareholder Supervisors and external Supervisors are nominated by the Board of Supervisors, employee Supervisors are nominated by the labor union committee, and all of such Supervisors are elected in accordance with the election procedures as specified in the Articles of Association. As at the date for disclosure of this report, changes in Directors, Supervisors and senior management of the Bank are shown in the following table:

Name	Position held	Type of change	Date of change	Reason for change
WU Xianming	Executive Director, President	Newly elected	20 March 2023	–
WANG Lin	Former executive Director, Former President	Resigned	18 January 2023	Resignation due to the approaching of retirement age and according to organizational arrangements
CHEN Shuang	Executive Director	Newly elected	7 November 2023	–
CHEUNG Man Chor, Elton	Independent non-executive Director	Newly elected	17 April 2023	–
Tingjie ZHANG	Former independent non- executive Director	Resigned	17 April 2023	Due to the family's settlement abroad
DU Ning	Independent non-executive Director	Newly elected	21 December 2023	–
Simon CHEUNG	Former independent non- executive Director	Resigned	21 December 2023	Due to serving as an independent non-executive Director of the Bank for almost 6 consecutive years and according to the provisions of laws and regulations on the term of office of independent non-executive directors
ZHANG Meng	Vice President	Newly elected	19 July 2023	–
ZHANG Chihong	Vice President	Newly elected	19 July 2023	–
WANG Yu	Former vice President	Resigned	13 April 2023	Due to work adjustment and according to organizational arrangements
ZHANG Qiaowen	Secretary to the Board	Newly elected	19 May 2023	–

Note: The date of change of newly elected personnel listed in the above table refers to the date when their qualifications were approved by the banking regulatory authorities.

As at the date for disclosure of this report, save for the above, there were no other changes in the Directors, Supervisors and senior management of the Bank.

5.4 Changes in Information of Directors and Supervisors

1. Mr. ZHOU Yunjie, a non-executive Director, has served as the chairman of Haier Kaos Ecological Technology Co., Ltd. (海爾卡奧斯生態科技有限公司) since February 2023, and he has ceased to be the chairman of Qingdao Eoroom Home Technology Co., Ltd. (青島有屋家居科技股份有限公司) from March 2023.
2. Ms. TAN Lixia, a non-executive Director, has served as a director of Haier Kaos Ecosystem Industry Co., Ltd. (海爾卡奧斯生態產業有限公司) since February 2023, and has ceased to be a director of Beijing Zhajisong Express Co., Ltd. (北京宅急送快運股份有限公司) from August 2023, a standing committee member of the 12th Executive Committee of the All-China Women's Federation from October 2023, and a director of China International Capital Corporation Limited from November 2023.
3. Mr. DENG Youcheng, a non-executive Director, has served as the chairman of Qingdao Guoxin Health Industry Development Co., Ltd. (青島國信健康產業發展有限公司) since January 2024, the chairman of Qingdao Haichun Investment Consultancy Co., Ltd. (青島海淳投資諮詢有限公司) since March 2024 and the chairman of CP Pharmaceutical (Qingdao) Co., Ltd. (正大製藥(青島)有限公司) since March 2024 and has ceased to be the general manager of Qingdao Conson Development (Group) Co., Ltd. from June 2023, and a director of CBA League (Beijing) Sports Co., Ltd. (中籃聯(北京)體育有限公司) from October 2023.
4. Mr. LIU Peng, an executive Director, has served as a director of BQD Wealth Management Company Limited and assumed the duties of acting as its chairman since January 2024.
5. Ms. FANG Qiaoling, an independent non-executive Director, has served as the vice president of the Qingdao Auditing Society (青島市審計學會) since September 2023 and the president of the Business Accounting Society of Qingdao (青島市商貿會計學會) since October 2023, and has ceased to be an independent director of Triangle Tyre Co., Ltd. (三角輪胎股份有限公司) from June 2023.
6. Mr. XING Lecheng, an independent non-executive Director, has ceased to be an independent director of Shandong Spark Education Technology Group Co., Ltd. (山東星火教育科技集團股份有限公司) from December 2023.
7. Mr. HE Liangjun, a shareholder Supervisor, has served as the general manager of Hainan Goodi International Trade Co., Ltd. (海南谷迪國際貿易有限公司) since April 2023, and has ceased to be the executive director of the company.
8. Mr. WANG Dawei, an employee Supervisor, has served as the chief officer of regulatory affairs and the general manager of the legal and compliance department of the Bank since May 2023, and has ceased to be the chief officer of credit risk and the general manager of the risk management department of the Bank.
9. Mr. MENG Xianzheng, an employee Supervisor, has served as the chief officer of administrative affairs and the general manager of the administrative department of the Bank since April 2023, and has ceased to be the general manager of the legal and compliance department and the general manager of the asset security department of the Bank since May 2023.
10. Mr. HAO Xianjing, an external Supervisor, has served as the independent director of Zaozhuang Bank Co., Ltd. (棗莊銀行股份有限公司) since March 2023.
11. Mr. JIANG Xinglu, an external Supervisor, has ceased to be an independent director of Qingdao Eastsoft Communication Technology Co., Ltd. (青島東軟載波科技股份有限公司) since February 2023 and an independent director of Hailier Pharmaceutical Group Co., Ltd. (海利爾藥業集團股份有限公司) from August 2023.

From the beginning of the Reporting Period to the date of publication of this report, save for the above, there were no other changes in the information on Directors and Supervisors of the Bank.

5.5 Employment

5.5.1 Biographies of Directors, Supervisors and Management

Directors

Mr. JING Zailun, the secretary to the party committee, the Chairman and an executive Director of the Bank.

Mr. JING holds a bachelor's degree of science majoring in applied physics of Shandong University, a master of economics majoring in finance of Ocean University of China, a master of business administration majoring in business administration of City, University of London, a doctor of management majoring in accounting of Ocean University of China and an accountant. Mr. JING Zailun has also served as the chairman of Qingdao Financial Association (青島市金融業聯合會). Prior to joining the Bank, Mr. JING served as the general manager of the human resources department and the head of the organization department of the party committee of Shandong Branch of Bank of China, the assistant to the president and a member of the party committee, and a vice president and a member of the party committee of Yunnan Branch of Bank of China, a vice president and a member of the party committee (concurrently the president and the secretary to the party committee of Jinan Branch of Bank) of Shandong Branch of Bank of China.

Mr. WU Xianming, the deputy secretary to the party committee, an executive Director, and the President of the Bank.

Mr. WU holds a bachelor's degree in economics from Renmin University of China and master's degree in economics from Shenzhen Financial and Engineering School of Nankai University (南開大學深圳金融工程學院). He is a senior economist. Prior to joining the Bank, Mr. WU served as a member and the secretary of the party committee and president of Agricultural Bank of China Shenzhen Bao'an Branch (中國農業銀行深圳市寶安支行), a member of the party committee and a vice president of Agricultural Bank of China Qingdao Branch (中國農業銀行青島市分行) a member of the party committee and a vice president of Agricultural Bank of China Tibet Autonomous Region Branch (中國農業銀行西藏自治區分行).

Ms. CHEN Shuang, an executive Director and a vice President of the Bank.

Ms. CHEN holds a master's degree of arts majoring in English language and literature of Shanghai International Studies University, and a master's degree of science majoring in financial investment of the University of Edinburgh in the UK. Ms. CHEN served as an assistant to the President of the Bank. Prior to joining the Bank, Ms. CHEN served as deputy general manager, assistant president and deputy president of Trade Settlement Department of Sifang Sub-branch of Qingdao Branch of CITIC Bank (formerly known as CITIC Industrial Bank), a deputy general manager of the sales department and the general manager of international business department and the general manager of capital market department of Qingdao Branch of CITIC Bank.

Mr. LIU Peng, an executive Director and a vice President of the Bank.

Mr. LIU holds a master's degree from Oxford University. Mr. LIU concurrently serves as a director of BQD Wealth Management Company Limited (acting as chairman), and served as the general manager of the financial market department, the general manager of the asset management department, the president of the financial market business unit, and the financial market business director of the Bank. Prior to joining the Bank, Mr. LIU worked for Agricultural Bank of China Qingdao Branch (中國農業銀行青島市分行), and served as the assistant to the general manager of the international business department of the head office of Hengfeng Bank.

Mr. ZHOU Yunjie, a non-executive Director of the Bank.

Mr. ZHOU holds a doctoral degree in business administration from Xi'an Jiaotong University, and is a chief senior engineer. Mr. ZHOU has served as the chairman of the board and chief executive officer of Haier Group. Mr. ZHOU has also served as the chairman of Haier Kaaosi Co., Ltd., and a director of Qingdao Haier Biomedical Co., Ltd. Mr. ZHOU served as the chief marketing officer, a vice president, the president, and a vice chairman of the board of Haier Group.

Mr. Rosario STRANO, a non-executive Director of the Bank.

Mr. STRANO holds a bachelor's degree in law from University of Bari in Italy. Mr. STRANO has served as the head of China development project of Intesa Sanpaolo S.p.A. Mr. STRANO served as the head of human resources and organization department of the international subsidiary banks division of Intesa Sanpaolo S.p.A., the director of Human Resources of Intesa Sanpaolo S.p.A., the chief operating officer of the Intesa Sanpaolo S.p.A. group.

Ms. TAN Lixia, a non-executive Director of the Bank.

Ms. TAN holds a doctoral degree in advanced professional research in applied finance from University of Geneva, Switzerland, and her master's degree in business administration from China Europe International Business School, and is a Chartered Global Management Accountant (CGMA), a Certified Practicing Accountant Australia (CPA Australia) and a Superior Management Accountant (特級管理會計師) accredited by China Association of Chief Financial Officers. Ms. TAN has served as a vice chairman of the board and an executive vice president of Haier Group. Ms. TAN has also served as the chairlady of Qingdao Haier Biomedical Co., Ltd., and the chairlady of INKON Life Technology Co., Ltd. She served as a senior vice president of Haier Group, an executive vice president of Haier Group and a director of China International Capital Corporation Limited.

Mr. Marco MUSSITA, a non-executive Director of the Bank.

Mr. MUSSITA holds a bachelor's degree in oriental literature and language from Università Ca' Foscari Venezia (Ca' Foscari University of Venice) in Italy. Mr. MUSSITA has served as a supervisor of Qingdao Yicai Fund Distribution Co., Ltd. Mr. MUSSITA has also served as a director of OMR (China) Automotive Components Co., Ltd., and a supervisor of Meccanotecnica Umbra S.p.A. (Qingdao) Mechanical Seal Co., Ltd. Mr. MUSSITA served as a vice general manager of the Shanghai branch and a vice general manager of the Tokyo branch of ISP (formerly known as Banca Commerciale Italiana).

Mr. DENG Youcheng, a non-executive Director of the Bank.

Mr. DENG holds a master's degree in business administration from Tongji University, and is a certified public accountant, a certified public valuer, a senior auditor, a senior consultant and an accountant. Mr. DENG has served as a deputy secretary to the party committee and a director of Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司). Mr. DENG has also served as a director of Zhonglu Property and Casualty Insurance Co., Ltd. and a director of Qingdao Conson Industrial Co., Ltd. Mr. DENG served as the general manager and a deputy general manager of Qingdao Conson Development (Group) Co., Ltd.

Ms. FANG Qiaoling, an independent non-executive Director of the Bank.

Ms. FANG holds a doctoral degree in management in accounting from Renmin University of China and is a professor. Ms. FANG has served as a professor and supervisor for Ph.D. candidates in Management College of Ocean University of China. Ms. FANG has served as an executive council member of the Shandong Provincial Accounting Society, the president of Qingdao Business Accounting Society, and the vice president of Qingdao Audit Society, and has also served as an independent director of Chengdu LandTop Technology Co., Ltd. and Zhongmiao Innovation Technology (Qingdao) Co., Ltd. Ms. FANG served as an associate professor in Management College of Ocean University of China and an independent director of Triangle Tyre Co., Ltd..

Mr. XING Lecheng, an independent non-executive Director of the Bank.

Mr. XING holds a doctoral degree in administration from Nankai University, and is a professor, an expert enjoying special government allowances from the State Council. Mr. XING has served as the director of Investment and Financing Research Center of University of Jinan (濟南大學投融資研究中心) and the dean of Shandong Institute of Inclusive Financial Research (山東省普惠金融研究院). Mr. XING has served as a member of Shandong National People's Congress Standing Committee, a committee member of the Investment Association of China and a vice president of Shandong Capital Venture Association (山東省創業投資協會). He has also served as an independent director of Tiannuo Photoelectric Material Co., Ltd. (天諾光電材料股份有限公司), Shandong Laiwu Rural Commercial Bank Co., Ltd. (山東萊蕪農村商業銀行股份有限公司) and Shandong Linuo Technical Glass Co., Ltd. (山東力諾特種玻璃股份有限公司). Mr. XING served as the chairman of Huasu Holdings Co., Ltd. and the dean of the School of Economics and the Institute of Financial Research of University of Jinan.

Mr. ZHANG Xu, an independent non-executive Director of the Bank.

Mr. ZHANG holds a doctoral degree in western economics from Economics and Management School of Wuhan University, and is a professor. Mr. ZHANG has served as a professor of the Department of Finance, School of Economics, Qingdao University, a member of Qingdao CPPCC Standing Committee, the deputy director of Qingdao Committee of Jiusan Society (九三學社青島市委員會), a special researcher of the expert decision-making advisory committee of the Qingdao municipal government (青島市政府專家決策諮詢委員會), a committee member of Economy Development Society of China Association for Study of Foreign Economics (中華外國經濟學說研究會發展經濟學分會), and a vice president of Qingdao Urban Economics Society (青島市城市經濟學會). Mr. ZHANG has also served as an external director of Weifang Rural Credit Cooperative Union (濰坊市農村信用合作社聯合社). Mr. ZHANG served as the deputy dean of School of Economics, Qingdao University.

Mr. CHEUNG Man Chor, Elton, an independent non-executive Director of the Bank.

Mr. CHEUNG obtained double bachelor's degree in economics and law from the University of Sydney in Australia, the qualification to practice law in Hong Kong, England and Wales, New South Wales, Australia, and the licences to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 9 (asset management) granted by SFC. Mr. CHEUNG is currently a group partner, the chief strategy officer and chief legal officer of VMS Investment Group (HK) Ltd. (鼎珮投資集團(香港)有限公司), and formerly served as a senior partner and the chief executive officer of Jedar Investment Group (驥達投資集團), a senior counsel, the managing director and the legal director in Greater China of Morgan Stanley Legal Compliance Department for Private Investment Management (Asia Pacific), as well as the managing director of Corporate Management Department and the chief operating officer in Greater China and a senior lawyer of Freshfields Bruckhaus Deringer (富而德律師事務所).

Mr. DU Ning, an independent non-executive Director of the Bank.

Mr. DU Ning holds a bachelor degree of computer science and technology from Peking University, a master degree of software engineering from Peking University, and is a senior engineer. Mr. DU is currently the chief executive officer of REGTEK (Beijing) Technology Co., Ltd. (睿格鈦氮(北京)技術有限公司), and formerly served as the director of the Science and Technology Department of the People's Bank of China, a partner and the executive vice president of The Fourth Paradigm (Beijing) Technology Co., Ltd. (第四範式(北京)技術有限公司), and the president of Huakong Tsingjiao Information Science (Beijing) Ltd. (華控清交信息科技(北京)有限公司).

Supervisors

Mr. YANG Fengjiang, the chief Supervisor and an employee Supervisor of the Bank.

Mr. YANG holds a bachelor's degree of economics majoring in finance of Shaanxi Financial College, and is a senior economist. Mr. YANG served as the general manager of the treasury operation department, an assistant to the president, a vice president, and an executive Director of the Bank. Prior to joining the Bank, Mr. YANG served as a senior staff member of the Qingdao branch of the People's Bank of China, the manager of the business development department of the Qingdao Securities Trading Center, and the general manager of the investment banking department and the bond department of Qingdao Wantong Securities Co., Ltd.

Mr. HE Liangjun, a shareholder Supervisor of the Bank.

Mr. HE holds a master's degree of business administration from China Europe International Business School, and is a senior engineer. Mr. HE has served as a director and secretary to the board of Qingdao East Steel Tower Stock Co., Ltd. (青島東方鐵塔股份有限公司). Mr. HE has also served as the chairman to the board and general manager of Sichuan Huiyuanda Potash Fertilizer Co., Ltd. (四川省匯元達鉀肥有限責任公司), the general manager of Hainan Goodi International Trade Co., Ltd. (海南谷迪國際貿易有限公司), an executive director of Nanjing Shineng New Energy Technology Co., Ltd. (南京世能新能源科技有限公司), an executive director of Shanghai Huiyuanda Chemical Co., Ltd. (上海匯沅達化工有限公司), and a supervisor of Qingdao Hairan Investment Co., Ltd. (青島海仁投資有限責任公司). Mr. HE served as the business manager of Eastern China and the head of the marketing department of Qingdao East Steel Tower Stock Co., Ltd.

Mr. WANG Dawei, an employee Supervisor of the Bank.

Mr. WANG holds a bachelor's degree of international economics of Nankai University. Mr. WANG is currently the chief officer of regulatory affairs and the general manager of the legal and compliance department of the Bank, and formerly served as the chief officer of credit risk and the general manager of the risk management department of the Bank. Prior to joining the Bank, Mr. WANG served as the general manager of the risk control department, the credit approval department, and the small business financing department of the Qingdao branch of China Merchants Bank, the general manager of the Qingdao regional headquarters under the small enterprise credit center of the head office of China Merchants Bank; and the general manager of the risk management department, and the free trade finance department of the Shanghai Free Trade Zone branch of China Merchants Bank.

Mr. MENG Xianzheng, an employee Supervisor of the Bank.

Mr. MENG holds a master's degree of business administration of Northwestern University. Mr. MENG is currently the chief officer of administrative affairs and the general manager of the administrative department of the Bank. He served as the branch President of the Bank, and the general manager of the legal and compliance department of the Bank, and the general manager of the asset security department of the Bank, and the general manager of the special asset management department of the Bank. Prior to joining the Bank, Mr. MENG served as a loan officer of the Laixi sub-branch of Industrial and Commercial Bank of China, and the director and chairman of Laixi Urban Credit Cooperative.

Mr. HAO Xianjing, an external Supervisor of the Bank.

Mr. HAO holds a master's degree in national economic planning from Liaoning University, and is a certified public accountant, a certified tax agent, and a senior accountant. Mr. HAO has served as a vice president and partner of ShineWing Certified Public Accountants, and a standing director of the Shandong Institute of Certified Public Accountants, and has also served as a director of Shandong ShineWing Engineering Management Consulting Co., Ltd. (山東信永中和工程管理諮詢有限公司), a director of Jinan ShineWing Certified Tax Agents Co., Ltd. (濟南信永中和稅務師事務所有限公司), and an independent director of RemeGen Co., Ltd. (榮昌生物製藥(煙台)股份有限公司) and Zaozhuang Bank Co., Ltd. (棗莊銀行股份有限公司). Mr. HAO served as a director of Shandong Zhonghe Zhengxin Risk Management Consulting Co., Ltd. (山東中和正信風險管理諮詢有限公司).

Mr. JIANG Xinglu, an external Supervisor of the Bank.

Mr. JIANG holds a bachelor's degree in law from Shandong University. Mr. JIANG has served as the general manager of Shandong Blue Economy Industrial Fund Management Co., Ltd. (山東藍色經濟產業基金管理有限公司), and an executive partner of Hainan Yulin Private Equity Fund Management Partnership (Limited Partnership) (海南昱林私募基金管理合夥企業(有限合夥)). Mr. JIANG has also served as an independent director of Tsingtao Brewery Co., Ltd. (青島啤酒股份有限公司) and Liqun Commercial Group Co., Ltd. (利群商業集團股份有限公司). Mr. JIANG served as a senior partner of Shandong Qindao Law Office (山東琴島律師事務所), a partner of Grandall Law Firm and a partner of King & Wood Mallesons (Beijing).

Mr. LU Kun, an external Supervisor of the Bank.

Mr. LU holds a doctoral degree in technology economics and management from Renmin University of China, and a postdoctoral degree in fishery science, and is a professor and a master tutor. Mr. LU has served as a professor and master tutor at School of Management, Ocean University of China. Mr. LU served as a deputy mayor of the People's government of Anqing city and Tongcheng city, Anhui province.

Senior Management

For the biographical details of **Mr. WU Xianming**, **Ms. CHEN Shuang** and **Mr. LIU Peng**, please refer to the biography section of "Directors".

Mr. ZHANG Meng, a vice President of the Bank.

Mr. ZHANG holds a bachelor degree in accounting from Harbin Institute of Technology. Mr. ZHANG served as the president of Shibe Branch, the human resources director and general manager of human resources department of the Bank. Prior to joining the Bank, Mr. ZHANG served as the president of Shandong Road Sub-branch and Shibe Sub-Branch and the general manager of corporate finance department of Bank of China Qingdao Branch.

Mr. ZHANG Chi Hong, a vice President of the Bank.

Mr. ZHANG holds a bachelor degree in Russian education from Shandong Normal University. Prior to joining the Bank, Mr. ZHANG served as the Deputy Director of the Secretariat under the CPPCC General Office of Qingdao City, an inspector (deputy director level) of the Case Management Office of the Qingdao Municipal Commission for Discipline Inspection, and the general manager of the general management department of Qingdao Rural Commercial Bank Corporation (青島農村商業銀行股份有限公司) (concurrently serving as the president of Zhangqiu Branch and the director of the Party Committee Office).

Ms. ZHANG Qiaowen, Secretary to the Board of Directors of the Bank.

Ms. ZHANG holds a master degree of laws in civil and commercial law from Shandong University. Prior to joining the Bank, Ms. ZHANG served as a cadre and deputy chief officer in the Reserve Management Department of the State Administration of Foreign Exchange, a legal counsel of the legal department of SAFE Investment Company Limited (Hong Kong) (中國華安投資有限公司(香港)), and the chief officer of the Reserve Management Department of the State Administration of Foreign Exchange.

Section VI Corporate Governance

5.5.2 Employment of Directors, Supervisors and Senior Management by Corporate Shareholders

Name of employee	Name of corporate shareholder	Position held in corporate shareholder	Commencement date	End date	Whether receiving remuneration in corporate shareholder's position
ZHOU Yunjie	Haier Group (海爾集團)	Chairman of the board and chief executive officer	November 2021	To date	Yes
Rosario STRANO	Intesa Sanpaolo S.p.A.	Head of China development project	January 2020	To date	Yes
TAN Lixia	Haier Group (海爾集團)	Deputy chairman of the board and executive vice president	November 2021	To date	Yes
DENG Youcheng	Qingdao Conson Development (Group) Co., Ltd.	Deputy secretary to the party committee, director	June 2023	To date	Yes
DENG Youcheng	Qingdao Conson Industrial Co., Ltd.	Director	June 2016	To date	No
HE Liangjun	Qingdao East Steel Tower Stock Co., Ltd.	Director and secretary to the board	April 2007	June 2025	Yes
HE Liangjun	Qingdao Hairan Investment Co., Ltd.	Supervisor	February 2014	To date	No

5.5.3 Employment of Directors, Supervisors and Senior Management by Other Entities

Name of employee	Name of other entity	Position held in other entity	Commencement date	End date	Whether receiving remuneration in other entity
JING Zailun	Qingdao Financial Association (青島市金融業聯合會)	Chairman	March 2023	To date	No
LIU Peng	BQD Wealth Management Company Limited	Acting chairman and director	January 2024	To date	No
ZHOU Yunjie	Haier Kaaosi Co., Ltd.	Chairman	June 2010	To date	No
ZHOU Yunjie	Qingdao Haizhi Yunchuang Technology Co., Ltd. (青島海智雲創科技有限公司)	Chairman	May 2015	To date	No
ZHOU Yunjie	Gooday Supply Chain Technologies Co., Ltd.	Chairman	August 2015	To date	No
ZHOU Yunjie	Qingdao Haier Venture & Investment Information Co., Ltd. (青島海爾創業投資諮詢有限公司)	Executive director and general manager	March 2017	To date	No
ZHOU Yunjie	Qingdao Haier Human Resources Development Co., Ltd. (青島海爾人力資源開發有限公司)	Chairman and general manager	May 2017	To date	No
ZHOU Yunjie	Goodaymart (Shanghai) Investment Co., Ltd. (日日順(上海)投資有限公司)	Chairman	May 2018	To date	No
ZHOU Yunjie	Qingdao Haishang Zhicai Management Consulting Co., Ltd. (青島海商智財管理諮詢有限公司)	Executive director and general manager	July 2018	To date	No
ZHOU Yunjie	Qingdao Haier Biomedical Co., Ltd.	Director	July 2018	To date	No
ZHOU Yunjie	Qingdao Haiyunchuang Investment Holdings Co., Ltd. (青島海雲創投資控股有限公司)	Executive director	February 2019	To date	No
ZHOU Yunjie	Wanlian Holdings Co., Ltd. (萬鏈控股有限公司)	Director	February 2019	To date	No
ZHOU Yunjie	Haier Kaos Digital Technology Development Co., Ltd. (海爾卡奧斯數字科技發展有限公司)	Chairman	December 2019	To date	No

Section VI Corporate Governance

Name of employee	Name of other entity	Position held in other entity	Commencement		Whether receiving remuneration in other entity
			date	End date	
ZHOU Yunjie	COSMO IoT Technology Co., Ltd.	Director	December 2019	To date	No
ZHOU Yunjie	Qingdao Guochuang Intelligent Home Appliance Research Institute Co., Ltd. (青島國創智能家電研究院有限公司)	Chairman	April 2020	To date	No
ZHOU Yunjie	Haier Kaos Ecological Technology Co., Ltd. (海爾卡奧斯生態科技有限公司)	Chairman	February 2023	To date	No
TAN Lixia	Haier Group (Qingdao) Jinying Holdings Co., Ltd.	Chairman	July 2014	To date	No
TAN Lixia	Haier Kaaosi Co., Ltd.	Director	September 2014	To date	No
TAN Lixia	Qingdao Haizhi Yunchuang Technology Co., Ltd. (青島海智雲創科技有限公司)	Director and general manager	May 2015	To date	No
TAN Lixia	Qingdao Haicuba Equity Investment Management Co., Ltd. (青島海立方舟股權投資管理有限公司)	Chairman	July 2015	To date	No
TAN Lixia	China Association of Women Entrepreneurs	Vice president	July 2015	To date	No
TAN Lixia	INKON Life (Chongqing) Technology Co., Ltd. (盈康一生(重慶)科技有限公司)	Chairman	May 2018	To date	No
TAN Lixia	Qingdao Haier Biomedical Co., Ltd.	Chairman	July 2018	To date	No
TAN Lixia	Wanlian Holdings Co., Ltd. (萬鏈控股有限公司)	Chairman and manager	September 2018	To date	No
TAN Lixia	Qingdao Haier Biomedical Co., Ltd.	Chairman	August 2018	To date	No
TAN Lixia	The Twelfth Executive Committee of the All-China Women's Federation	Standing member	September 2018	October 2023	No
TAN Lixia	The Thirteenth Executive Committee of the All-China Women's Federation	Standing member	October 2023	To date	No
TAN Lixia	INKON Life Technology Co., Ltd.	Chairman	May 2019	To date	No
TAN Lixia	China International Capital Corporation Limited	Non-executive director	February 2020	November 2023	No
TAN Lixia	Beijing Zhajisong Express Co., Ltd. (北京宅急送快運股份有限公司)	Director	March 2021	August 2023	No
TAN Lixia	Qingdao Haier Kaos Ecological Technology Co., Ltd. (青島海爾卡奧斯生態科技有限公司)	Director	February 2023	To date	No
Marco MUSSITA	OMR (China) Automotive Components Co., Ltd.	Director	June 2007	To date	Yes
Marco MUSSITA	Meccanotecnica Umbra S.p.A. (Qingdao) Mechanical Seal Co., Ltd.	Supervisor	October 2014	To date	Yes
Marco MUSSITA	Qingdao Yicai Fund Distribution Co., Ltd.	Supervisor	September 2016	September 2025	Yes
DENG Youcheng	Zhonglu Property and Casualty Insurance Co., Ltd.	Director	July 2015	To date	No
DENG Youcheng	Baiyang Industrial Investment Group Co., Ltd. (百洋產業投資集團股份有限公司)	Director	August 2020	To date	No
DENG Youcheng	Qingdao Conson Development Investment Co., Ltd. (青島國信發展投資有限公司)	Director	March 2023	To date	No
DENG Youcheng	Qingdao Conson Investment Holdings Co., Ltd. (青島國信投資控股股份有限公司)	Director and general manager	August 2018	To date	No

Section VI Corporate Governance

Name of employee	Name of other entity	Position held in other entity	Commencement		Whether receiving remuneration in other entity
			date	End date	
DENG Youcheng	Qingdao Guoxin Haitian Asset Management Co., Ltd. (青島國信海天資產管理有限公司)	Executive director and manager	March 2023	To date	No
DENG Youcheng	Qingdao Jiushi Investment Development Co., Ltd. (青島久實投資發展有限公司)	Executive director and manager	March 2023	To date	No
DENG Youcheng	Guotou Juli Investment Management Company Limited (國投聚力投資管理有限公司)	Director	September 2017	To date	No
DENG Youcheng	CBA League (Beijing) Sports Co., Ltd. (中籃聯(北京)體育有限公司)	Director	October 2020	October 2023	No
DENG Youcheng	Qingdao Guoxin Health Industry Development Co., Ltd. (青島國信健康產業發展有限公司)	Chairman	January 2024	To date	No
DENG Youcheng	Qingdao Haichun Investment Consultancy Co., Ltd. (青島海淳投資諮詢有限公司)	Chairman	March 2024	To date	No
DENG Youcheng	CP Pharmaceutical (Qingdao) Co., Ltd.	Chairman	March 2024	To date	No
FANG Qiaoling	Management College of Ocean University of China	Professor and supervisor for Ph.D. candidates	January 2014	To date	Yes
FANG Qiaoling	Shandong Provincial Accounting Society	Executive council member	May 2018	To date	No
FANG Qiaoling	Business Accounting Society of Qingdao (青島市商貿會計學會)	President	October 2023	To date	No
FANG Qiaoling	Qingdao Auditing Society (青島市審計學會)	Vice president	September 2023	To date	No
FANG Qiaoling	Chengdu LandTop Technology Co., Ltd.	Independent director	August 2021	To date	Yes
FANG Qiaoling	Zhongmiao Innovation Technology (Qingdao) Co., Ltd.	Independent director	March 2023	To date	Yes
XING Lecheng	Shandong Capital Venture Association	Vice president	March 2002	To date	No
XING Lecheng	Investment Association of China	Committee member	December 2012	To date	No
XING Lecheng	Shandong Institute of Inclusive Financial Research	Dean	August 2016	To date	No
XING Lecheng	Investment and Financing Research Center of University of Jinan (濟南大學投融資研究中心)	Director	December 2018	To date	Yes
XING Lecheng	Shandong Spark Education Technology Group Co., Ltd. (山東星火教育科技集團股份有限公司)	Independent director	December 2020	December 2023	Yes
XING Lecheng	Tiannuo Photoelectric Material Co., Ltd. (天諾光電材料股份有限公司)	Independent director	January 2021	To date	Yes
XING Lecheng	Shandong Laiwu Rural Commercial Bank Co., Ltd. (山東萊蕪農村商業銀行股份有限公司)	Independent director	March 2021	March 2027	Yes
XING Lecheng	Shandong Linuo Technical Glass Co., Ltd. (山東力諾特種玻璃股份有限公司)	Independent director	April 2021	April 2027	Yes
XING Lecheng	Shandong National People's Congress Standing Committee	Member	January 2023	January 2028	No
ZHANG Xu	School of Economics of Qingdao University	Professor	March 2006	To date	Yes
ZHANG Xu	Economy Development Society of China Association for Study of Foreign Economics	Committee member	November 2008	To date	No
ZHANG Xu	Qingdao Urban Economics Society	Vice president	September 2015	To date	No

Section VI Corporate Governance

Name of employee	Name of other entity	Position held in other entity	Commencement		Whether receiving remuneration in other entity
			date	End date	
ZHANG Xu	Qingdao Committee of Jiusan Society	Deputy director	December 2016	To date	No
ZHANG Xu	Qingdao Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議青島市委員會)	Member	April 2017	To date	No
ZHANG Xu	Expert Decision-making Advisory Committee of the Qingdao Municipal Government (青島市政府專家決策諮詢委員會)	Special researcher	September 2022	September 2024	No
ZHANG Xu	Weifang Rural Credit Cooperative Union (濰坊市農村信用合作社聯合社)	External director	December 2022	To date	Yes
CHEUNG Man Chor, Elton	VMS Investment Group (HK) Ltd. (鼎珮投資集團(香港)有限公司)	Partner, chief strategy officer and chief legal officer	May 2021	To date	Yes
CHEUNG Man Chor, Elton	Century Height Limited	Director	April 2023	To date	No
CHEUNG Man Chor, Elton	Dynamic Warrior Limited	Director	April 2023	To date	No
CHEUNG Man Chor, Elton	Hoi An South Investments Pte Ltd	Director	May 2023	To date	No
CHEUNG Man Chor, Elton	Multi Dimension Corporation Services Limited	Director	April 2023	To date	No
CHEUNG Man Chor, Elton	Oasis Bliss Development Limited	Director	April 2023	To date	No
CHEUNG Man Chor, Elton	Ultra Leap Limited	Director	February 2023	To date	No
CHEUNG Man Chor, Elton	VMS Asset Management (SG) Pte. Ltd.	Director	May 2023	To date	No
CHEUNG Man Chor, Elton	VMS Green Ventures Management (HK) Limited	Director	April 2023	To date	No
CHEUNG Man Chor, Elton	VMS Green Ventures Management Limited	Director	April 2023	To date	No
Du Ning	REGTEK (Beijing) Technology Co., Ltd. (睿格鈦氫(北京)技術有限公司)	Chief executive officer	July 2021	To date	Yes
HE Liangjun	Nanjing Shineng New Energy Technology Co., Ltd.	Executive director	June 2016	To date	No
HE Liangjun	Shanghai Shilite New Energy Technology Co., Ltd. (上海世利特新能源科技有限公司)	Executive director	June 2016	To date	Yes
HE Liangjun	Qingdao Shilite New Energy Technology Co., Ltd. (青島世利特新能源科技有限公司)	Executive director	August 2016	To date	No
HE Liangjun	Sichuan Huiyuanda Potash Fertilizer Co., Ltd.	Chairman and general manager	September 2020	To date	No
HE Liangjun	Shanghai Huiyuanda Chemical Co., Ltd. (上海匯沅達化工有限公司)	Executive director	March 2022	To date	No
HE Liangjun	Hainan Goodi International Trade Co., Ltd. (海南谷迪國際貿易有限公司)	General manager	April 2023	To date	No
HAO Xianjing	ShineWing Certified Public Accountants	Vice president and partner	October 2009	To date	Yes
HAO Xianjing	Shandong ShineWing Engineering Management Consulting Co.,Ltd.	Director	February 2015	To date	No
HAO Xianjing	Shandong Institute of Certified Public Accountants	Standing director	July 2015	To date	No
HAO Xianjing	Jinan ShineWing Certified Tax Agents Co., Ltd.	Director	April 2017	To date	No
HAO Xianjing	RemeGen Co., Ltd.	Independent director	May 2020	To date	Yes
HAO Xianjing	Qingdao Baheal Pharmaceutical Company Limited (青島百洋醫藥股份有限公司)	Independent director	August 2022	To date	Yes
HAO Xianjing	Zaozhuang Bank Co., Ltd. (棗莊銀行股份有限公司)	Independent director	March 2023	To date	Yes

Section VI Corporate Governance

Name of employee	Name of other entity	Position held in other entity	Commencement		Whether receiving remuneration in other entity
			date	End date	
JIANG Xinglu	Shandong Blue Economy Industrial Fund Management Co., Ltd.	General manager	January 2015	To date	Yes
JIANG Xinglu	Hainan Yulin Private Equity Fund Management Partnership (Limited Partnership) (海南昱林私募基金管理合夥企業(有限合夥))	Executive partner	February 2016	To date	Yes
JIANG Xinglu	Tsingtao Brewery Co., Ltd.	Independent director	June 2018	June 2024	Yes
JIANG Xinglu	Liqun Commercial Group Co., Ltd.	Independent director	May 2019	May 2025	Yes
JIANG Xinglu	Hailier Pharmaceutical Group Co., Ltd.	Independent director	August 2020	August 2023	Yes
JIANG Xinglu	SINOSTAR PEC HOLDINGS LIMITED	External director	July 2021	To date	Yes
JIANG Xinglu	Qingdao Blue Ocean Emerging Industry Venture Capital Management Co., Ltd. (青島藍色海洋新興產業創業投資管理有限公司)	Chairman	June 2015	To date	No
JIANG Xinglu	Shandong Blue Cloud Information Fund Management Co., Ltd. (山東藍色雲海信息基金管理有限公司)	Chairman	June 2015	To date	No
JIANG Xinglu	Qingkong Jinxin Blue (Qingdao) Investment Management Co., Ltd. (清控金信藍色(青島)投資管理有限公司)	Director	November 2016	To date	No
JIANG Xinglu	Qingdao Yulin Investment Co. Ltd. (青島昱林投資有限公司)	Executive director and general manager	March 2019	To date	No
JIANG Xinglu	Hainan Yulin Investment Center Partnership (Limited Partnership) (海南昱林投資中心合夥企業(有限合夥))	Executive partner	May 2022	To date	No
JIANG Xinglu	Qingdao Blue Huijin Investment Management Enterprise (Limited Partnership) (青島藍色匯金投資管理企業(有限合夥))	Executive partner	May 2015	To date	No
JIANG Xinglu	Qingdao Hengkun Luojin Investment Management Enterprise (Limited Partnership) (青島恆坤濼金投資管理企業(有限合夥))	Executive partner	July 2018	To date	No
JIANG Xinglu	Ningbo Meishan Free Trade Port Zone Hengkun Ruijin Investment Partnership (Limited Partnership) (寧波梅山保稅港區恆坤睿金投資合夥企業(有限合夥))	Executive partner	July 2016	To date	No
JIANG Xinglu	Qingdao Yulinyi Real Estate Investment Co., Ltd. (青島昱林易置業投資有限公司)	Chairman and general manager	August 2018	To date	No
JIANG Xinglu	Qingdao Yulinming Investment Partnership (Limited Partnership) (青島昱林明投資合夥企業(有限合夥))	Executive partner	February 2020	To date	No
LU Kun	Management College of Ocean University of China	Professor and supervisor for Ph.D. candidates	January 2020/ October 2021	To date	Yes

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

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

5.6 REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

Unit: RMB0'000

Name	Position	Gender	Age	Status of office	Total compensation (before tax) received from the Bank during the Reporting Period	Whether having received remunerations from the related parties of the Bank
JING Zailun	Chairman, executive Director	Male	54	Incumbent	252.39	No
WU Xianming	Executive Director, President	Male	51	Incumbent	179.37	No
CHEN Shuang	Executive Director, vice President	Female	56	Incumbent	176.37	No
LIU Peng	Executive Director, vice President	Male	43	Incumbent	176.57	No
ZHOU Yunjie	Non-executive Director	Male	57	Incumbent	12.51	Yes
Rosario STRANO	Non-executive Director	Male	60	Incumbent	–	Yes
TAN Lixia	Non-executive Director	Female	53	Incumbent	13.25	Yes
Marco MUSSITA	Non-executive Director	Male	64	Incumbent	–	Yes
DENG Youcheng	Non-executive Director	Male	52	Incumbent	13.11	Yes
FANG Qiaoling	Independent non-executive Director	Female	48	Incumbent	23.03	Yes
XING Lecheng	Independent non-executive Director	Male	61	Incumbent	22.37	Yes

Name	Position	Gender	Age	Status of office	Total compensation (before tax) received from the Bank during the Reporting Period	Whether having received remunerations from the related parties of the Bank
ZHANG Xu	Independent non-executive Director	Male	54	Incumbent	22.37	No
CHEUNG Man Chor, Elton	Independent non-executive Director	Male	51	Incumbent	13.62	Yes
Du Ning	Independent non-executive Director	Male	46	Incumbent	–	Yes
YANG Fengjiang	Chief Supervisor, employee Supervisor	Male	59	Incumbent	182.59	No
HE Liangjun	Shareholder Supervisor	Male	51	Incumbent	7.72	Yes
WANG Dawei	Employee Supervisor	Male	50	Incumbent	182.36	No
MENG Xianzheng	Employee Supervisor	Male	56	Incumbent	187.83	No
HAO Xianjing	External Supervisor	Male	58	Incumbent	12.37	Yes
JIANG Xinglu	External Supervisor	Male	52	Incumbent	12.37	Yes
LU Kun	External Supervisor	Male	44	Incumbent	12.37	No
ZHANG Meng	Vice President	Male	51	Incumbent	75.03	No
ZHANG Chihong	Vice President	Male	45	Incumbent	75.03	No
ZHANG Qiaowen	Secretary to the Board	Female	46	Incumbent	75.77	No
WANG Lin	Former executive Director, former President	Male	60	Resigned	7.84	No
Simon CHEUNG	Former independent non-executive Director	Male	53	Resigned	18.98	No
Tingjie ZHANG	Former independent non-executive Director	Male	52	Resigned	6.13	No
WANG Yu	Former vice President	Female	56	Resigned	22.60	Yes
Total	–	–	–	–	1,783.95	–

- Notes: 1. The total remuneration package for certain Directors and Supervisors of the Bank for 2023 has not been finalized, but it is expected that the differences in the final remuneration will not have significant impact on the financial statements for 2023.
2. With their authorization, the emoluments of Mr. Rosario STRANO and Mr. Marco MUSSITA during the Reporting Period were waived. Mr. Du Ning has been an independent non-executive Director of the Bank since 21 December 2023 and was not remunerated by the Bank during the Reporting Period.
3. The pre-tax remuneration received by newly elected or resigned Directors, Supervisors, and senior management from the Bank during the Reporting Period, is paid by the Bank on a pro-rata basis according to their tenure.

VI. PERFORMANCE OF DUTIES BY BOARD OF DIRECTORS DURING THE REPORTING PERIOD

As the decision-making body of the Bank, the Board shall be accountable to and report its work to the general meetings. The Board exercises the following authorities and powers in accordance with the laws and regulations and the Articles of Association: convening and reporting its work at shareholders' general meetings; implementing resolutions passed at shareholders' general meetings; deciding on the Bank's business plans and investment plans; formulating the Bank's operational development strategies and supervising the implementation of such development strategies; formulating the Bank's annual financial budgets and final accounts; formulating the Bank's proposals on profit distribution and making up losses; formulating proposals on the increase or reduction of the Bank's registered capital, the issuance of corporate bonds and other securities and the listing plan; formulating plans for significant acquisitions, purchase of the Bank's shares, or merger, division or dissolution or change in corporate form of the Bank; considering and approving matters within the scope authorized at shareholders' general meetings on the Bank's establishment of legal entities, mergers and acquisitions, external investments, asset acquisitions, asset disposals, asset write-off, asset mortgage, non-commercial banking guarantee, related/connected transactions, entrusted financial management, external donations, data governance etc.; deciding on the establishment of the Bank's internal management entities; appointing or removing the Bank's president and secretary to the Board of Directors; appointing or removing the members of the Bank's senior management including the vice president and chief financial officer in accordance with the recommendations of the president, and determining their remunerations, rewards and punishment; formulating the basic management systems of the Bank; formulating amendments to the Articles of Association, and the rules of procedure of shareholders' general meetings and Board meetings, and considering and approving the working rules of the special committees under the Board; handling the information disclosure of the Bank and taking ultimate responsibility for the truthfulness, accuracy, completeness and timeliness of the Bank's accounting and financial statements; proposing at shareholders' general meetings the engagement or dismissal of an accounting firm which undertakes regular statutory auditing work for the Bank's financial reports; evaluating regularly and continuously improving the corporate governance of the Bank; listening to the president's work report and inspecting the president's work; formulating the Bank's capital planning and taking ultimate responsibility for the capital or solvency management; formulating the Bank's risk tolerance, risk management and internal control policies, and taking ultimate responsibility for the comprehensive risk management; safeguarding the legitimate rights and interests of financial consumers and other stakeholders; establishing identification, review and management mechanism of interest conflicts between the Bank and shareholders, especially major shareholders; undertaking management responsibility for shareholder affairs; exercising other authorities and powers conferred by the laws, administrative regulations, departmental rules, regulatory documents or the requirements of the Articles of Association and the shareholders' general meetings.

6.1 Information of the Board during the Reporting Period

Session of meeting	Date of convening	Date of disclosure	Resolutions of the meeting
The 23rd meeting of the eighth session of the Board of Directors	18 January 2023	18 January 2023	The resolution on the Strategic Planning of Bank of Qingdao Co., Ltd. for 2023-2025, the resolution on appointing Mr. WU Xianming as the president of Bank of Qingdao Co., Ltd., the resolution on nominating Mr. WU Xianming as a candidate for executive Director of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., the resolution on nominating Mr. CHEUNG Man Chor, Elton as a candidate for independent Director of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., the resolution on the adjustment to the members of the special committees of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., the resolution on the amendments to the Articles of Association of Bank of Qingdao Co., Ltd., the resolution on the amendments to the Rules of Procedure of Shareholders' General Meetings of Bank of Qingdao Co., Ltd., the resolution on the amendments to the Rules of Procedure of Board Meetings of Bank of Qingdao Co., Ltd., and the resolution on convening the first extraordinary general meeting of Bank of Qingdao Co., Ltd. for 2023 were considered and approved.
The 24th meeting of the eighth session of the Board of Directors	7 February 2023	–	The resolution on amendments to the working rules of the special committees under the Board was considered and approved.
The 25th meeting of the eighth session of the Board of Directors	27 February 2023	–	The resolution on amendments to the Administrative Measures for the Related Party Transactions of Bank of Qingdao Co., Ltd. was considered and approved.
The 26th meeting of the eighth session of the Board of Directors	28 March 2023	–	The 2023 plan of risk appetite of business operation of Bank of Qingdao Co., Ltd. was considered and approved.
The 27th meeting of the eighth session of the Board of Directors	29 March 2023	30 March 2023	The resolution on formulating the Implementation Rules for Impairment of Financial Assets of Bank of Qingdao Co., Ltd. was considered and approved.

Section VI Corporate Governance

Session of meeting	Date of convening	Date of disclosure	Resolutions of the meeting
The 28th meeting of the eighth session of the Board of Directors	31 March 2023	31 March 2023	The work report of the Board of Directors of Bank of Qingdao Co., Ltd. for 2022, the final financial accounts of Bank of Qingdao Co., Ltd. for 2022, the comprehensive operation plan of Bank of Qingdao Co., Ltd. for 2023, the profit distribution plan of Bank of Qingdao Co., Ltd. for 2022, the resolution on the engagement of external auditors of Bank of Qingdao Co., Ltd. for 2023 and their remuneration, the resolution on the 2022 annual report and its summary, results announcement of Bank of Qingdao Co., Ltd., the resolution on the estimated amount of the ordinary related party transactions of Bank of Qingdao Co., Ltd. for 2023, the special report on related party transactions of Bank of Qingdao Co., Ltd. for 2022, the report of promoting the implementation of the strategic planning of the Bank of Qingdao Co., Ltd. for 2023-2025, the president's work report of Bank of Qingdao Co., Ltd. for 2022, the 2022 social responsibility report of Bank of Qingdao Co., Ltd., the 2022 internal control evaluation report of Bank of Qingdao Co., Ltd., the resolution on the general mandate to issue shares of Bank of Qingdao Co., Ltd., the 2022 substantial shareholder evaluation report of Bank of Qingdao Co., Ltd., the resolution on the special report on storage and usage of raised funds of Bank of Qingdao Co., Ltd. for 2022, and the resolution on convening of the 2022 annual general meeting of Bank of Qingdao Co., Ltd. were considered and approved.
The 29th meeting of the eighth session of the Board of Directors	24 April 2023	24 April 2023	The resolution on appointing Mr. ZHANG Meng as the vice President of Bank of Qingdao Co., Ltd., and the resolution on appointing Mr. ZHANG Chihong as the vice President of Bank of Qingdao Co., Ltd. were considered and approved.
The 30th meeting of the eighth session of the Board of Directors	28 April 2023	28 April 2023	The resolution on the first quarterly report of Bank of Qingdao Co., Ltd. for 2023 and the resolution on the adjustment to the estimated amount of the ordinary related party transactions of Bank of Qingdao Co., Ltd. for 2023 were considered and approved.
The 31st meeting of the eighth session of the Board of Directors	29 May 2023	—	According to the requirements of the National Financial Regulatory Administration, the resolution on material related party transactions was considered and passed.
The 32nd meeting of the eighth session of the Board of Directors	2 June 2023	—	According to the requirements of the National Financial Regulatory Administration, the resolution on material related party transactions was considered and approved; the 2023 plan of risk management strategy and risk appetite of Bank of Qingdao Co., Ltd. was considered and approved.

Section VI Corporate Governance

Session of meeting	Date of convening	Date of disclosure	Resolutions of the meeting
The 33rd meeting of the eighth session of the Board of Directors	29 June 2023	–	According to the requirements of the National Financial Regulatory Administration, the resolution on material related party transactions was considered and approved; the resolution on adjustments to the key parameters of expected credit loss method for the second quarter in 2023 of Bank of Qingdao Co., Ltd. was considered and approved.
The 34th meeting of the eighth session of the Board of Directors	7 July 2023	7 July 2023	The resolution on nominating Ms. CHEN Shuang as a candidate for executive Director of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., the resolution on nominating Mr. DU Ning as a candidate for independent Director of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., the resolution on the adjustment to the members of the special committees of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., and the resolution on convening of the second extraordinary general meeting of Bank of Qingdao Co., Ltd. for 2023 were considered and approved.
The 35th meeting of the eighth session of the Board of Directors	19 July 2023	–	According to the requirements of the National Financial Regulatory Administration, the resolution on material related party transactions was considered and passed; the resolution on formulating the Administrative Measures for the Information Disclosure of Consumer Rights Protection of Bank of Qingdao Co., Ltd. was considered and approved.
The 36th meeting of the eighth session of the Board of Directors	29 August 2023	–	The resolution on the Recovery Plan (2023 Revision) of Bank of Qingdao Co., Ltd. and the resolution on the Disposal Plan (2023 Revision) of Bank of Qingdao Co., Ltd. were considered and approved.
The 37th meeting of the eighth session of the Board of Directors	30 August 2023	30 August 2023	The 2023 interim president's work report of Bank of Qingdao Co., Ltd., the 2023 interim financial analysis report of Bank of Qingdao Co., Ltd., the resolution on the 2023 interim report and its summary, results announcement of Bank of Qingdao Co., Ltd. were considered and approved.
The 38th meeting of the eighth session of the Board of Directors	20 September 2023	–	The resolution on appointing the general manager of audit department of Bank of Qingdao Co., Ltd. and the resolution on adjustments to the key parameters of expected credit loss method for the third quarter in 2023 of Bank of Qingdao Co., Ltd. were considered and approved.
The 39th meeting of the eighth session of the Board of Directors	18 October 2023	–	According to the requirements of the National Financial Regulatory Administration, the resolution on material related party transactions was considered and approved.

Session of meeting	Date of convening	Date of disclosure	Resolutions of the meeting
The 40th meeting of the eighth session of the Board of Directors	26 October 2023	26 October 2023	The resolution on the third quarterly report of Bank of Qingdao Co., Ltd. for 2023 was considered and approved.
The 41st meeting of the eighth session of the Board of Directors	27 December 2023	–	According to the requirements of the National Financial Regulatory Administration, the resolution on material related party transactions was considered and approved; the resolution on adjustment to the key parameters of expected credit loss method for the fourth quarter in 2023 of Bank of Qingdao Co., Ltd. was considered and approved.

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

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

6.3 Members of the Board

As of the date for disclosure of this report, the Board consisted of 14 Directors, including 4 executive Directors, namely JING Zailun, WU Xianming, CHEN Shuang and LIU Peng; 5 non-executive Directors, namely ZHOU Yunjie, Rosario STRANO, TAN Lixia, Marco MUSSITA and DENG Youcheng; and 5 independent non-executive Directors, namely FANG Qiaoling, XING Lecheng, ZHANG Xu, CHEUNG Man Chor, Elton and DU Ning. Among the 14 Directors mentioned above, there are 3 female Directors. All Directors have diversified education and culture background and occupation experience, and possess extensive professional knowledge and management experience in fields such as finance industry, corporate governance, accounting and financial management. The existing diversified composition of the Board injects different views in and facilitates the performance of the Board. The number of members and the composition of the Board complied with the requirements of the laws and regulations.

The Bank promoted the diversity of the members of the Board of Directors in several aspects including gender, age, culture, region, and professional experience. The Nomination Committee under the Board of Directors examined the structure, number of members and composition of the Board of Directors, formulated measurable targets for realizing diversity of the members of the Board based on those diversified factors and the requirements of the relevant laws and regulations and the regulatory rules in the places where the shares of the Bank are listed on the composition of the Board, including, among other things, the appointment of at least one female Director and at least three independent non-executive Directors (including at least one independent non-executive Director who possesses appropriate accounting or relevant financial management expertise), followed up on the progress of attaining the targets, and made recommendations to the Board of Directors on the size and composition of the Board of Directors in accordance with the Bank's strategic planning, operational development and shareholding structure etc., and studied the nomination criteria (including but not limited to a candidate's qualification, experience, expertise and knowledge), the nomination and appointment procedures of the Directors and made recommendations to the Board of Directors for consideration and approval.

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

6.4 Changes in the Directors

For changes in the Directors, please refer to “Changes in Directors, Supervisors and Senior Management” in this section.

6.5 Operation of the Board

During the Reporting Period, the Board convened a total of 19 meetings, of which 6 meetings were held in the form of on-site meetings and 13 meetings were held in the form of circulation of written resolutions. After in-depth discussion, members of the Board expressed their independent, objective and fair opinions and made scientific decisions, leveraging their professional expertise and experience, on the resolutions and reports submitted to the Board, which formed the resolutions of Board meeting.

In order to ensure that the Board receives independent views and opinions, the Directors may seek information from the Bank and relevant persons and organisations as necessary to make decisions and may propose that representatives of relevant persons and organisations attend meetings to explain the situation. If a Director needs to obtain advice from an independent professional intermediary in order to properly discharge the Director’s duties to the Bank, the Director may make a reasonable request to the Board to that effect, and the Board may pass a resolution to provide the Director with the advice of the professional intermediary and the Bank shall bear the relevant intermediary’s fees. The Bank has implemented the above mechanism to effectively ensure the independence of the Directors. The Board has reviewed the implementation and effectiveness of the above mechanism during the Reporting Period which is considered to be effective.

During the Reporting Period, the Board resolved on 77 major issues including the work report of the president, the report on final financial accounts, business plans, the proposal for profit distribution and material related party transactions, and considered or reviewed 63 reports, including various risk management reports, internal and external audit reports, the proposal on external audit management and its rectification report.

The Directors of the Bank have acknowledged their responsibility for preparing the financial statements of the Bank for the year ended 31 December 2023. The Directors are responsible for overseeing the preparation of financial statements for each accounting period to make sure such financial statements give a true and fair view of the financial conditions, operating results and cash flows of the Bank. In preparing the financial statements for the year ended 31 December 2023, the Directors have adopted and consistently applied applicable accounting policies, and exercised prudent and reasonable judgment.

The Board of Directors is also responsible for determining the policy for corporate governance of the Bank and has performed the duties as set out in provision A.2.1 of the Corporate Governance Code contained in Appendix C1 to the Hong Kong Listing Rules.

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

		Actual attendance/Number of meetings requiring attendance														
		Board meetings											Risk Management and Consumer Rights Protection Committee		Related Party Transactions Control Committee	Network Security and Information Technology Committee
Categories	Directors	General meetings	Failure to attend in person two consecutive Board meetings	Total	By				Strategy Committee	Remuneration Committee	Audit Committee	Nomination Committee	Protection Committee	Control Committee	Technology Committee	
					In person	telecommunications	By proxy									
Executive Directors	JING Zailun	3/3	No	19/19	6/6	13/13	-	5/5	2/2	-	5/5	-	-	3/3		
	WU Xianming	2/2	No	16/16	5/5	11/11	-	3/3	-	-	3/3	11/11	-	2/2		
	CHEN Shuzang	-	No	1/1	-	1/1	-	-	-	-	-	-	1/1	-		
Non-executive Directors	LIU Peng	3/3	No	17/19	4/6	13/13	2	-	-	-	-	11/12	12/13	-		
	ZHOU Yunjie	3/3	No	17/19	4/6	13/13	2	3/5	1/2	-	5/5	-	-	-		
	Rosario STRANO	3/3	No	19/19	6/6	13/13	-	5/5	2/2	-	-	-	-	-		
Independent non-executive Directors	TAN Lixia	3/3	Yes	17/19	4/6	13/13	2	-	-	7/8	-	12/12	-	3/3		
	Marco MUSSTA	3/3	No	19/19	6/6	13/13	-	-	-	-	-	12/12	-	3/3		
	DENG Youcheng	3/3	Yes	17/19	4/6	13/13	2	5/5	-	8/8	-	-	-	-		
	FANG Qiaoling	3/3	No	19/19	6/6	13/13	-	-	-	8/8	5/5	12/12	13/13	-		
	XING Lecheng	3/3	No	19/19	6/6	13/13	-	5/5	2/2	8/8	-	12/12	13/13	-		
	ZHANG Xu	3/3	No	19/19	6/6	13/13	-	5/5	2/2	8/8	5/5	12/12	13/13	-		
	CHEUNG Man Chor, Elton	2/2	No	13/13	4/4	9/9	-	-	-	4/4	3/3	-	-	-		
Resigned Directors	Du Ning	-	No	1/1	-	1/1	-	-	-	-	-	-	1/1	-		
	WANG Lin	-	No	-	-	-	-	-	-	-	-	-	-	-		
	Simon CHEUNG	3/3	No	17/18	5/6	12/12	1	-	1/2	-	5/5	-	11/12	3/3		
	Tingjie ZHANG	1/1	No	6/6	2/2	4/4	-	4/4	2/2	4/4	2/2	-	4/4	-		

- Notes:* 1. During the Reporting Period, the attendance of meetings by the Directors of the Bank met the regulatory requirements. Ms. TAN Lixia and Mr. DENG Youcheng did not attend the Board meetings in person for two consecutive times due to work reasons. Ms. TAN Lixia and Mr. DENG Youcheng carefully reviewed the materials of the Board of Directors before the meeting, put forward clear voting opinions and entrusted other Directors to attend and vote on their behalf according to the law. Under the circumstance that the Directors' actual attendance of Board meetings and special committee meetings is less than required, other Directors were delegated to attend and vote.
2. During the Reporting Period, newly elected or resigned Directors were not fully accounted for the number of general meetings and the Board meetings requiring attendance according to their position changes.
3. In January 2023, Mr. WANG Lin tendered his resignation from the positions as an executive Director and the President of the Bank. Mr. WANG Lin was not required to attend general meetings and Board meetings during the Reporting Period.

6.7 Objections raised by Directors on matters of the Bank

During the Reporting Period, the Directors of the Bank have not raised any objection to the resolutions passed at the Board meetings or other meetings.

6.8 Other explanations on the performance of duties by Directors

During the Reporting Period, the Directors of the Bank offered advises and suggestions for the development of the Bank. The Bank carefully studied the recommendations raised by Directors, and adopted and implemented such recommendations according to the actual situation of the Bank.

6.9 Performance of duties of independent non-executive Directors

As at the end of the Reporting Period, there were 5 independent non-executive Directors on the Board of Directors of the Bank, and the qualifications, number and proportion of independent non-executive Directors were in accordance with the relevant provisions of the National Financial Regulatory Administration, the CSRC and the Hong Kong Listing Rules. In the Remuneration Committee, Audit Committee, Nomination Committee and Related Party Transactions Control Committee of the Board of Directors of the Bank, independent non-executive Directors account for the majority and serve as chairman members.

During the Reporting Period, the independent non-executive Directors of the Bank expressed independent opinions on major matters such as the candidates for the Board of Directors, profit distribution, the engagement of accounting firm, and significant related party transactions, and have not raised any objection to the resolutions passed at the Board meetings or other meetings of the Bank for the year.

During the Reporting Period, independent non-executive Directors of the Bank attended the meetings of the Board of Directors and its special committees, gave their independent and objective opinions and suggestions, focusing on protecting the interests of the minority shareholders; maintained communication with the Bank by reviewing various risk management reports, internal and external audit reports, and the proposal on external audit management and its rectification report, and conducting special research, offered advises and suggestions for the development of the Bank, and gave full play to the independent and professional role of the independent non-executive Directors of the Bank. The Bank carefully studied the recommendations raised by the independent non-executive Directors of the Bank, and adopted and implemented such recommendations according to the actual situation of the Bank.

As at the end of the Reporting Period, the allowance of independent non-executive Directors of the Bank is divided into two parts: basic allowance and floating allowance. Basic allowance refers to the annual basic remuneration for Directors participating in the work of the Board, and the standard is RMB120,000 per independent Director per year. Floating allowance refers to the subsidy for Directors to participate in general meetings, Board meetings, meetings of the special committees, research, training and inspection, etc. The standard is RMB5,000/person/time, and the different meetings attended concurrently will not be paid cumulatively.

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

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

During the Reporting Period, the special committees under the Board of the Bank exercised their respective authorities and powers in an independent manner according to laws and regulations. They convened a total of 48 meetings during the year, at which 74 resolutions were considered and 59 reports of all kinds were reviewed or listened to, which allowed the special committees under the Board to play their professional roles in deliberation, provide robust support for the scientific decision-making of the Board, and improve the efficiency and quality of decision-making ability of the Board. Each of the special committees has provided important advice and recommendations on the review matters within their terms of reference.

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

Name	Strategy Committee	Remuneration Committee	Audit Committee	Nomination Committee	Risk Management and Consumer Rights Protection Committee	Related Party Transactions Control Committee	Network Security and Information Technology Committee
					Committee	Committee	Committee
JING Zailun	C	M		M			M
WU Xianming	M			M	C		M
CHEN Shuang						M	M
LIU Peng					M	M	
ZHOU Yunjie	M	M		M			
Rosario STRANO	M	M					
TAN Lixia			M		M		M
Marco MUSSITA					M		M
DENG Youcheng	M		M				
FANG Qiaoling			C	M	M	M	
XING Lecheng	M	M	M		M	C	
ZHANG Xu	M	C	M	M	M	M	
CHEUNG Man Chor, Elton		M	M	C			
DU Ning		M		M		M	C

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

Section VI Corporate Governance

During the Reporting Period, the meetings of the special committees under the Board of the Bank are as follows:

Name of committee	Membership information	Number of meetings held	Date of convening	Meeting content	Important opinions and suggestions put forward	Other performance of responsibilities	Objections raised on matters (if any)
Strategy Committee of the Eighth Session of the Board	JING Zailun, ZHOU Yunjie, Rosario STRANO, DENG Youcheng, WU Xianming, XING Lecheng, ZHANG Xu	5	18 January, 7 February, 24 March, 31 March, 30 August 2023	Resolutions on the 2023 work plan of the Strategy Committee, the work report of the president and the general mandate of share issuance, were considered and approved.	In accordance with regulatory regulations and working rules, the committee agrees with various resolutions and puts forward opinions and suggestions on related work.	None	None
Remuneration Committee of the Eighth Session of the Board	ZHANG Xu, JING Zailun, ZHOU Yunjie, Rosario STRANO, XING Lecheng, CHEUNG Man Chor, Elton, DU Ning	2	7 February, 31 March 2023	Resolutions on the 2023 work plan of the Remuneration Committee and the appropriation of the staff bonus and distribution of the performance bonus of senior management at bank level for 2022, were considered and approved.	In accordance with regulatory regulations and working rules, the committee agrees with various resolutions and puts forward opinions and suggestions on related work.	None	None
Audit Committee of the Eighth Session of the Board	FANG Qiaoling, TAN Lixia, DENG Youcheng, XING Lecheng, ZHANG Xu, CHEUNG Man Chor, Elton	8	7 February, 23 March, 24 March, 31 March, 28 April, 24 August, 30 August, 26 October 2023	The members considered and passed resolutions on regular reports, the engagement of accounting firms, the evaluation report on internal control, the proposal for profit distribution, as well as reviewed special audit reports and rectification reports and listened to the audit work summary, audit plan and management recommendations of external auditors.	In accordance with regulatory regulations and working rules, the committee agrees with various resolutions and puts forward opinions and suggestions on related work.	None	None

Section VI Corporate Governance

Name of committee	Membership information	Number of meetings held	Date of convening	Meeting content	Important opinions and suggestions put forward	Other performance of responsibilities	Objections raised on matters (if any)
Nomination Committee of the Eighth Session of the Board	CHEUNG Man Chor, Elton, JING Zailun, ZHOU Yunjie, WU Xianming, FANG Qiaoling, ZHANG Xu, DU Ning	5	18 January, 7 February, 24 April, 7 July, 15 September 2023	The resolution on the 2023 work plan of the Nomination Committee, and the resolution on nominating Mr. WU Xianming as a candidate of executive Director for the eighth session of the Board of Directors of Bank of Qingdao were considered and approved.	In accordance with regulatory regulations and working rules, the committee agrees with various resolutions and puts forward opinions and suggestions on related work.	None	None
Risk Management and Consumer Rights Protection Committee of the Eighth Session of the Board	WU Xianming, TAN Lixia, Marco MUSSITA, LIU Peng, FANG Qiaoling, XING Lecheng, ZHANG Xu	12	7 February, 23 March, 24 March, 28 April, 28 May, 24 June, 14 July, 24 August, 30 August, 15 September, 26 October, 22 December 2023	The members considered and passed resolutions on the 2023 work plan of the Risk Management and Consumer Rights Protection Committee and the 2023 plan of risk appetite of business operation, reviewed or listened to the reports on risk management of credit risk, market risk and liquidity risk.	In accordance with regulatory regulations and working rules, the committee agrees with various resolutions and puts forward opinions and suggestions on related work.	None	None
Related Party Transactions Control Committee of the Eighth Session of the Board	XING Lecheng, CHEN Shuang, LIU Peng, FANG Qiaoling, ZHANG Xu, DU Ning	13	7 February, 27 February, 24 March, 31 March, 28 April, 24 May, 28 May, 24 June, 14 July, 24 August, 18 October, 26 October, 22 December 2023	The members considered and passed resolutions such as the 2023 work plan of the Related Party Transaction Control Committee, review of significant related party transactions, and listened to or reviewed the reports on related party transactions.	In accordance with regulatory regulations and working rules, the committee agrees with various resolutions and puts forward opinions and suggestions on related work.	None	None
Network Security and Information Technology Committee of the Eighth Session of the Board	DU Ning, JING Zailun, TAN Lixia, Marco MUSSITA, WU Xianming, CHEN Shuang	3	7 February, 24 March, 24 August 2023	The members considered and passed resolutions including the 2023 work plan of the Network Security and Information Technology Committee, and listened to the report on the management of risks in information technology and report on the management of business continuity.	In accordance with regulatory regulations and working rules, the committee agrees with various resolutions and puts forward opinions and suggestions on related work.	None	None

7.1 Strategy Committee

The primary duties of the Strategy Committee include the following:

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

7.2 Remuneration Committee

The primary duties of the Remuneration Committee include the following:

1. Formulating the remuneration plan, management system and structure of the Bank, and submitting them to the Board for consideration;
2. Formulating the remuneration plans and structure for Directors and senior management, formulating remuneration policies for establishing formal and transparent procedures, making recommendations to the Board and submitting them to the Board for consideration, and overseeing the implementation of the package plan; inspecting, evaluating and approving the remuneration proposals of senior management in accordance with the Bank's policies and objectives established by the Board;
3. Studying the appraisal criteria for Directors and senior management, organizing regular performance appraisal for Directors and senior management, and submitting the appraisal results to the Board;
4. Reviewing, assessing and approving the compensation payable to executive Directors and senior management arising from any loss or termination of office or appointment, and making recommendations to the Board to ensure that such compensation is consistent with the terms of the contract; in the event of any inconsistency with the terms of the contract, such compensation shall also be fair and reasonable but not excessive;
5. Considering remunerations paid by similar city commercial banks, time commitment and responsibilities, as well as employment conditions for other positions within the Bank;

6. Reviewing, assessing and approving the compensation arrangement in connection with the dismissal or removal of Directors for their misconduct, and making recommendations to the Board to ensure that such arrangement is consistent with the terms of the contract; in the event of any inconsistency with the terms of the contract, such compensation shall also be reasonable and appropriate;
7. Ensuring that none of the Directors or any of their associates is involved in the process of finalizing their own performance appraisal and remuneration package, except for the self-assessment section in their performance appraisal;
8. Reviewing and/or approving matters in relation to share schemes as described in Chapter 17 of the Hong Kong Listing Rules.

7.3 Nomination Committee

The primary duties of the Nomination Committee include the following:

1. Formulating the selection procedures, standards and training plans for the Directors and senior management, and making recommendations to the Board in respect thereof;
2. Conducting extensive searches for qualified candidates as Directors and senior management, and selecting and nominating relevant persons as Directors or making recommendations to the Board in respect thereof to establish a talent pool for key positions;
3. Conducting preliminary review of the qualifications and credentials of candidates as Directors and senior management, and making recommendations to the Board in respect thereof;
4. Making recommendations to the Board in respect of nominating, appointing or dismissing Directors, and appointing or dismissing senior management;
5. Reviewing and evaluating the structure, number, size and composition (including the skills, knowledge and experience) of the Board according to the Bank's business activities, the scale of assets and the shareholding structure at least annually, and making recommendations to the Board in respect of any proposed changes to the Board in alignment with the Bank's strategy;
6. Assessing the independence of independent Directors;
7. Formulating and reviewing, where appropriate, policies on Board diversity, and disclosing relevant policies or policy summaries in the Bank's corporate governance report. In consideration for the Bank's business model and specific needs, Board diversity can be achieved through comprehensive consideration of various factors, including (but not limited to) gender, age, cultural and educational background or professional experience.

7.4 Related Party Transactions Control Committee

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

1. Reviewing and approving the related party transactions within the scope of the authority granted by the Board of Directors, reviewing the related party transactions that required the submission to the Board of Directors and shareholders' general meeting for consideration and approval, and reporting the same to the Board of Directors;
2. Inspecting and supervising the control over the Bank's related party transactions and the implementation of the Bank's related party transaction control system by the Directors, senior management and related parties of the Bank, and reporting the same to the Board.

7.5 Audit Committee

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

1. Proposing the engagement or replacement of the external auditors which undertakes regular statutory audit on the Bank's financial reports, approving the remuneration and terms of engagement of the external auditor, and dealing with any questions of its resignation or dismissal; acting as the key representative body for overseeing the Bank's relations with the external auditor;
2. Reviewing and monitoring the external auditor's independence, objectivity and effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the external auditors on the nature, scope of the audit and reporting obligations before the audit commences;
3. Developing and implementing the policy on engaging an external auditor to supply non-audit services. The Audit Committee shall report to the Board and make recommendations on any matters where actions or improvements are needed;
4. Supervising the Bank's internal audit system and its implementation;
5. Taking charge of the communication between senior management, the internal and external auditors to ensure coordination of their work and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Bank, and reviewing and monitoring its effectiveness;
6. Inspecting and supervising the Bank's financial controls, accounting policies and practices, financial positions, financial reporting procedures, internal control systems and compliance;
7. Taking charge of the Bank's annual auditing, and preparing and submitting reports regarding the authenticity, accuracy, completeness and timeliness of the audited financial information to the Board for consideration. The Audit Committee shall focus on significant accounting and audit issues in the Bank's financial and accounting report, with particular attention to the possibility of fraud, malpractice and material misstatement relating to financial accounting report, and supervising the rectification of the issues of financial accounting report;
8. Reviewing the internal control system of the Bank, inspecting and evaluating the effectiveness of the internal control system of the Bank and its subsidiaries at least once a year, discussing the internal control system with senior management, and evaluating the procedure and effectiveness of the internal audit department of the Bank. The discussion should include the adequacy of resources, staff qualification and experience, training programs and budget of the Bank's accounting, internal audit and financial reporting functions. At the same time, inspecting and supervising the following special matters annually:
 - (1) The scope of the senior management's on-going monitoring of internal control system;
 - (2) The extent and frequency of communication of monitoring results to the Board which enables it to assess and review the effectiveness of monitoring situation of the Bank;

Section VI Corporate Governance

- (3) Significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Bank's financial performance or condition;
 - (4) The effectiveness of the Bank's processes for financial reporting and compliance with requirements of the securities regulatory authorities and stock exchange at the place where the Bank's shares are listed;
9. Considering major investigation findings on internal control matters as delegated by the Board or on its own initiative and senior management's response to these findings;
10. Reviewing the external auditor's letter to senior management regarding matters involved in the audit, any material queries raised by the external auditor to senior management about accounting records, financial accounts or systems of control and the senior management's response;
11. Ensuring that the Board will provide a timely response to the issues raised in the external auditor's letter to senior management regarding matters in the audit;
12. Reviewing the annual budget, final accounts and any significant changes and adjustments in the course of implementation, and submitting its findings to the Board for consideration;
13. Reviewing the profit distribution policy and annual profit distribution plans, and submitting its findings to the Board for consideration;
14. Monitoring integrity of the Bank's financial statements, annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgements contained in them. In reviewing these statements and reports before submission to the Board, the Committee should focus particularly on:
 - (1) Any changes in accounting policies and practices;
 - (2) Major judgement area;
 - (3) Significant adjustments resulting from audit;
 - (4) The going concern assumptions and any qualifications;
 - (5) Compliance with accounting standards;
 - (6) Compliance with relevant requirements of the securities regulatory authorities and stock exchange at the place where the Bank's shares are listed and legal requirements in relation to financial reporting;

15. Regarding 14 above:
 - (1) Members of the Committee shall liaise with the Board and senior management and the Committee must meet, at least twice (2) a year, with the Bank's external auditors;
 - (2) The Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Bank's staff responsible for the accounting and financial reporting function or compliance officer or external auditors;
16. Reviewing and assessing arrangements employees of the Bank can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action by the Bank;
17. Reporting to the Board on the matters in these Terms of Reference;
18. Considering other topics, as defined by the Board.

7.6 Risk Management and Consumer Rights Protection Committee

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

1. Supervising the risk control condition conducted by the senior management of the Bank in credit, marketing, liquidity, operation, compliance, information technology and reputation, and conducting regular reviews of the risk reports;
2. Evaluating the Bank's risk management policy, condition, ability and level regularly;
3. Continuously supervising the risk management system and internal control system of the Bank, and making suggestions on the improvement of our risk management and internal control;
4. Deciding on the strategy of overall risk management, confirming the overall risk limits and formulating suitable risk management procedure and measures;
5. Formulating the Bank's strategy, policy and target in protecting consumers' rights, studying major problems and important policies of consumer rights protection, convening meetings regularly to listen to the senior management's special report on protection of consumers' rights regularly, and submitting the reports to the Board for consideration;
6. Guiding and supervising the establishment and refinement of the management system for the protection of consumer rights, and ensuring that the provisions of relevant regulations are compatible with the Bank's corporate governance, corporate culture building and business development strategy;
7. Supervising the comprehensiveness, timeliness and effectiveness of the works of senior management and department of consumer rights protection in accordance with regulatory requirements and the strategies, policies, target implementation and work performance of consumer rights protection;

8. Studying annual audit reports, regulatory circulars and internal assessment results related to consumer rights protection as well as urging senior management and relevant departments to take remedy actions to the issues identified in a timely manner;
9. Ensuring that the effectiveness of the Bank and its subsidiaries' risk management system is inspected and evaluated at least annually, and assisting the Board in reporting the completed inspections and evaluations to shareholders in relevant reports, among which, the following special matters shall be inspected and evaluated on an annual basis:
 - (1) the changes, since last annual review and evaluation, in the nature and extent of significant risks and the Bank's ability to respond to changes in its business and the external environment;
 - (2) the scope and quality of senior management's ongoing monitoring of risks;
 - (3) the extent and frequency of communication of monitoring results to the Board to facilitate the Board's evaluation and review on the effectiveness of the Bank's risk management;
 - (4) significant risk management failures or weaknesses that have been identified during the period, and the extent to which they have resulted in unforeseen outcomes or contingencies, which have had, could have had, or may in the future have, a material impact on the Bank's financial performance or condition;
10. Conducting researches on key findings on risk management matters on its own initiative or as delegated by the Board and senior management's response to these finding.

7.7 Network Security and Information Technology Committee

The primary duties of the Network Security and Information Technology Committee include the following:

1. Studying and formulating the strategy of network security and information technology of the Bank, and submitting the strategy to the Board for consideration;
2. Regularly appraising the overall results of the work of information technology of the Bank, and the implementation progress of network security planning, information technology strategy and its material projects;
3. Instructing and supervising the network security monitoring and disposal, development and governance of the work of information technology in senior management and relevant management departments, and conducting information technology risk identification, measurement and control;
4. Listening to or reviewing the information technology risk management report, network security working report, business continuity management report, and special auditor's report on information technology of the Bank, and making suggestions.

VIII. PERFORMANCE OF BOARD OF SUPERVISORS

8.1 Board of Supervisors

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

The Board of Supervisors exercises the following authorities and powers in accordance with the laws and regulations and the Articles of Association: supervising the Board of Directors in establishing a sound business philosophy and normative values and formulating the development strategies which are in line with the Bank's situation, and assessing whether the Bank's development strategies are scientific, rational and sound and preparing an assessment report; supervising the conduct of Directors and members of the senior management in their performance in the Bank, and proposing the removal of such Directors and members of senior management violating the laws, administrative regulations, the Articles of Association or the resolutions of the general meeting; requiring Directors and members of the senior management to rectify any act which is detrimental to the interests of the Bank; conducting exit audits for Directors and members of the senior management when necessary; inspecting and supervising the financial activities of the Bank; carrying out supervisory inspections on matters such as the business decision-making, risk management and internal controls of the Bank, and supervising the rectification of mistakes; making enquiries towards the Directors, the chairman of the Board of Directors and other members of the senior management; proposing the convening of extraordinary general meetings, and convening and presiding over the general meeting when the Board of Directors fails to perform this duty in accordance with the Company Law or the Articles of Association; attending the meetings of the Board of Directors; raising proposals to the general meeting; examining the financial information such as financial reports, business reports, and profit distribution plans proposed to be submitted to the general meeting by the Board of Directors, conducting investigations if there is any doubt or irregularity in relation to the Bank's operations; engaging professionals from accounting firms or law firms when necessary to assist its duties at the expenses of the Bank; initiating legal proceedings against Directors and members of the senior management according to the provisions of the Company Law; making proposals regarding the remuneration (or allowance) of the Supervisors; examining the regular reports of the Bank prepared by the Board of Directors and issuing its opinions of examination in writing; supervising the selection procedures of Directors; supervising the implementation status of the Bank's remuneration management system, and whether the remuneration plan for senior management are scientific and reasonable; and exercising any power conferred by the laws, administrative regulations, departmental rules, the regulatory documents, the Articles of Association or the general meetings.

8.2 Composition of the Board of Supervisors

The Board of Supervisors of the Bank is composed of employee Supervisors, shareholder Supervisors and external Supervisors. Shareholder Supervisors and external Supervisors are nominated by the Board of Supervisors and elected by the general meeting. Employee Supervisors are nominated by the trade union's committee and elected through democratic procedures. As at the end of the Reporting Period, the Board of Supervisors of the Bank consisted of 7 Supervisors, including 3 employee Supervisors, namely YANG Fengjiang, WANG Dawei, and MENG Xianzheng; 1 shareholder Supervisor, namely HE Liangjun; and 3 external Supervisors, namely HAO Xianjing, JIANG Xinglu and LU Kun. The structure of the Board of Supervisors of the Bank satisfies the requirements of the applicable laws and regulations, and the Supervisors possess the professionalism and independence required to perform their duties, and can effectively exert the supervisory functions of the Board of Supervisors.

8.3 Changes in the Supervisors

For details of the changes in the Bank's Supervisors during the Reporting Period, please refer to the section headed "Changes in Directors, Supervisors and Senior Management".

8.4 Operation of the Board of Supervisors

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

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

During the Reporting Period, the Board of Supervisors of the Bank convened 10 meetings in total, of which 2 meetings were held in the form of on-site and 8 meetings were held in the form of circulation of written resolutions. At these meetings, the Board of Supervisors considered and approved 23 resolutions, listened to or reviewed 59 reports, covering operation management, final financial accounts, risk management and internal control of the Bank, as well as the performance evaluation of Directors, Supervisors and senior management personnel. During the Reporting Period, there was no objection raised by the Board of Supervisors to the matters supervised. During the Reporting Period, attendance of Board of Supervisors meetings is as follows:

Supervisor	Number of attendance required	Number of attendance in person	Number of attendance by proxy
YANG Fengjiang	10	10	—
HE Liangjun	10	10	—
HAO Xianjing	10	10	—
JIANG Xinglu	10	10	—
LU Kun	10	10	—
WANG Dawei	10	10	—
MENG Xianzheng	10	10	—

8.6 Attendance at the general meetings during the Reporting Period

During the Reporting Period, the Bank convened 3 general meetings in total. The Board of Supervisors has designated representatives to attend such meetings to carry out on-site supervision over the legal compliance of the matters transacted at the meeting, procedures of the meeting and the voting process.

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

During the Reporting Period, the Board of Supervisors designated representatives to attend on-site meetings of the Board convened by the Bank, reviewed the documents of the Board meetings in the form of circulation of written resolutions, and supervised the legal compliance of procedures of convening the Board meeting and voting, as well as the attendance, speech and voting of Directors. The Board of Supervisors also delegated representatives to attend important senior management meetings such as the presidents' brief meetings and executive meetings, to keep abreast of the management's business dynamics in a timely and comprehensive manner and to supervise the performance of senior management.

8.8 Operation of the special committees under the Board of Supervisors

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

No.	Special Committees under the Board of Supervisors	Chairman	Members
1	Supervision Committee	HAO Xianjing	YANG Fengjiang, HE Liangjun, JIANG Xinglu, LU Kun and WANG Dawei
2	Nomination and Evaluation Committee	JIANG Xinglu	YANG Fengjiang, HAO Xianjing, LU Kun and MENG Xianzheng

Supervision Committee

The primary duties of the Supervision Committee include the following:

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

During the Reporting Period, the Supervision Committee held 7 meetings in total on 7 February 2023, 24 March 2023, 30 March 2023, 28 April 2023, 23 August 2023, 29 August 2023 and 25 October 2023 respectively, at which the resolutions on the report of final financial accounts, proposals for profit distribution, regular report, the engagement of accounting firm and the evaluation report on internal control were considered and approved, and listened to the work report of internal audit and the major risk management report.

Nomination and Evaluation Committee

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

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

During the Reporting Period, the Nomination and Evaluation Committee convened 3 meetings in total on 7 February 2023, 30 March 2023 and 29 August 2023 respectively, at which the resolutions on the president's work report, evaluation report on the performance of duties of the Board of Directors and Directors, the evaluation report on the performance of duties of Supervisors and the evaluation report on performance of duties of the senior management and senior executives were considered and approved.

8.9 Work of external Supervisors

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

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

The Directors and Supervisors actively participated in various trainings of the Bank and regulatory agencies to gain a deep understanding of their responsibilities and obligations, and continuously improve their comprehensive quality and duty performance capability.

During the Reporting Period, the Bank organized all Directors and Supervisors to join the special training on "Policy Interpretation of Registration System Reform of Listed Companies" organized by Qingdao Regulatory Bureau to conduct in-depth study of the revision ideas and key points of the refinancing, merger and reorganization system reform of listed companies under the registration system. They participated in the special training on the development, reform and prospect of the Independent Director System for Listed Companies held by the China Association of Listed Companies, to have a deep understanding of the birth and development, reform and changes of the independent director system as well as the prospect for the future. They participated in the special training on the reform of the independent director system in Qingdao jurisdiction organized by the Qingdao Association of Listed Companies, to strengthen the study of the development, reform and duty performance of independent directors under the Independent Director System for Listed Companies. They participated in the special training on continuous supervision organized by the CITIC Securities, a sponsor institution, and conducted in-depth study by adhering to three topics, i.e. the impact analysis of the registration system on refinancing, the cautions for the use of raised funds, and the information disclosure of listed companies.

The Bank organized all Supervisors to participate in the training named "Duty Performance of Supervisors of Listed Companies: Laws and Regulations, Cases and Suggestions" held by the China Association of Listed Companies, to further help Supervisors to perform their duties in accordance with the law and improve the effect of due diligence. The Bank organized all Supervisors to conduct a special research on the Bank's fluctuation in corporate deposits and to form a special research report, in which they provided pertinent and constructive opinions.

IX. WORK OF SENIOR MANAGEMENT

Serving as the executive body of the Bank, the senior management is responsible to the Board of Directors and is subject to the supervision of the Board of Supervisors. Powers and authorities of the senior management and the Board of Directors are divided in strict compliance with the Articles of Association and other documents. Under the Bank's system, the president assumes overall responsibility under the leadership of the Board of Directors. The president shall be accountable to the Board of Directors and shall perform the following functions and powers;

1. Taking charge of the operation and management of the Bank, making arrangements for the implementation of the resolutions of the Board of Directors and reporting the work to the Board of Directors;
2. Submitting business plans and investment proposals to the Board of Directors on behalf of the senior management, and making arrangements for the implementation upon approval by the Board of Directors;
3. Making arrangements for the formulation of the Bank's various rules and regulations, development plans and annual operation plans and is responsible for the implementation;
4. Authorizing members of the senior management and persons in charge of internal departments and branches to conduct operating activities;

5. Formulating proposals on the establishment of the Bank's internal management entities;
6. Proposing to the Board of Directors to engage or dismiss the vice presidents, chief financial officers and other members of the senior management of the Bank;
7. Engaging or dismissing persons in charge of the internal departments and branches of the Bank other than those to be engaged or dismissed by the Board of Directors;
8. Determining wages, benefits, rewards and punishment of the employees of the Bank, and deciding on their engagement and dismissal;
9. Proposing the convening of an extraordinary meeting of the Board of Directors;
10. Adopting emergency measures when any major emergency, such as a bank run, arises in the Bank and promptly reporting them to the banking regulatory authorities of the State Council as well as the Board of Directors and the Board of Supervisors;
11. Other duties and powers conferred by the laws, administrative regulations, departmental rules, regulatory documents, the regulations of the relevant regulatory authorities, the Articles of Association and by the Board of Directors.

9.1 Delegation of authority by the Board of Directors

The Board of Directors of the Bank and the management led by the president exercised their respective powers in accordance with their responsibilities as set out in the Articles of Association. The management plays the role of executive body of the Bank, responsible to the Board of Directors and subject to the supervision of the Board of Supervisors. The division of authority between senior management and the Board of Directors shall be in strict accordance with documents such as the Articles of Association. Under the leadership of the president, the senior management is mainly responsible for the specific matters of the Bank's daily operation, the execution of operational decisions and the implementation of the Bank's strategic objectives and policies. Apart from the responsibilities stipulated in the Articles of Association, the Bank formulated the Delegation Arrangement to the Senior Management Authorized by the Board of Directors of Bank of Qingdao Co., Ltd., to refine corporate governance structure and promote decision-making efficiency. The validity period of the delegation is from the date of approval by the Board of Directors until new delegation arrangements made by the Board of Directors.

9.2 Chairman and President

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

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

9.3 Securities transactions by Directors and Supervisors

The Bank has adopted the required standard set by the Model Code set out in Appendix C3 to the Hong Kong Listing Rules as the code of conduct for securities transactions by Directors and Supervisors of the Bank. Having made enquiries to all Directors and Supervisors, the Bank confirmed that they had complied with the above Model Code for the H share transaction of the Bank during the Reporting Period.

9.4 External auditors and remuneration

For details, please refer to the section “Significant Events” in this report.

9.5 Risk management and internal control

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

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

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

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

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

The Board of Directors of the Bank reviewed the risk management and internal control systems for the year ended 31 December 2023. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Bank attaches great importance to the construction of an internal control system and has established an all-round internal control system with comprehensive process control, covering all business activities, risk management activities and support and guarantee activities. In accordance with external laws and regulations, supervisory policies, and internal operation and management needs, the Bank formulated and amended the relevant internal control management system in a timely manner, optimized the business management process, implemented risk control measures, so as to promote the steady operation and sustainable development of the Bank. The Board of Directors of the Bank considered and approved the “2023 Evaluation Report on Internal Control of Bank of Qingdao Co., Ltd.”, and assessed the risk management and internal controls of the Bank. The Board of Directors is in the opinion that such risk management and internal controls of the Bank are effective.

The Bank formulated the Information Disclosure Management System of Bank of Qingdao Co., Ltd. (A+H Share) and the Management System for Insiders and External Information Users of Bank of Qingdao Co., Ltd., which specified the definition of inside information, confidentiality measures, handling and issuance procedures and internal control.

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

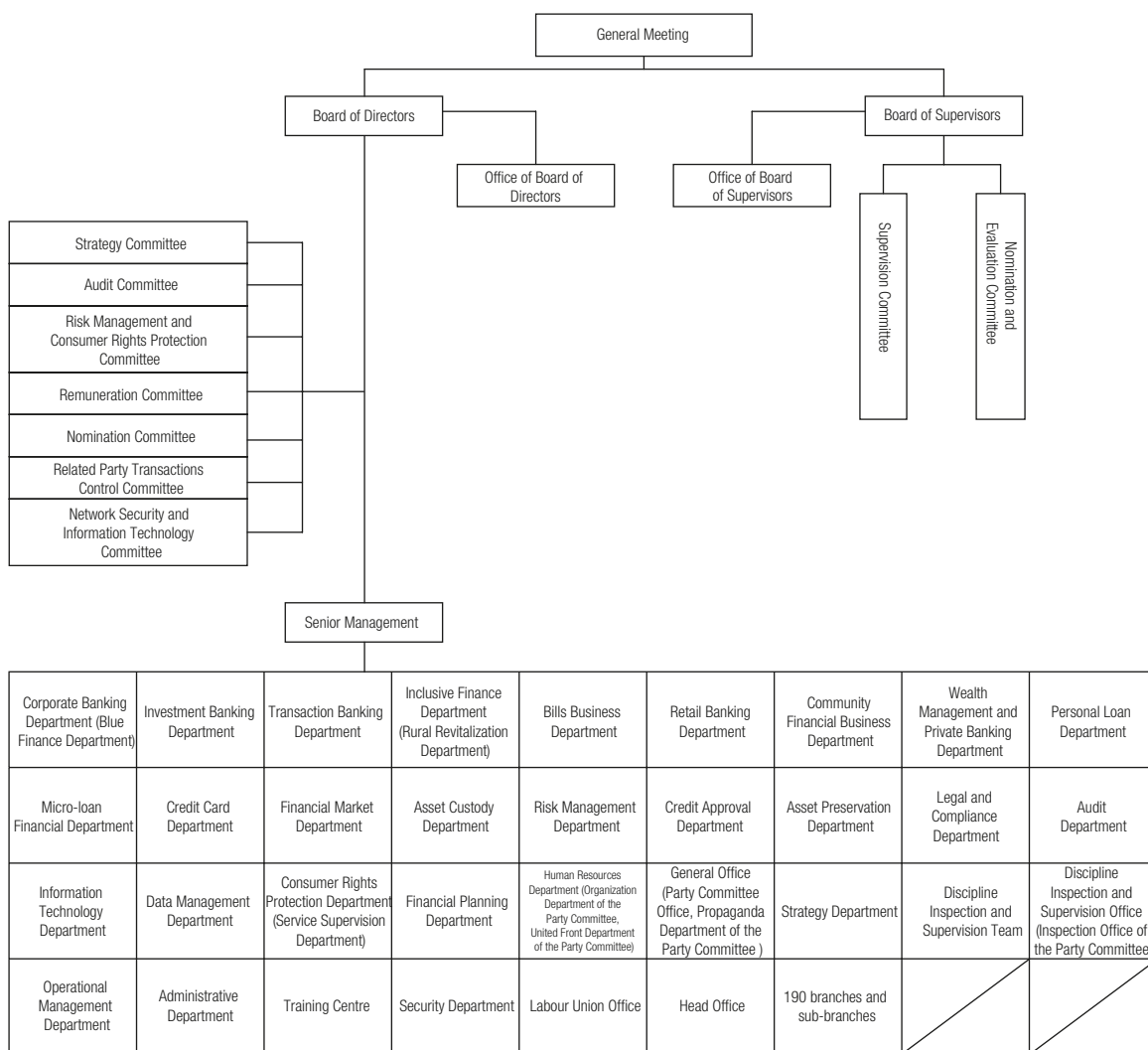
9.6 Appraisal and incentives for senior management

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

9.7 Company secretaries

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

9.8 Organization chart



9.9 Branches and sub-branches

As at the end of the Reporting Period, the Bank had a total of 191 branches and sub-branches, the details of which are as follows:

No.	Name of branch/ sub-branch	Business address	Institutions under its administration	No. of staff (persons)	Total assets (RMB100 million)
1	In Qingdao	–	1 head office, 1 branch and 109 sub-branches	1,784	4,314.67
2	Jinan Branch	Building 6, Yinfeng Fortune Plaza, No. 1 Longaoxi Road, Lixia District, Jinan	10 sub-branches under it	313	302.56
3	Dongying Branch	No. 72 Fuqian Avenue, Dongying District, Dongying	6 sub-branches under it	147	94.19
4	Weihai Branch	No. 112, No. 3-4 Shichang Avenue, Weihai	8 sub-branches under it	209	249.89
5	Zibo Branch	No. 266 Liantong Road, Zhangdian District, Zibo	5 sub-branches under it	145	150.28
6	Dezhou Branch	No. 717 Dexing Middle Avenue, Decheng District, Dezhou	4 sub-branches under it	113	75.04
7	Zaozhuang Branch	Dexin Plaza, No. 2166 Hexie Road, Xuecheng District, Zaozhuang	6 sub-branches under it	127	78.63
8	Yantai Branch	Hongyuan Business Building, No. 29 Jinshajiang Road, Development Zone, Yantai	6 sub-branches under it	151	118.61
9	Binzhou Branch	No. 471 Huanghe 8th Road, Bincheng District, Binzhou	3 sub-branches under it	94	80.50
10	Weifang Branch	Room 124, Building 7, No. 6636 Fushou East Street, Kuiwen District, Weifang	6 sub-branches under it	141	136.76
11	Laiwu Branch	No. 57, Wanfu North Road, Laiwu District, Jinan	1 sub-branch under it	58	27.67
12	Linyi Branch	Building 9, Hongxing International Plaza, Intersection of Jinan Road and Xiaohe Road, Beicheng New District, Linyi	4 sub-branches under it	122	86.55
13	Jining Branch	Welfare Lottery Building, No. 24 Hongxing Middle Road, Jining	2 sub-branches under it	85	114.21
14	Taian Branch	No. 237 Dongyue Street, Taian	2 sub-branches under it	69	32.64
15	Heze Branch	North side of East Gate of Jindu Huating, middle section of Renmin Road, Heze	1 sub-branch under it	47	32.14
16	Rizhao Branch	No. 79 Tai'an Road, Qinlou Street, Donggang District, Rizhao	1 sub-branch under it	54	23.13

X. DETAILS OF EMPLOYEES

In compliance with the relevant systems of the Bank for recruitment management, the Bank has been adhering to a fairness principle during recruitment and has never discriminated against candidates for their ethnicity, race, gender, or religious belief, so as to provide equal job opportunities and achieve a diversified and talented team.

At the end of the Reporting Period, there were a total of 2,275 male and 2,752 female employees of the Bank and its subsidiaries, and the proportions of males and females were 45.26% and 54.74%, respectively. The differences in background and job requirements of employees were the main factors affecting the gender diversity of employees.

10.1 Number of employees, composition by profession and education background

Number of employees on the payroll of the parent company (persons) at the end of the Reporting Period	4,861
Number of employees on the payroll of the major subsidiaries (persons) at the end of the Reporting Period	166
Total number of employees on the payroll (persons) at the end of the Reporting Period	5,027
Total number of employees receiving remuneration in the current period (persons)	5,027
Number of retired employees for whom the parent company and major subsidiaries need to bear expenses (persons)	—
Composition by profession	
Composition by profession category	Number of persons of composition by profession (persons)
Management personnel	391
Business personnel	3,774
General administrative personnel	862
Total	5,027
Education background	
Education background category	Number (persons)
Master's degree or above	1,142
Bachelor's degree	3,497
College graduates or below	388
Total	5,027

10.2 Remuneration policy

Currently, the Bank has established a market-oriented remuneration system that is based on a post-specific salary regime, under which employee remuneration is linked to the responsibilities, requirements and importance of the position and the results of performance appraisal. Under this remuneration system, remuneration is limited to the position and the performance of the employee. The Bank's employee remuneration is composed of fixed remuneration, performance remuneration and welfare remuneration. Fixed remuneration refers to the basic salary, which is determined according to the level corresponding to the employee's sequence. Performance remuneration is the performance-linked compensation paid by the Bank, which represents the incentive rewards paid on the basis of performance appraisal. During the Reporting Period, the Bank did not implement medium- and long-term incentives of equity and other forms of equity, and employees' remuneration was paid in cash.

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

The Bank strictly implements the relevant requirements for the supervision of remuneration payment, and has established a mechanism related to performance-based remuneration deferred payment, recourse and deduction and implements the system of deferred payment, recourse and deduction for middle and senior management staff and other personnel in positions that have a significant impact on risk. 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.

10.3 Training program

The training work of the Bank is guided by triennial strategic plan with emphasis on operation management, business development and phased work, aiming to forge a team of high-quality staff competent in the Bank's high-quality development to proceed all kinds of training work as planned in a targeted manner. During the Reporting Period, firstly, we anchored at the overall goal of "training a team of high-quality staff competent in the high-quality development of the Bank of Qingdao" and formulated the "Education and Training System Plan of the Bank of Qingdao" (青島銀行教育培訓體系規劃), which clarified work measures, elaborated task list, and comprehensively promoted third-level training work. Secondly, we built two major channels. On the one hand, we relied on the online platform called "BQD Le Xue Tang (青銀樂學堂)" to promote autonomous learning, coupled with training reward points; on the other hand, in virtue of the BQD Financial Training Institute, we carried out first- and second-level training programs offline. Thirdly, we promoted three combinations, namely, the combination of training with Party building and "incorruptibility" construction, with the orientation of business development, with personnel training and staff growth. Fourthly, we implemented four plans, focusing on the "Voyage Program"-training courses for middle and senior management; "Pioneers Plan"-training courses for promising management trainees; "Replenishment Program"-training courses for social recruitment and transfer personnel; and "Sailing Plan"-special training courses for newly recruited college students. Fifthly, we got five abilities improved, including the ability to coordinate training work, the ability to develop and utilize training resources, the ability to manage internal and external faculties, the ability to collaborate between head offices and branches, and the ability of employees to keep pace with the times.

10.4 Labor outsourcing

N/A.

XI. PROFIT DISTRIBUTION AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL OF THE BANK

11.1 The Bank's profit distribution policies and implementation

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

Particulars of Cash Dividend Policy

Whether in compliance with the requirements of the Articles of Association and the resolutions of the general meeting:	Yes
Whether the dividend distribution criteria and proportion were well-defined and clear:	Yes
Whether the related decision-making process and mechanism were in place:	Yes
Whether independent Directors fulfilled their duties and played their roles:	Yes
If the Company does not distribute cash dividends, it should disclose the specific reasons and the next steps it plans to take to enhance investor returns:	N/A
Whether the minority shareholders had the opportunities to sufficiently express their opinions and appeals and the legal interests of the minority shareholders were fully protected:	Yes
Whether the conditions and procedures were legal and transparent in respect of the adjustments and changes in cash dividend policy:	N/A

11.2 Profit distribution plan or plan relating to conversion of capital reserves into share capital during the Reporting Period approved by the Board

Number of bonus share per 10 shares (share(s))	–
Dividend distribution per 10 shares (RMB) (tax inclusive)	1.60
Scrip shares per 10 shares (share(s))	–
Share base of the distribution proposal (shares)	5,820,354,724
Amount of cash dividend (RMB) (tax inclusive)	931,256,755.84
Amount of cash dividends distribution through other means (such as repurchase of shares) (RMB)	–
Total cash dividend (including other means) (RMB)	931,256,755.84
Distributable profits (RMB)	5,397,605,228.31
Percentage of total cash dividend (including other means) to total profit distribution	100%

Cash dividend

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

Particulars of profit distribution and capital conversion from capital reserve plans

Taking into account the profit of the Bank, and in compliance with the Articles of Association and relevant regulatory requirements, the proposal for profit distribution of the Bank for 2023 is as follows:

1. 10% of net profit, equivalent to RMB330 million, will be appropriated to statutory reserve fund;
2. RMB755 million will be appropriated to general reserve;
3. A total of RMB233 million in perpetual bond interest has been distributed in July and August 2023;
4. RMB1.60 (tax inclusive) per 10 shares of cash dividend will be distributed to all ordinary shareholders on a basis of the total number of shares on the record date of equity distribution, with a distribution amount of approximately RMB931 million. Dividends of H shares shall be paid in Hong Kong dollars. The applicable exchange rate of RMB to Hong Kong dollars shall be the average of the central parity rates in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends at the annual general meeting (including the day the annual general meeting to be held) as announced by the People's Bank of China;
5. The retained profit will be carried forward to the next year.

In addition, where permitted, the Bank's Board of Directors may propose interim cash dividends based on the Bank's operating conditions.

Notes:

1. The profit distribution is financed by the profit of the Bank. The share base of distribution proposal, amount of cash dividend (tax inclusive) and total cash dividend in the above table are stated and calculated based on a total number of 5,820,354,724 shares outstanding at the time when the proposal for dividend distribution was considered and approved by the Board of the Bank. The actual data shall depend on the total number of shares on the record date of equity distribution and be calculated accordingly.
2. Distributable profits = Retained earnings of the parent company at the beginning of the year – dividend of ordinary shares distributed at last year – interest of perpetual bond paid + net profit for the year

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

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

XIII. CONSTRUCTION AND IMPLEMENTATION OF INTERNAL CONTROL SYSTEM DURING THE REPORTING PERIOD

13.1 Construction and implementation of internal control

During the Reporting Period, the Bank adhered to lawful and compliant guiding principles through continuously optimizing process, refining management measures, strengthening risk prevention and improving the management structure, continuously enhanced the internal control management and effectively promoted the overall implementation of its development strategy and business objectives.

The Bank strived to build an internal control and compliance management system that accommodated scientific norms, sophisticated governance, comprehensive coverage, and efficient operation, which resonates with the development of business to simultaneously move forward in the same direction. The Bank printed and issued the plan to strengthen the construction of the internal control system, comprehensively promoted the construction and reform of the internal control system, clarified the internal control responsibilities of the “three lines of defense”, focused on the weak links of internal control management, and made up for the shortcomings to realize the closed-loop management of the whole process of “cultural propaganda-system construction-system implementation-inspection and supervision-violation accountability-assessment and promotion-warning education”. From the ten aspects such as compliance inspection, internal control evaluation, internal control rectification and accountability, the internal control system structure of the Bank was consummated, and the internal control level was effectively improved.

The Bank conducted a comprehensive self-examination and modification of the existing system according to the modification results of the regulatory documents from the regulatory authorities, and managed the whole process of system formulation, system review, system release and system evaluation. External institutions were engaged to conduct special audit of internal control, in order to comprehensively improve the internal control management by constantly identifying and solving problems. The Bank strictly followed legal review protocols, and stayed informed of the latest enactment of laws, regulations and regulatory systems closely related to the banking business, to ensure early warning on risk prevention was properly made.

13.2 Specific details on the material deficiencies in internal control detected during the Reporting Period

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

13.3 Internal audit

The Bank implemented an independent and vertical internal audit management system, and the Board of Directors has established the Audit Committee, which is responsible for coordinating and supervising the overall internal audit work. The audit department of the head office uniformly managed the overall internal audit work, which was directly led by the Chairman of the Board, carried out the audit work independently and objectively within the scope of the Bank, and reported regularly to the Board of Directors (including the Audit Committee of the Board of Directors) and the Board of Supervisors. There were six departments in the audit department of head office, focusing on the audit of head office's business departments and subsidiaries, the audit of first-tier branches, the follow-up rectification, the off-site system construction, the audit quality supervision and other works. The Bank appointed audit specialists for 15 branches within the province to strengthen the audit supervision coverage of branches in various regions, and formed vertical management, comprehensive coverage, authoritative and efficient internal audit supervision system dominated by the head office audit and supplemented by the branch audit.

During the Reporting Period, the Bank persisted in achieving full audit coverage with high standards, promoting technology-based audit with high efficiency, implementing audit quality control at a high level, strengthening closed-loop audit rectification with high requirements, and promoting high-quality development of the whole bank. Firstly, based on in-depth and thorough investigation, the Bank deepened the high-quality and full-coverage audit inspection, taking regular audit as the main line, conducting follow-up audit for supervision, and focusing on special audits in important areas and major projects, so as to ensure that the scope of audit continues to advance in depth. Secondly, the Bank practiced technological empowerment, sped up the digital transformation of audit work, and launched a new generation of big data audit system during the Reporting Period, so as to achieve the interconnection and efficient integration of "off-site and on-site" audit, and provide strong support for full audit coverage. Thirdly, the Bank anchored at refine management, promoted the establishment of rules and regulations for auditing, and revised multiple systems such as "Internal Audit Standards of Bank of Qingdao" (青島銀行內部審計準則) and "Administrative Measures for Internal Audit Project of Bank of Qingdao" (青島銀行內部審計項目管理辦法) during the Reporting Period, to further enhance the normalization and standardization of internal audit work. Fourthly, the Bank implemented the closed-loop rectification, strengthened the tracking of audit rectification and the transformation of results, improved the closed-loop management process of "identifying problems-tracking rectification-implementing rectification-assessing rectification", and coordinated with other supervisors within the industry to form a joint supervisory force, so as to effectively promote the steady development of the operation and management of the whole bank.

XIV. MANAGEMENT CONTROL OF SUBSIDIARIES BY THE BANK DURING THE REPORTING PERIOD

There are two subsidiaries of the Bank, namely, BQD Financial Leasing and BQD Wealth Management. No new subsidiary has been established during the Reporting Period. Please refer to "Section V Management Discussion and Analysis 17. Analysis of Main Shares Holding Companies and Joint Stock Companies" in this report for information on BQD Financial Leasing and BQD Wealth Management.

XV. EVALUATION REPORT OF INTERNAL CONTROL AND AUDIT REPORT OF INTERNAL CONTROL

15.1 Self-evaluation report of internal control

Disclosure date of the full text of evaluation report of internal control	28 March 2024
Disclosure index of the full text of evaluation report of internal control	Website of CNINFO (http://www.cninfo.com.cn/)
The percentage of total assets of units included in the assessment scope to the total assets in the Company's consolidated financial statements	100%
The percentage of total operating income of units included in the assessment scope to the total operating income in the Company's consolidated financial statements	100%

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

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

15.2 Audit report of internal control

Audit opinion of the audit report of internal control

As at 31 December 2023, the Bank has maintained effective internal control over financial reporting in all material aspects in accordance with the Basic Standards for Enterprise Internal Control and other relevant requirements.

Disclosure of the audit report of internal control	Disclosed
Disclosure date of the full text of audit report of internal control	28 March 2024
Disclosure index of the full text of audit report of internal control	Audit Report of Internal Control disclosed on the website of CNINFO (http://www.cninfo.com.cn/)
Opinion of the audit report of internal control	Unqualified opinion
Whether there is any material deficiency in the non-financial report	No

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

XVI. RECTIFICATION DETAILS OF SELF-INVESTIGATION IN CORPORATE GOVERNANCE ACTIONS BY LISTED COMPANIES

No problem in corporate governance actions by listed companies under self-investigation in 2021 was detected in the Bank.

XVII. INFORMATION DISCLOSURE AND TRANSPARENCY

In strict compliance with the provisions of laws and regulations, the Bank released various periodic reports and temporary announcements in compliance with laws and regulations to ensure that the information disclosed is true, accurate, complete, timely and standardized to protect the lawful rights and interests of shareholders. During the Reporting Period, 250 various announcements were released on the website of SZSE, and the HKEXnews website of the Hong Kong Stock Exchange, among which, 125 announcements were released on SZSE and 125 announcements on the Hong Kong Stock Exchange.

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

XVIII. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In accordance with the latest requirements of the related laws and regulations and with reference to the actual conditions of the Bank, the Bank made corresponding amendments to some provisions of the Articles of Association. The amended Articles of Association were approved by the Qingdao Bureau National Financial Regulatory Administration (國家金融監督管理總局青島監管局) in March 2023. For details, please refer to the 2023 First Extraordinary General Meeting Documents which were published by the Bank on CNINFO website dated 19 January 2023 and the Announcement on the Approval of the Amendments to the Articles of Association (Announcement No.: 2023-009) dated 15 March 2023.

XIX. SHAREHOLDERS' RIGHTS

19.1 Authorities and powers of the shareholders' general meetings

The shareholders' general meeting is the organ of authority of the Bank, and shall exercise the following authorities and powers in accordance with the law:

- (1) to decide on the Bank's operating policies and investment plans;
- (2) to elect and remove the non-employee representative Directors and Supervisors and to fix the remuneration of the relevant Directors and Supervisors;
- (3) to consider and approve the reports of the Board of the Directors;
- (4) to consider and approve the reports of the Board of Supervisors;
- (5) to consider and approve the proposed annual financial budgets and final accounts of the Bank;
- (6) to consider and approve the profit distribution plans and loss recovery plans of the Bank;
- (7) to adopt resolutions on any increase or reduction of registered capital by the Bank;
- (8) to adopt resolutions on matters such as merger, division, dissolution, liquidation or change in corporate form of the Bank;
- (9) to adopt resolutions on the Bank's engagement, dismissal or non-renewal of an accounting firm which undertakes regular statutory auditing work for the Bank's financial reports;
- (10) to amend the Articles of Association, and to consider and approve the rules of procedure of shareholders' general meetings, the Board of Directors, and the Board of Supervisors;
- (11) to adopt resolutions on the issuance of bonds and other securities and the listing plan of the Bank;
- (12) to consider and approve the Bank's purchase or sale of substantial assets or the amount of non-commercial banking guarantee within one year which exceed 30% of the latest audited total assets of the Bank;
- (13) to consider and approve changes of purpose of the funds raised;
- (14) to consider equity incentive plan and employee shareholding plan;
- (15) to consider and approve, or authorize the Board of Directors to consider and approve the Bank's establishment of legal entities, mergers and acquisitions, external investments, asset write-off as well as asset acquisitions, asset disposals and non-commercial banking guarantee other than those stipulated in item (12), which shall be submitted to the shareholders' general meeting for consideration in accordance with the requirements of the laws, administrative regulations, departmental rules, the securities regulatory authorities at the place where the Bank's shares are listed and the requirements of the Articles of Association and other internal rules;

- (16) to consider and approve resolutions from shareholders who individually or collectively hold more than 3% of the total number of voting shares of the Bank;
- (17) to decide on the issue of preference shares; to decide or authorize the Board of Directors to decide on matters relating to the Bank's issued preference shares, including but not limited to, redemption, conversion and payment of dividends;
- (18) to adopt resolutions on the acquisition of shares in the Bank;
- (19) to consider other matters that should be decided by the shareholders' general meeting as stipulated by the laws, administrative regulations, departmental rules, regulatory documents and the Articles of Association.

19.2 Convening of extraordinary general meetings on requisition by shareholders

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

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

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

For details of the relevant requirements, please refer to the Articles of Association of the Bank.

19.3 Making enquiries with the Board

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

For details of the relevant requirements, please refer to the Articles of Association of the Bank.

19.4 Proposals of the general meeting

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

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

For details of relevant requirements, please refer to the Articles of Association of the Bank.

XX. INVESTOR RELATIONS

The Bank adopts shareholders' communication policy and reviews it on a regular basis to ensure its effectiveness. The Bank attaches importance to the comments and recommendations of shareholders, and proactively hosts various communication activities with investors and analysts, and satisfies the reasonable requests of shareholders in a timely manner. Shareholders may propose their request for information enquiry to the Board of Directors through the Office of Board of Directors of the Bank. Contact details of the Office of Board of Directors of the Bank are as follows:

Address: No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC

Postal code: 266061

Telephone number: +86 40066 96588 ext. 6

Facsimile number: +86 (532) 85783866

Email: ir@qdbankchina.com

The Board reviewed the Bank's shareholders' and investors' engagement and communication activities conducted in 2023 and was satisfied with the implementation and effectiveness of the shareholders' communication policy.

XXI. OTHER INFORMATION

The Bank is the holder of the financial institution license No. B0170H237020001 from the Qingdao Office of the General Administration of National Financial Regulation and Supervision (國家金融監督管理總局青島監管局) and the business license with a unified social credit code of 91370200264609602K approved by Qingdao Bureau National Financial Regulatory Administration. As the Bank is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of Laws of Hong Kong), neither is it subject to the supervision of the Hong Kong Monetary Authority, nor authorized to carry on banking and deposit-taking business in Hong Kong.

Section VII 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 penalties due to violation of environmental protection laws and regulations. In the monetary and financial service industry, no pollutants specified in the Measures for the Administration of the List of Key Units of Environmental Supervisors are produced by the Bank's principal business and no other environmental information needs to be disclosed. 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

For details, please refer to the 2023 Social Responsibility Report published on the CNINFO website, HKEXnews website of the Hong Kong Stock Exchange and the website of the Bank.

III. CONSOLIDATING AND EXPANDING THE RESULTS OF POVERTY ALLEVIATION AND RURAL VITALIZATION

The Bank always carries forward its responsibility in consolidating the results of poverty alleviation and rural revitalization. Firstly, on the basis of long-term donations for rural revitalization projects, a new education assistance project was launched during the Reporting Period, namely the Rizhuang Town Education Assistance Project carried out by the Laixi Charity Federation, with a donation of RMB500,000 for rural education revitalization such as scholarship, teaching awards, and teaching environment improvement; secondly, we participated in the Love for Agriculture Assistance Activities in Pingdu and Laixi, where more than 10 types of agricultural products were subscribed for, with vegetable payments reaching over RMB190,000 and a total weight of over 200 tons, which solved the sales difficulties faced by vegetable farmers, enriched the baskets of our employees with high-quality field vegetables, and demonstrated the responsibility and dedication of the people of the Bank of Qingdao; thirdly, we actively responded to the call of the Qingdao Administration for Rural Revitalization(青島市鄉村振興局), to organize and provide agricultural assistance to the Dingxi and Longnan regions, purchase nearly RMB10,000 of agricultural specialty products from Dingxi City, and solidly support the "Spring Festival Activity for Consumption Assistance".

IV. PROTECTION OF CONSUMER RIGHTS

The Bank attaches great importance to the protection of consumer rights, strictly implements the main responsibility of protecting the legitimate rights of consumers, incorporates the protection of consumer rights into the Bank's corporate governance, corporate culture building and business development strategy, establishes and improves consumer rights protection institutions and mechanisms, penetrates the requirements for consumer rights protection into all aspects of its business processes, and treats consumers fairly, justly and honestly throughout the entire process of its business operations.

During the Reporting Period, the Bank continued to improve the consumer protection system and operation mechanism, performed the function of consumer protection review, strengthened the management of complaints and sources of complaints, improved the response to emergencies, optimized the service experience for the elderly clientele, and took various measures to build up a strong personal information protection fortress, and the "Qingcheng" brand of consumer protection continued to lead the financial education and awareness-raising work in a deeper and more practical manner. In 2023, the Bank actively responded to the call of the regulatory authorities and carried out activities such as the "3•15 Consumer Rights Protection Education and Publicity Week", "Spreading Financial Knowledge", "Little Banker", "Lecture Hall on Financial Knowledge", "Financial Knowledge into the Countryside", and "Financial Consumer Rights Protection Education and Publicity Month", to publicize a wide range of financial knowledge to consumers, such as prevention of illegal fund-raising and telecommunication fraud, and guidance on rational investment and consumption of borrowing, and to help consumers to build up a strong sense of risk prevention and to improve their ability of risk identification.

Section VIII Significant Events

I. FULFILLMENT OF UNDERTAKINGS

At the end of the Reporting Period, the Bank has no actual controller and no acquirer. Undertakings fulfilled during the Reporting Period and not fulfilled as of the end of the Reporting Period by the Bank, shareholders, related parties of the Bank or other parties involved in undertaking are as follows:

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

Section VIII Significant Events

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Qingdao Conson Industrial Co., Ltd.	Undertakings on the intention of shareholding and intention of reduction of shareholding	Prior to the issuance of the A shares, Qingdao Conson Industrial Co., Ltd., a shareholder holding more than 5% of the total share capital of the Bank, undertook that upon the listing of A shares of the Bank, if it is necessary to transfer the shares of the Bank held by it, upon the satisfaction of the four conditions on reduction of shareholding, namely expiration of the lockup period as stipulated by laws and regulations and regulatory documents, expiration of lockup period undertaken, there being no circumstance where the share transfer is prohibited as stipulated in laws and regulations and regulatory documents and the announcement on the intention of reduction in shareholding being published 3 trading days before the reduction in shareholding, Qingdao Conson Industrial Co., Ltd. can reduce its shareholding through concentrated bidding system, block trade system of the stock exchange, share transfer by agreement or other methods as permitted by the laws and regulations within six months from the publication of the announcement on the intention of reduction in shareholding. If Qingdao Conson Industrial Co., Ltd. intends to reduce its shareholding within two years after the expiration of the lock-up period, the number of shares reduced each year shall not exceed 25% of the number of the shares held, and the price shall not be lower than the issue price (In case of any ex-rights or ex-dividend activities such as dividend distribution, bonus shares, capital conversion from capital reserve, allotment and share subdivision, the above price shall be adjusted for such ex-rights and ex-dividends activities); after two years from the expiration of the lock-up period, if it intends to reduce its shareholding, the number of shares to be reduced shall be announced 3 trading days before the reduction. If Qingdao Conson Industrial Co., Ltd. fails to fulfill the above undertakings regarding the reduction of shareholding, its gains from the reduction of shares of the Bank shall be forfeited by the Bank. If the gains of the illegal reduction or the illegal transfer are not delivered to the Bank, the Bank shall be entitled to withhold cash dividends payable to it at an amount that is equivalent to the gains of the illegal reduction or the illegal transfer.	16 January 2019	Please see the details of undertakings	It was in normal performance and has been fulfilled during the Reporting Period
	The Directors and senior management holding shares of the Bank	Undertakings on the intention of shareholding and intention of reduction of shareholding	The Directors and senior management holding shares of the Bank undertook that if they reduce the shares of the Bank held by them within 2 years from the expiration of the lock-up period, the price shall not be lower than the issue price; if the closing price of the shares of the Bank is lower than the issue price for 20 consecutive trading days during the 6 months after the listing of the Bank, or the closing price of the shares of the Bank at the end of the 6 months after listing is lower than the issue price, the lockup period of shares of the Bank held by them shall be extended for 6 months automatically. The above undertakings on the price of shareholding reduction shall not be terminated due to changes in their posts or dismissal. The above issue price refers to the issue price of the initial public offering of the A shares of the Bank. If the Bank has any ex-rights and ex-dividend issues due to cash dividend, bonus issue, capital conversion and issue of new shares after its listing, such issues shall be handled in accordance with the relevant provisions of the stock exchange.	16 January 2019	Please see the details of undertakings	It was in normal performance and has been fulfilled during the Reporting Period

Section VIII Significant Events

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Intesa Sanpaolo S.p.A.	Undertakings on subscription of the Bank's rights shares	<p>Intesa Sanpaolo S.p.A. undertakes that, based on the number of shares held after the close of market on the date of registration of the rights issue, 3 shares per 10 shares will be placed in proportion to the number of shares held, and the full amount of the rights issue price determined by the Bank and the underwriters, the Company will subscribe in cash for the H shares provisionally allotted to Intesa Sanpaolo S.p.A. (the "Provisional Allotment Particulars").</p> <p>In addition to the above undertaking, Intesa Sanpaolo S.p.A., has also undertaken to purchase additional H rights shares by way of additional application (the "Additional Application Part"). The Provisional Allotment Particulars of the H shares and the Additional Application Part paid in aggregate for the subscription of the H shares by Intesa Sanpaolo S.p.A. are not more than EUR270 million (approximately RMB1,946.7 million). Following the completion of the issuance of the Bank's A + H rights shares, the percentage shareholding of Intesa Sanpaolo S.p.A. will not exceed 17.50%. If the EUR270 million is invested to the extent that the percentage of shares held by Intesa Sanpaolo S.p.A. reaches or is lower than 17.50% of the total number of shares of the Bank after the completion of the A + H share rights issue, Intesa Sanpaolo S.p.A. will contribute all of the above amounts.</p> <p>As a substantial shareholder of the Bank, Intesa Sanpaolo S.p.A. undertakes that it shall comply with laws and regulations, regulatory requirements and the Articles of Association of the Bank, and shall not transfer the H rights shares held by it within five years from the date of the acquisition of the H rights shares.</p>	29 December 2021	Please see the details of undertakings	It was in normal performance and has been fulfilled during the Reporting Period
	Haitian (HK) Holdings Limited	Undertakings on subscription of the Bank's rights shares	<p>Haitian (HK) Holdings Limited undertakes that it will subscribe for the H rights shares tentatively allotted to Haitian (HK) Holdings Limited by way of cash in proportion to the number of shares held after the close of business on the registration date of the rights issue based on a pro rata ratio of 3 shares for every 10 shares, and the price determined by the Bank and the underwriters.</p> <p>In addition to the above undertaking, Haitian (HK) Holdings Limited has also undertaken to make an additional capital contribution of not more than RMB349 million to subscribe for the H rights shares. Following the completion of the issuance of A + H rights shares by the Bank, the aggregate shareholding of Qingdao Conson Development (Group) Co., Ltd. shall not exceed 14.99%. If the capital contribution of RMB349 million results to the total shareholding of Qingdao Conson Development (Group) Co., Ltd. reaching or not more than 14.99% of the total number of shares of the Bank upon the completion of the A + H share rights issue, Haitian (HK) Holdings Limited will invest all of the above amounts.</p> <p>Haitian (HK) Holdings Limited, as the major shareholder of the Bank, undertakes that it shall comply with the laws and regulations, regulatory requirements and the Articles of Association of the Bank, and shall not transfer the H rights shares held by it within five years from the date of the acquisition of the H rights shares.</p>	29 December 2021	Please see the details of undertakings	It was in normal performance and has been fulfilled during the Reporting Period

Section VIII Significant Events

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Qingdao Haier Industrial Development Co., Ltd. (青島海爾產業發展有限公司), Qingdao Haier Air-Conditioner Electronics Co., Ltd., Haier Smart Home Co., Ltd., COSMOPlat Mould (Qingdao) Co., Ltd. (卡奧斯模具(青島)有限公司), Qingdao Haier Tooling Development Co., Ltd., Qingdao Manniq Intelligent Technology Co., Ltd. (青島曼尼科智能科技有限公司), Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd., Qingdao Conson Industrial Co., Ltd., Qingdao Guoxin Capital Investment Co., Ltd. (青島國信資本投資有限公司) and Qingdao Hairen Investment Co., Ltd.	Undertakings on subscription of the Bank's rights shares	Qingdao Haier Industrial Development Co., Ltd. (青島海爾產業發展有限公司), Qingdao Haier Air-Conditioner Electronics Co., Ltd., Haier Smart Home Co., Ltd., COSMOPlat Mould (Qingdao) Co., Ltd. (卡奧斯模具(青島)有限公司), Qingdao Haier Tooling Development Co., Ltd., Qingdao Manniq Intelligent Technology Co., Ltd. (青島曼尼科智能科技有限公司), Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd., Qingdao Conson Industrial Co., Ltd., Qingdao Guoxin Capital Investment Co., Ltd. (青島國信資本投資有限公司) and Qingdao Hairen Investment Co., Ltd. respectively undertook that no transfer of the subscription shares shall be made within five years from the date of the acquisition of the subscription shares (from 28 January 2022 to 27 January 2027). As to equity interest transfer as a result of risk disposal measures approved by the National Financial Regulatory Administration or its dispatched offices, or ordered by the National Financial Regulatory Administration or its dispatched offices, or involving judicial enforcement, or made between different entities controlled by the same investor, or under any other particular circumstance, the provisions aforementioned shall not apply.	28 January 2022	60 months	It was in normal performance and has been fulfilled during the Reporting Period
Other undertakings	Haier Group, Intesa Sanpaolo S.p.A. and Qingdao Conson Industrial Co., Ltd.	Undertaking by major shareholders	In June 2011, in accordance with the relevant requirements of the Notice of the General Office of China Banking and Insurance Regulatory Commission on Strengthening the Review of Qualifications of Major Shareholders of Small and Medium-sized Commercial Banks, Haier Group, Intesa Sanpaolo S.p.A. and Qingdao Conson Industrial Co., Ltd., shareholders of the Bank with shareholding of more than 5%, respectively undertook: not to seek related party transactions with terms more favorable than those of other shareholders; not to intervene in the daily business affairs of the Bank; not to transfer the new shares subscribed for within five years from the date of completion of the change of business registration, and transfer of shares upon the expiry of the said period and the qualification of the transferee as shareholder shall be subject to the consent of regulatory authorities; to continue to provide the Bank with additional capital as the main capital sources of the shareholding bank; not to impose undue pressure on the Bank by setting indicators.	7 June 2011	Please see the details of undertakings	It was in normal performance and has been fulfilled during the Reporting Period

Section VIII Significant Events

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Qingdao Hairen Investment Co., Ltd.	Undertaking by major shareholders	In accordance with the Interim Measures for the Equity Management of Commercial Banks (Order of The China Banking Regulatory Commission [2018] No. 1), the Notice of the General Office of the China Banking Regulatory Commission on Strengthening the Review of Qualifications of Major Shareholders of Small and Medium-sized Commercial Banks (Yin Jian Ban Fa [2010] No. 115), the Notice of the China Banking Regulatory Commission on Issuing the Guidelines for the Corporate Governance of Commercial Banks (Yin Jian Fa [2013] No. 34), Qingdao Hairen Investment Co., Ltd., as a major shareholder of the Bank, hereby undertakes that it will: comply with the laws and regulations, regulatory requirements and the Articles of Association of the Bank; not transfer their equity interests in the Bank within five years from the date of acquiring the equity interests in the Bank; not seek related party transactions with terms more favorable than those of other shareholders, and provide explanations on the bank loans and loan quality as confirmed by the lending bank; not to intervene in the daily business affairs of the Bank; continue to replenish the Bank's capital when necessary and report its capital replenishment capability to the regulatory authorities through the Bank on an annual basis; avoid imposing undue pressure arising from reference on the Bank; disclose the information of related parties to the Board of Directors of the Bank truthfully, accurately and completely, and report to the Board of Directors of the Bank in a timely manner on any change in the related party relationship. It also undertakes that in case shares of the Bank held by it is pledged, the pledge will be in compliance with the regulatory policy orientation and the requirements of the Articles of Association and relevant equity interest management system of the Bank.	20 November 2019	Please see the details of undertakings	It was in normal performance and has been fulfilled during the Reporting Period
	Qingdao Haier Industrial Development Co., Ltd (青島海爾產業發展有限公司)	Undertaking by major shareholder	Qingdao Haier Industrial Development Co., Ltd (青島海爾產業發展有限公司) has undertaken not to transfer its shareholding in the Bank within five years from the date of acquisition of the Bank's equity interest, except in exceptional circumstances as required by laws and regulations and regulatory requirements.	1 June 2021	60 months	It was in normal performance and has been fulfilled during the Reporting Period
Whether undertaking was fulfilled on time			Yes			

- Notes:**
- During the Reporting Period, there was no situation where the profit forecast for the Bank's assets or projects existed or the Reporting Period still fell within the period of profit forecast.
 - On 20 June 2019, "Qingdao Haier Co., Ltd." was renamed as "Haier Smart Home Co., Ltd.".
 - On 2 July 2021, "Qingdao Haier Robot Co., Ltd." was renamed as "Qingdao Manniq Intelligent Technology Co., Ltd.".
 - On 25 February 2022, "Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd." was renamed as "Qingdao China Prosperity State-Owned Capital Investment Operation Group Co., Ltd." (青島華通國有資本投資運營集團有限公司).
 - On 28 March 2023, "Qingdao Haier Mold Co., Ltd." was renamed as "COSMOplat Mould (Qingdao) Co., Ltd. (卡奧斯模具(青島)有限公司)".

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

During the Reporting Period, there was no controlling shareholder. During the Reporting Period, the Bank's largest shareholder and its related parties were also not involved in appropriation of funds of the Bank for non-operating purposes. KPMG Huazhen LLP, the auditor of the Bank, has issued the Special Report of Bank of Qingdao Co., Ltd. on Appropriation of Funds for Non-operating Purposes and the Flow Funds involving Related Parties for 2023 (《關於青島銀行股份有限公司 2023 年度非經營性資金佔用及其他關聯資金往來情況的專項說明》).

III. NON-COMPLIANCE WITH EXTERNAL GUARANTEES

During the Reporting Period, there was no violation of external guarantees by the Company.

IV. EXPLANATION ON CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR SIGNIFICANT ACCOUNTING ERRORS AS COMPARED TO THE FINANCIAL REPORT FOR THE PREVIOUS YEAR

During the Reporting Period, there were no changes in the significant accounting policies, accounting estimates or significant accounting errors.

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

There were no changes in the scope of the Company's consolidated financial statements as compared to the previous annual financial statements.

VI. ENGAGEMENT OR DISMISSAL OF ACCOUNTING FIRMS

6.1 Current accounting firm engaged

Name of the domestic accounting firm	KPMG Huazhen LLP
Continued term of audit service of the domestic accounting firm	14 years
Name of certified public accountants of the domestic accounting firm	HUANG Aizhou, MA Xin
Continued term of audit service of certified public accountants of the domestic accounting firm	2 years, 4 years
Name of the overseas accounting firm	KPMG
Continued term of audit service of the overseas accounting firm	9 years
Name of certified public accountants of the overseas accounting firm	Fong Hoi Wan
Continued term of audit service of certified public accountants of the overseas accounting firm	1 year

Note: During the Reporting Period, the Bank did not change the accounting firm; the certified public accountants of domestic accounting firm did not change; the certified public accountant of overseas accounting firm was changed from Li Ka Lam to Fong Hoi Wan.

For the year ended 31 December 2023, RMB6.9332 million of the total audit fees was agreed to be paid by the Company (including subsidiaries) to KPMG Huazhen LLP and KPMG for the annual audit of financial statement, the interim review, the quarterly implementation of agreed-upon procedures and internal control audit, etc. and it was agreed to pay RMB0.43 million of the non-audit fees to them. The above fees include related taxes, travel, office expenses and other sundry expenses.

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

The Bank engaged KPMG Huazhen LLP as the internal control audit business institution for 2023 and the internal control audit fee payable is RMB600,000.

The Bank engaged CITIC Securities Co., Ltd. as the sponsor of continuous supervision for the rights issue of A shares. No fee was paid for continuous supervision service.

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

VII. DELISTING UPON PUBLICATION OF ANNUAL REPORT

N/A.

VIII. MATTERS RELATED TO BANKRUPTCY AND REORGANIZATION

During the Reporting Period, the Bank did not have any matters related to bankruptcy and reorganization.

IX. MATERIAL LITIGATION AND ARBITRATION

Overview	Amount involved (RMB'0,000)	Any provision made	Current status	Results of trial and effects thereof	Enforcement of judgments	Disclosure date	Disclosure index
The Bank filed a lawsuit in the High Court of the Hong Kong Special Administrative Region on 1 September 2022 regarding a dispute over the agreement with AMTD GLOBAL MARKETS LIMITED.	All entrusted assets under the USD350 million portfolio.	No. The Bank will conduct accounting treatment in accordance with the progress of the litigation and the provisions of the relevant accounting standards.	Officially accepted by the court, not yet in court.	N/A. The litigation will not affect the normal operation of the Bank and it is expected that there is no substantial impact on the profit of the Bank.	N/A	2 September 2022	The Announcement on Litigation published by the Bank on the CNINFO website (Announcement No. 2022-052)

Note: AMTD GLOBAL MARKETS LIMITED has been renamed as orientiert XYZ Securities Limited.

During the Reporting Period, the Bank was not involved in any new major litigation or arbitration. The Bank was involved in several litigations in the daily operation due to loan collection and other reasons. There were 11 pending litigation cases which were initiated against the Bank involving a total amount of RMB19.0560 million, which will not have a material adverse impact on the financial or operating results of the Bank according to the estimate of the Bank, and no provision of estimated liabilities arose from the litigation.

X. PUNISHMENT AND RECTIFICATION

During the Reporting Period, the Bank was not suspected of any crime and subject to investigation according to the law. Its Directors, Supervisors and senior management were not suspected of any crime and imposed coercive measures according to the law. The Bank did not receive any criminal punishment, or was not suspected of breach of law or regulation and subject to investigation by the CSRC or administrative penalties by the CSRC, or imposed significant administrative penalties by other competent authorities. Its Directors, Supervisors and senior management did not receive any criminal punishment, or were not subject to investigation by the CSRC or administrative penalties by the CSRC due to suspected violation of laws and regulations, or imposed significant administrative penalties by other competent authorities. Directors, Supervisors and senior management of the Bank were not detained by the discipline inspection and supervision authority that prevented him/her from discharging duties due to suspected serious breach of discipline or law or duty-related crimes, or imposed coercive measures by other competent authorities that prevented him/her from discharging duties due to suspected breach of law or regulation.

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

As at the end of the Reporting Period, there was no controlling shareholder or de facto controllers of the Bank. As far as the Bank is aware, during the Reporting Period, none of the largest shareholder of the Bank or its de facto controller failed to perform obligations determined by any effective court judgment or settle any significant debts that have fallen due.

XII. SIGNIFICANT RELATED PARTY TRANSACTIONS

12.1 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 rules for management of related party transaction formulated by the Bank.

According to the requirements of the National Financial Regulatory Administration, 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, the amount of all the loans was recovered normally.

Section VIII Significant Events

According to the requirements of the National Financial Regulatory Administration, during the Reporting Period, there were 14 proposals on material related party transactions approved by the Board, which were related transactions with 11 related enterprises of Haier Group, 2 Conson Group together with its related enterprises and Tsingtao Brewery Co., Ltd.. As at the end of the Reporting Period, the Bank's balance of credit-related significant related party transactions was RMB2.717 billion, and there were no significant related party transactions of non-credit extension, details of which are as follows:

Unit: RMB in 100 million

Name of related party	Type of business	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 (%)
Qingdao Haiyun Chuangzhi Business Development Co., Ltd. (青島海雲創智商業發展有限公司)	Residential development loan	10.15	10.15	2.24
BQD Financial Leasing Company Limited	Interbank borrowing	8.00	8.00	1.76
Haitian (BVI) International Investment Development Limited	Bond investment	3.54	3.54	0.78
Haier Financial Factoring (Chongqing) Co., Ltd. (海爾金融保理(重慶)有限公司)	Short-term working capital loan	2.30	2.30	0.51
Qingdao Haili Living Technology Co., Ltd. (青島海驪住居科技股份有限公司)	Supply chain financing	1.67	1.67	0.37
Qingdao Haishanghai Life Service Group Co., Ltd. (青島海尚海生活服務集團有限公司)	Medium-term working capital loan	0.99	0.99	0.22
Qingdao Haichen Real Estate Development Co., Ltd. (青島海宸房地產開發有限公司)	Commercial housing development loan	0.29	0.29	0.06
Qingdao No.1 Courtyard Hotel Co., Ltd. (青島壹號院酒店有限公司)	Short-term working capital loan	0.10	0.10	0.02
Qingdao Haishanghai Commercial Operation Co., Ltd. (青島海尚海商業運營有限公司)	Short-term working capital loan	0.10	0.10	0.02
Haier Group Finance Co., Ltd.	Commercial bill financing	0.03	0.03	0.01
Qingdao Jiawayun Network Technology Co., Ltd. (青島家哇雲網絡科技有限公司)	Bills discounted	0.003	0.003	0.0007

Note: According to the relevant requirements of the National Financial Regulatory Administration, the proportion of the balance of credit-related significant related party transactions as set out in the above table to the net capital as at the end of the Reporting Period is calculated on the basis of the net capital of the parent company of the Bank.

Section VIII Significant Events

According to the provisions of the CSRC and SZSE, the Bank has made a forecast and adjusted the daily related party transactions in 2023 and published the Announcement on Estimated Ordinary Related Party Transactions in 2023 (Announcement No.: 2023-018), and the Announcement on Adjusting the Estimated Quota of Ordinary Related Party Transactions in 2023 (Announcement No.: 2023-025) on CNINFO website dated 31 March 2023 and 28 April 2023, respectively. The related party transactions during the Reporting Period have not exceeded the forecast or didn't need to be disclosed separately, the details of which 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 RMB1,627 million (including the balance of credit-related transactions between BQD Financial Leasing and the related parties of Haier Group of RMB65 million), the balance of deposit transactions at the end of the Reporting Period was RMB385 million, and there were no other non-credit transactions during the Reporting Period;
- (2) Intesa Sanpaolo S.p.A. and its related parties: There was no balance of credit-related transactions at the end of the Reporting Period, the balance of deposit transactions at the end of the Reporting Period was RMB125 million, and the actual amount of other non-credit transactions during the Reporting Period was RMB0.7 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 RMB1,409 million (including the balance of credit-related transactions between BQD Wealth Management and the related parties of Conson Group of RMB855 million), the balance of deposit transactions at the end of the Reporting Period was RMB24 million, and the actual amount of other non-credit transactions during the Reporting Period was RMB21 million;
- (4) BQD Financial Leasing Company Limited: The balance of credit-related transactions at the end of the Reporting Period was RMB800 million, the balance of deposit transactions at the end of the Reporting Period was RMB703 million, and the actual amount of other non-credit transactions during the Reporting Period was RMB2 million;
- (5) BQD Wealth Management Company Limited: The balance of deposit transactions at the end of the Reporting Period was RMB484 million and the actual amount of other non-credit transactions was RMB1,280 million;
- (6) Tsingtao Brewery Co., Ltd.: There was no balance of credit-related transactions at the end of the Reporting Period and the balance of deposit transactions at the end of the Reporting Period was RMB2 billion;
- (7) Qingdao Rural Commercial Bank Co., Ltd.: The balance of credit-related transactions at the end of the Reporting Period was RMB249 million, there was no balance of deposit transactions at the end of the Reporting Period and there was no actual amount of other non-credit transactions;
- (8) China International Capital Corporation Limited: There was no balance of credit-related transactions at the end of the Reporting Period and the actual amount of other non-credit transactions other than deposits was RMB100 thousand;
- (9) Triangle Tyre Co., Ltd.: The balance of deposit transactions at the end of the Reporting Period was RMB1,081 million;
- (10) RemeGen Co., Ltd.: There was no balance of deposit transactions at the end of the Reporting Period;
- (11) Liqun Commercial Group Co., Ltd.: The balance of credit-related transactions at the end of the Reporting Period was RMB188 million;
- (12) Related natural persons: The balance of credit-related transactions at the end of the Reporting Period was RMB294 million, and the risk exposure was RMB294 million. The balance of deposit transactions at the end of the Reporting Period was RMB535 million.

Section VIII Significant Events

During the Reporting Period, the Bank engaged in related party transactions with two related parties with the cumulative amount exceeding 5% of the Bank's most recently audited net assets. These transactions included deposits, bond distribution and selling transactions, agency sales of financial management products provided to BQD Wealth Management, and deposit transactions provided to Tsingtao Brewery Co., Ltd. (hereinafter referred to as "Tsingtao Brewery"). These transactions were routine related party transactions expected to occur in 2023.

The Bank provided interbank loans to BQD Wealth Management on commercial principles and under conditions less favorable than those offered to non-related parties for similar transactions. As at the end of the Reporting Period, the balance of deposits provided by the Bank to BQD Wealth Management was RMB484 million, accounting for 0.13% of the Bank's deposits business. These deposits of BQD Wealth Management are current accounts with quarterly interest payments, and the weighted average interest rate is 0.72%.

The Bank's bond distribution and sale transaction business for BQD Wealth Management was conducted in accordance with commercial principles and on terms less favourable than similar transactions to non-related parties. During the Reporting Period, the amount of the Bank's bond distribution and sale transactions to BQD Wealth Management amounted to RMB1.025 billion, accounting for 10.96% of the Bank's bond distribution and sale business, and the Bank's bond distribution and sale transactions to BQD Wealth Management were traded at a net price of RMB100.00.

The Bank's consignment sale for financial management product business of BQD Wealth Management was carried out in accordance with commercial principles and on terms less favourable than similar transactions to non-related parties. During the Reporting Period, the consignment commission charged by the Bank from BQD Wealth Management was RMB255 million (including fees paid for wealth management products), accounting for 98.56% of the Bank's consignment business of wealth management products. The sales ratio was divided by product category, including 0.20% or 0.30% for fixed-income wealth management products, 0.50% for mixed wealth management products and 0.70% for equity wealth management products.

The deposit business handled by the Bank for Tsingtao Brewery was conducted in accordance with commercial principles and on terms less favorable than similar transactions with non-related parties. At the end of the Reporting Period, Tsingtao Brewery's deposit business balance in the Bank was RMB2 billion, accounting for 0.52% of the Bank's deposit business. Tsingtao Brewery's deposit business was a quarterly time deposit with a weighted average interest rate of 3.50%.

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

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

12.3 Related party transactions in connection with joint external investment

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

12.4 Related creditors' rights and debts transactions

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

12.5 Transactions with related financial companies

During the Reporting Period, there were no deposits, loans, credit extension or other financial business between the Bank and the financial companies that were related to the Bank. At the end of the Reporting Period, the balance of deposits of Haier Group Finance Co., Ltd. in the Bank was RMB518,400. 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, in which the Bank has no direct business with Haier Group Finance Co., Ltd.

12.6 Transactions with related parties and financial companies controlled by the Bank

The Bank does not control any financial companies.

12.7 Other significant related party transactions

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

XIII. MATERIAL CONTRACTS AND IMPLEMENTATION THEREOF

13.1 Custody, contracting and leasing

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, with its profit or loss brought to the Bank amounting to more than 10% of the Bank's total profit for the year, occurred during the Reporting Period or in previous periods and subsisted in the Reporting Period.

13.2 Significant guarantees

The guarantee business is the normal business of the Bank. During the Reporting Period, apart from the financial guarantee business within the Bank's normal scope of business, there was no significant guarantee matter that needed to be disclosed.

13.3 Entrusted cash and asset management

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

13.4 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.

13.5 Other material contracts

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

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

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

XV. OTHER MATTERS OF SIGNIFICANCE

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

XVI. MAJOR ISSUES OF THE BANK'S SUBSIDIARIES

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

XVII. PUBLICATION OF ANNUAL REPORT

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

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

Section IX Changes in Shareholdings and Information on Shareholders

I. CHANGES IN SHAREHOLDINGS

1.1 Changes in Shareholdings

During the Reporting Period, changes in shareholdings of the Bank are as follows:

Unit: share

Items	As at 31 December 2022		Increase/decrease (+/-) during the Reporting Period					As at 31 December 2023	
	Number of shares	Percentage %	New issue	Bonus issue	Conversion from reserves	Others	Sub-total	Number of shares	Percentage %
I. Shares with selling restrictions	513,459,937	8.82	-	-	-	-95,091,165	-95,091,165	418,368,772	7.19
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. Shares held by state-owned legal entities	94,967,581	1.63	-	-	-	-94,967,581	-94,967,581	-	-
3. Shares held by other domestic investors	418,492,356	7.19	-	-	-	-123,584	-123,584	418,368,772	7.19
Of which: Shares held by domestic non-state-owned legal entities	415,319,196	7.14	-	-	-	-80,558	-80,558	415,238,638	7.14
Shares held by domestic natural individuals	3,173,160	0.05	-	-	-	-43,026	-43,026	3,130,134	0.05
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	5,306,894,787	91.18	-	-	-	95,091,165	95,091,165	5,401,985,952	92.81
1. RMB ordinary shares	3,014,949,313	51.80	-	-	-	95,091,165	95,091,165	3,110,040,478	53.43
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	2,291,945,474	39.38	-	-	-	-	-	2,291,945,474	39.38
4. Others	-	-	-	-	-	-	-	-	-
III. Total number of shares	5,820,354,724	100.00	-	-	-	-	-	5,820,354,724	100.00

Notes:

- During the Reporting Period, the changes in the Bank's shares were mainly due to the release of selling restrictions for shares issued prior to the issuance of A shares and the lock-up and unlocking of shares held by the Bank's Directors, Supervisors and senior management personnel in accordance with the laws and regulations. The above changes in the shares do not involve any regulatory approval or share transfer.
- During the Reporting Period, there was no change in the total number of shares of the Bank and the changes in shares as shown above had no impact on the financial indicators.

Section IX Changes in Shareholdings and Information on Shareholders

1.2 Changes of Shares with Selling Restrictions

On 29 June 2023, a total of 94,967,581 shares in issue prior to the initial public offering of A shares were released. For details, please refer to the Indicative Announcement for the Listing and Circulation of Shares Issued Prior to the Initial Public Offering of A Shares which was published by the Bank on CNINFO website dated 27 June 2023 (Announcement No.: 2023-031).

Name of shareholders	Number of restricted shares at the beginning of the Reporting Period	Number of restricted shares increased during the period	Number of restricted shares unlocked during the period	Number of restricted shares at the end of the Reporting Period	Reason for the lock-up	Date of unlocking the restricted shares
Qingdao China Prosperity State-Owned Capital Investment Operation Group Co., Ltd.	94,967,581	–	94,967,581	–	In compliance with banking regulatory requirements, as described in the note below	29 June 2023
Total	94,967,581	–	94,967,581	–	–	–

Note: The shares above were acquired by the Bank's shareholder Qingdao China Prosperity State-Owned Capital Investment Operation Group Co., Ltd. (formerly known as Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd., hereinafter referred to as "Huatong Group") through share transfer on 29 June 2018 prior to the listing of the Bank's A Shares. Since Huatong Group had dispatched shareholder Supervisors to the Bank when the shares were transferred, Huatong Group was a substantial shareholder of the Bank pursuant to the Interim Measures for the Equity Management of Commercial Banks, who had made its written undertaking that such shares should not be transferred within five years from the date of acquiring its shareholdings.

II. SECURITIES ISSUANCE AND THE LISTING

2.1 Issue of Securities (Excluding Preference Shares) during the Reporting Period

During the Reporting Period, the Bank didn't issue any new ordinary shares, and there were no public offerings of corporate bonds to be listed on stock exchanges.

2.2 Changes in the total number of shares and the shareholder structure of the bank and the asset and liability structure of the bank

During the Reporting Period, there was no change in the total number of shares of the Bank. For more details about the changes in shares subject to selling restrictions before initial offering, internal staff shares and the shareholdings of shareholders and the changes in assets and liability structure, please refer to the relevant parts of this report.

2.3 Existing internal staff shares

Prior to the listing of the A shares of the Bank on Shanghai Stock Exchange on 16 January 2019, the Bank totally has 1,008 shareholders of internal staff shares, who hold 38,161,150 shares of the Bank, which complies with the provisions of the Notice on the Regulation of Internal Staff Shares in Financial Enterprises (Cai Jin [2010] No. 97). As at the date for disclosure of this report, all our internal staff shares have been released from selling restrictions and put on the market (except for executive lockup shares formed in accordance with laws and regulations).

III. SHAREHOLDERS AND DE FACTO CONTROLLERS

3.1 Number of shareholders and their shareholdings in the Bank

Unit: share

Total number of ordinary shareholders at the end of the Reporting Period	63,432	Total number of ordinary shareholders as at the end of the last month before the date of the disclosure of the annual report	61,841	Total number of preference shareholders whose voting rights were resumed at the end of the Reporting Period	0	Total number of preference shareholders whose voting rights were resumed as at the end of the last month before the date of the disclosure of the annual report	0
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Shareholdings of shareholders who hold more than 5% of the shares or shareholdings of the top ten shareholders (excluding shares lent through securities lending and refinancing)

Name of shareholders	Nature of shareholders	Percentage of shareholding	Number of shares held as at the end of the Reporting Period	Increase or decrease during the Reporting Period	Number of shares with selling restrictions held	Number of shares without selling restrictions held	Share pledged, tagged or locked-up	
							Status of shares	Number of shares
Hong Kong Securities Clearing Company Nominees Limited	Overseas legal entity	21.87%	1,272,956,244	1,020	-	1,272,956,244	Unknown	Unknown
Intesa Sanpaolo S.p.A. (意大利聯合聖保羅銀行)	Overseas legal entity	17.50%	1,018,562,076	-	-	1,018,562,076	-	-
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	State-owned legal entity	11.25%	654,623,243	-	-	654,623,243	-	-
Qingdao Haier Industrial Development Co., Ltd. (青島海爾產業發展有限公司)	Domestic non-state-owned legal entity	9.15%	532,601,341	-	409,693,339	122,908,002	-	-
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	4.88%	284,299,613	-	-	284,299,613	-	-
Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	Domestic non-state-owned legal entity	3.25%	188,886,626	-	-	188,886,626	-	-
Qingdao Hairan Investment Co., Ltd. (青島海仁投資有限責任公司)	Domestic non-state-owned legal entity	2.99%	174,083,000	-	-	174,083,000	-	-
Qingdao China Prosperity State-Owned Capital Investment Operation Group Co., Ltd.	State-owned legal entity	2.12%	123,457,855	20,000	-	123,457,855	-	-
Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	Domestic non-state-owned legal entity	2.09%	121,600,000	-	-	121,600,000	Pledged Tagged	121,600,000 121,600,000
Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司)	Domestic non-state-owned legal entity	2.03%	118,217,013	-	-	118,217,013	-	-

Section IX Changes in Shareholdings and Information on Shareholders

Strategic investors or general legal entities N/A

becoming one of the top ten ordinary shareholders of the Bank as a result of placing of new shares (if any)

Description of the related relationships or acting in concert among the above shareholders Among the abovementioned shareholders, Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd. and Haier Smart Home Co., Ltd. are all under Haier Group, and they are persons acting in concert. The Bank is not aware of any other related relationships among other shareholders or whether they are parties acting in concert.

Description of the voting rights entrusted by the above shareholders, the voting rights the above shareholders are entrusted with, the voting the above shareholders abstained from Among the abovementioned shareholders, Qingdao Haier 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 (if any) N/A

Shareholdings of the top ten shareholders without selling restrictions

Name of shareholders	Number of 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	1,272,956,244	Overseas listed foreign shares	1,272,956,244
Intesa Sanpaolo S.p.A.	1,018,562,076	Overseas listed foreign shares	1,018,562,076
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	654,623,243	RMB ordinary shares	654,623,243
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	284,299,613	RMB ordinary shares	284,299,613
Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	188,886,626	RMB ordinary shares	188,886,626
Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司)	174,083,000	RMB ordinary shares	174,083,000
Qingdao China Prosperity State-Owned Capital Investment Operation Group Co., Ltd.	123,457,855	RMB ordinary shares	123,457,855
Qingdao Haier Industrial Development Co., Ltd. (青島海爾產業發展有限公司)	122,908,002	RMB ordinary shares	122,908,002
Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	121,600,000	RMB ordinary shares	121,600,000
Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司)	118,217,013	RMB ordinary shares	118,217,013

Section IX 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

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 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 (if any)

1. The Bank is not aware of margin trading and securities lending business and refinancing business by holder of shares in which Hong Kong Securities Clearing Company Nominees Limited acts as an agent;
2. During the Reporting Period, Qingdao China Prosperity State-Owned Capital Investment Operation Group Co., Ltd. engaged in refinancing business, while refraining from involvement in margin trading and securities lending business. The changes in its shareholding during the Reporting Period was due to its participation in refinancing business;
3. Except for the above, as at the end of the Reporting Period, the remaining shareholders among the top ten ordinary shareholders did not participate in margin trading and securities lending business and refinancing business.

Notes

1. Among the total number of ordinary shareholders as at the end of the Reporting Period, there are 63,285 A share shareholders and 147 H share shareholders; In the total number of ordinary shareholders at the end of last month before the disclosure of the annual report, there are 61,693 A share shareholders and 148 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;
3. As at the end of the Reporting Period, Intesa Sanpaolo S.p.A., as an H share registered shareholder of the Bank, held 1,015,380,976 H shares, and the remaining 3,181,100 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. On 20 December 2023, 53,700,000 shares of the Bank held by Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司) were judicially auctioned, and the transfer of the same was completed on 22 January 2024. Upon completion of the share transfer, the shareholding of Shandong Sanliyuan Economics and Trade Co., Ltd. reduced to 67,900,000 shares, accounting for 1.17% of the total shares of the Bank. All these shares are currently pledged and in judicial tagging, and the Bank has restricted their voting rights at shareholders' general meetings in accordance with the law.
5. The top 10 ordinary shareholders and the top 10 ordinary shareholders without selling restrictions of the Bank did not conduct any transactions on agreed repurchases during the Reporting Period.

3.2 Participation in shares lent through securities lending and refinancing by the top ten shareholders

Unit: share

Participation in shares lent through securities lending and refinancing by the top ten shareholders								
Name of shareholder (full name)	Shareholdings in ordinary accounts and credit accounts at the beginning of the Reporting Period		Shares lent through securities lending and refinancing but unrepaid at beginning of the Reporting Period		Shareholdings in ordinary accounts and credit accounts at the end of the Reporting Period		Shares lent through securities lending and refinancing but unrepaid at the end of the Reporting Period	
	Aggregate	Proportion of total share capital	Aggregate	Proportion of total share capital	Aggregate	Proportion of total share capital	Aggregate	Proportion of total share capital
	Qingdao China Prosperity State-Owned Capital Investment Operation Group Co., Ltd.	123,437,855	2.12%	20,000	0.0003%	123,457,855	2.12%	0

3.3 Changes of the top ten shareholders compared with the previous period

As at the end of 2023, there were changes in the top ten shareholders without selling restrictions of the Bank compared with the end of 2022, namely Qingdao China Prosperity State-Owned Capital Investment Operation Group Co., Ltd. (青島華通國有資本投資運營集團有限公司) being newly added on the list of the top 10 shareholders without selling restrictions of the Bank, and Guosen Securities Company Limited (國信證券股份有限公司) being excluded from the list of the top 10 shareholders without selling restrictions of the Bank, mainly due to the fact that Qingdao China Prosperity State-Owned Capital Investment Operation Group Co., Ltd. unlocked the restricted shares, leading to minor impact of changes in shares lent through securities lending and refinancing.

Unit: share

Changes of the top ten shareholders compared with the end of the previous period					
Name of shareholders (full name)	Newly added/exited during the Reporting Period	Number of shares lent through securities lending and refinancing but unrepaid at the end of the Reporting Period		Shareholdings in ordinary accounts and credit accounts and number of shares lent through securities lending and refinancing but unrepaid at the end of the Reporting Period	
		Aggregate	Proportion of total share capital	Aggregate	Proportion of total share capital
Qingdao China Prosperity State-Owned Capital Investment Operation Group Co., Ltd.	Newly added on the list of the top 10 shareholders without selling restrictions of the Bank during the Reporting Period	0	0	123,457,855	2.12%
Guosen Securities Company Limited (國信證券股份有限公司)	Excluded from the list of the top 10 shareholders without selling restrictions of the Bank during the Reporting Period	0	0	68,593,282	1.18%

3.4 Controlling Shareholders of the Bank

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

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

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

3.6 The total amount of shares pledged by the controlling shareholder or the largest shareholder of the Bank and the person acting in concert accounts for 80% of the total amount of shares held by the Bank

At the end of the Reporting Period, Haier Group Corporation held shares in the Bank through eight companies within the group and was the largest shareholder of the Bank. These eight companies were parties acting in concert and had not pledged any of their shares in the Bank.

3.7 Substantial shareholders of the Bank

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

1. Haier Group Corporation

Haier Group Corporation (unified social credit code: 91370200163562681G) was established on 24 March 1980 with its legal representative of ZHOU Yunjie and a registered capital of RMB311.18 million. It is mainly engaged in technology development, technology consultancy, technology transfer, technology services, including industrial internet, etc.; data processing; engaged in digital technology, intelligent technology, software technology; research and development, sales and after-sales services of robots and automation equipment products; logistics information services; the research and development and sales of intelligent household equipment and solution system software technology; the production of household appliances, electronic products, communication equipment, electronic computers and accessories, general machinery, kitchen appliances and robots for industrial purpose; domestic commercial (excluding national restricted, licensed and controlled commodities) wholesale and retail; export and import business; economic technology consultancy; and research, development and transfer of technological achievements; lease of self-owned properties.

Haier Group Corporation is a world's leading provider of better life solutions. It is committed to working with the world's first-class ecological partners to continue building high-end brands, scenario-based brands and ecological brands, building an IOT ecosystem covering clothing, food, housing, transportation, health care, medical and education, etc., and customizing personalized smart life for global users.

Section IX Changes in Shareholdings and Information on Shareholders

As at the end of the Reporting Period, Haier Group Corporation held a total of 1,055,878,943 A shares of the Bank via eight companies within the group, which accounted for 18.14% of the total ordinary share capital. The above shares were not pledged or frozen. Haier Smart Home Co., Ltd. (海爾智家股份有限公司) was one of those eight companies, and the directors recommended to the Bank were ZHOU Yunjie and TAN Lixia. These eight companies were persons acting in concert. The ultimate beneficiary of Haier Group Corporation is itself, and Haier Group Corporation is the de facto controller of Haier Smart Home Co., Ltd. (collectively accounting for 34.27% of equity interests), INKON Life Technology Co., Ltd. (collectively accounting for 41.42% of equity interests), Qingdao Haier Biomedical Co., Ltd. (collectively accounting for 42.66% of equity interests) and Qingdao Thunderobot Technology Co., Ltd.* (青島雷神科技股份有限公司) (collectively accounting for 30.72% of equity interests). 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 Corporation and its related parties was RMB2,363 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

2. Intesa Sanpaolo S.p.A.

Intesa Sanpaolo S.p.A. (business registration number: 00799960158) 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 EUR10,369 million. Intesa Sanpaolo S.p.A. is a multi-national bank headquartered in Turin, 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 3,300 branches in Italy, providing 13.60 million customers with high-quality service. Intesa Sanpaolo S.p.A. has established a strategic international layout, including approximately 900 branches serving 7.20 million customers, commercial banking in 12 countries and an international and professional service network for corporate customers in 25 countries.

As at the end of the Reporting Period, Intesa Sanpaolo S.p.A. held 1,018,562,076 H shares of the Bank, which accounted for 17.50% of the total ordinary share capital. The above shares were not pledged or frozen. The directors recommended to the Bank by Intesa Sanpaolo S.p.A. were Rosario STRANO and Marco MUSSITA. Intesa Sanpaolo S.p.A. has no controlling shareholders, no de facto controllers, no persons acting in concert, and its ultimate beneficiary is itself and itself is a listed company, and the listed companies controlled by RISANAMENTO SPA (accounting for 48.88% of equity interests). 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. (unified social credit code: 913702006752895001) was established on 17 July 2008 with LIU Luqiang as its legal representative and a registered capital of RMB3 billion, and was a wholly state-owned company contributed by the State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government on behalf of the Qingdao Municipal People's Government, mainly engaged in the operation of state-owned capital and state-owned equity interests, investments, capital operation and assets management.

¹Note: The data of related party transactions mentioned in this part are based on the caliber specified by the National Financial Regulatory Administration.

Section IX Changes in Shareholdings and Information on Shareholders

Qingdao Conson Development (Group) Co., Ltd. has closely followed the urban development strategy, served the overall situation of urban development, gradually searched for one road for the development of market-oriented reform of the state-owned investment company and formed the primary business sectors of the modern ocean, integrated financial services, urban functionality development, urban operation and services, and has ten core tier-1 subsidiaries and one listed company, together with nearly 60 important participating enterprises. The Group has a domestic main credit rating of AAA and an international credit rating of BBB+ (Fitch) and has been assessed as an A-class enterprise by Municipal State-owned Assets Supervision and Administration Commission for many consecutive years.

As at the end of the Reporting Period, Qingdao Conson Development (Group) Co., Ltd. held a total of 872,471,173 shares of the Bank via three subsidiaries, including 654,623,893 A shares and 217,847,280 H shares, which together accounted for 14.99% of the total ordinary share capital. The above shares were not pledged or frozen. Qingdao Conson Industrial Co., Ltd., was one of the three companies, and the director recommended to the Bank was DENG Youcheng. The controlling shareholder and the de facto controller of Qingdao Conson Development (Group) Co., Ltd. is the State-owned Assets Supervision and Administration Committee of the Qingdao Municipal People's Government. It has no persons acting in concert, and its ultimate beneficiary is itself. The listed company it can control is Baiyang Aquatic Group, Inc (collectively accounting for 30.16% of equity interests). Qingdao Conson Development (Group) Co., Ltd. has declared to the Bank related parties in accordance with regulatory requirements. At the end of the Reporting Period, the balance of the Bank's credit-related significant related party transactions between the Bank and Qingdao Conson Development (Group) Co., Ltd. and its related parties was RMB354 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

3.7.2 Other substantial shareholders under the regulatory caliber

Qingdao East Steel Tower Stock Co., Ltd. (unified social credit code: 91370200169675791C) was established on 1 August 1996 with its legal representative of HAN Fangru and a registered capital of RMB1.244 billion. It is a company listed on the SZSE (stock code: 002545). It underwent restructuring in 2016 and was transformed into a listed company with dual main businesses in steel structure and potash fertilizer industry.

As at the end of the Reporting Period, Qingdao East Steel Tower Stock Co., Ltd. held 174,083,000 A shares of the Bank via its subsidiary, Qingdao Hairen Investment Co., Ltd., accounting for 2.99% of the total ordinary share capital. The above shares were not pledged or frozen. Qingdao East Steel Tower Co., Ltd. recommended HE Liangjun, a shareholder Supervisor to the Bank, and pursuant to the provisions of the National Financial Regulatory Administration, it was a substantial shareholder of the Bank. The controlling shareholder and de facto controller of Qingdao East Steel Tower Stock Co., Ltd. is HAN Huiru. It has no persons acting in concert, and its ultimate beneficiary is itself. Qingdao East Steel Tower Stock Co., Ltd. has declared to the Bank related parties in accordance with regulatory requirements. During the Reporting Period, there were no significant related party transactions between the Bank and Qingdao East Steel Tower Stock Co., Ltd. or its related parties.

3.8 Restrictions on reduction of shares for the controlling shareholder, de facto controller, party to restructuring and other commitment entity

N/A.

IV. DETAILS OF THE IMPLEMENTATION OF THE SHARE REPURCHASE DURING THE REPORTING PERIOD

During the Reporting Period, the Bank did not have any plan for the repurchase of its shares or implement the repurchase of its shares.

V. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

At the end of the Reporting Period, the Bank was informed by the following persons in relation to their interests and short positions in the issued shares and underlying shares of the Bank as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name of shareholders	Notes	Type of shares	Capacity	Number of shares held	Approximate	Approximate	Approximate	Long/short position
					percentage of the total number of shares ^(B)	percentage of the total number of A shares ^(B)	percentage of the total number of H shares ^(B)	
Haier Group Corporation (海爾集團公司)	1	A shares	Interest of controlled corporation	1,055,878,943	18.14	29.93	–	Long
Haier Kazosi Co., Ltd. (海爾卡奧斯股份有限公司)	2	A shares	Interest of controlled corporation	532,601,341	9.15	15.09	–	Long
Qingdao Haier Industrial Development Co., Ltd. (青島海爾產業發展有限公司)	2	A shares	Beneficial owner	532,601,341	9.15	15.09	–	Long
Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	–	A shares	Beneficial owner	188,886,626	3.25	5.35	–	Long
			Interest of controlled corporation	318,085,033	5.46	9.01	–	Long
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	–	A shares	Beneficial owner	284,299,613	4.88	8.06	–	Long
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)	3	A shares	Interest of controlled corporation	654,623,893	11.25	18.55	–	Long
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	3	A shares	Beneficial owner	654,623,893	11.25	18.55	–	Long
Intesa Sanpaolo S.p.A.	–	H shares	Beneficial owner	1,018,562,076	17.50	–	44.44	Long
AMTD Group Company Limited	4	H shares	Interest of controlled corporation	225,033,531	3.87	–	9.82	Long
			Beneficial owner	196,882,000	3.38	–	8.59	Long
AMTD Investment Solutions Group Limited	4	H shares	Beneficial owner	28,151,531	0.48	–	1.23	Long
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	3.44	–	8.73	Long
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)	5	H shares	Interest of controlled corporation	217,847,280	3.74	–	9.50	Long
Qingdao Conson Financial Holdings Co., Ltd. (青島國信金融控股有限公司)	5	H shares	Interest of controlled corporation	217,847,280	3.74	–	9.50	Long
Haitian (HK) Holdings Limited (海天(香港)控股有限公司)	5	H shares	Beneficial owner	217,847,280	3.74	–	9.50	Long
Guosen Securities Company Limited (國信證券股份有限公司) on behalf of Guosen Securities QDII Huisheng No.6 Single Asset Management Scheme	–	H shares	Investment manager	231,618,500	3.98	–	10.11	Long
Ji'nan Pioneer Investment Group Co., Ltd. (濟南先行投資集團有限責任公司)	–	H shares	Beneficial owner	231,618,500	3.98	–	10.11	Long

Section IX Changes in Shareholdings and Information on Shareholders

Notes:

- (1) 1,055,878,943 shares of the Bank are held by Haier Group Corporation via its directly or indirectly controlled companies.
- (2) 532,601,341 shares of the Bank are directly held 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) AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited hold 196,882,000 shares and 28,151,531 shares of the Bank respectively. AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited are controlled by AMTD Group Company Limited. Therefore, AMTD Group Company Limited is deemed to be interested in all the shares of the Bank held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited.

According to the disclosure of interests notices submitted by L.R. Capital Financial Holdings Limited, L.R. Capital MNP Limited and L.R. Capital Management Company (Cayman) Limited in relation to the relevant event on 26 June 2020, L.R. Capital Financial Holdings Limited holds 61.57% interest in AMTD Group Company Limited, and L.R. Capital MNP Limited and L.R. Capital Management Company (Cayman) Limited indirectly holds interest in AMTD Group Company Limited through a controlled corporation. Therefore, L.R. Capital Financial Holdings Limited, L.R. Capital MNP Limited and L.R. Capital Management Company (Cayman) Limited are deemed to be interested in all the shares of the Bank held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited.

According to the disclosure of interests notices submitted by CM International Capital Limited, CM International Capital Limited (中國國際資本有限公司) and China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) in relation to the relevant event on 18 September 2017, CM International Capital Limited holds 34.10% interest in L.R. Capital Financial Holdings Limited, CM International Capital Limited is 100% owned by CM International Capital Limited (中國國際資本有限公司), and CM International Capital Limited (中國國際資本有限公司) is 100% owned by China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司). Therefore, CM International Capital Limited, CM International Capital Limited (中國國際資本有限公司) and China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) are deemed to be interested in all the shares of the Bank held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited (i.e. 401,800,000 H shares (long position) in the capacity of controlled corporation) at that time.

- (5) Haitian (HK) Holdings Limited holds 217,847,280 shares of the Bank. To the best of the Bank's knowledge, Haitian (HK) Holdings Limited is wholly-owned by Qingdao Conson Financial Holdings Co., Ltd. which is 90.27% owned by Qingdao Conson Development (Group) Co., Ltd.
- (6) Save as disclosed in the above table, according to the disclosure of interests notices submitted by Ariana Capital Investment Limited in relation to the relevant event on 26 June 2020, Ariana Capital Investment Limited was interested in 176,766,469 H shares of the Bank directly held by it. As at the latest practicable date for disclosure of this annual report, no other disclosure of interests notices have been submitted by them.

Section IX Changes in Shareholdings and Information on Shareholders

- (7) Under Section 336 of the SFO, forms disclosing of interests shall be submitted by shareholders of the Bank upon satisfaction of certain conditions. Changes of shareholders' shareholdings in the Bank are not required to inform the Bank and the Hong Kong Stock Exchange, except for the satisfaction of certain conditions. Therefore, there could be difference between shareholders' latest shareholdings in the Bank and the shareholdings submitted to the Hong Kong Stock Exchange.
- (8) As at 31 December 2023, the number of the Bank's total issued ordinary shares, A shares and H shares are 5,820,354,724 shares, 3,528,409,250 shares and 2,291,945,474 shares, respectively.

As at 31 December 2023, save as disclosed above, in so far as the Directors, Supervisors and chief executives of the Bank are aware, there is no person who had an interest or short position in the shares, underlying shares or equity derivatives of the Bank which is required to be recorded in the register to be kept under section 336 of the SFO.

Section X Preference Shares

At the end of the Reporting Period, the Bank had no outstanding preference shares.

Section XI Report of the Board of Directors

I. PRINCIPAL ACTIVITIES

The principal activities of the Bank are: accept deposits from the public; provide short-term, medium-term and long-term loans; conduct domestic and overseas settlements; conduct acceptance, discounting and inter-bank discounting of notes; issue financial bonds; issue, cash-in and underwrite government bonds and financial bonds as agent; trade government bonds, financial bonds and corporate bonds; participate in interbank lending and borrowing and interbank deposit businesses; perform foreign exchange trading as agent; carry out the foreign exchange settlement and sales businesses; engage in bank card business; provide letter of credit service and guarantee; perform receipt and payment, insurance business as agent as well as other agency services including sales of precious metals; provide safe deposit box service; bond settlement agency business and the time deposits business of commercial banks for cash management of central treasury; securities investment fund custody; public securities investment fund sales; ordinary derivatives trading business; other businesses approved by the relevant national regulatory authorities.

II. OPERATIONS IN COMPLIANCE WITH LAWS AND REGULATIONS

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

III. BUSINESS REVIEW AND OUTLOOK

The business review and financial indicator of the Company during the Reporting Period and its development outlook for the upcoming year are set out in section “Corporate Information and Key Financial Highlights” and “Management Discussion and Analysis” of this annual report.

IV. EXPOSURE TO MAJOR RISKS

Please refer to section “Management Discussion and Analysis” for the major risks the Bank had exposed to during the Reporting Period.

V. EARNINGS AND DIVIDENDS

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

Taxation applying to dividends on ordinary shares

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

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

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

Section XI Report of the Board of Directors

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

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

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

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

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

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

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

VI. ANNUAL GENERAL MEETING OF 2023 AND THE DATE OF THE CLOSURE OF REGISTER OF MEMBERS

The Bank intends to hold the 2023 annual general meeting on Friday, 31 May 2024. In order to determine the list of shareholders of H shares who are entitled to attend and vote at the 2023 annual general meeting, the H share register of members of the Bank will be closed from Monday, 27 May 2024 to Friday, 31 May 2024 (both days inclusive), during such period no transfer of H shares will be registered. Shareholders of H shares of the Bank who intend to attend and vote at the annual general meeting must lodge all the transfer documents together with the relevant share certificates with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 24 May 2024.

VII. DISTRIBUTABLE RESERVES

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

VIII. FINANCIAL INFORMATION HIGHLIGHTS

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

IX. DONATIONS

During the Reporting Period, the Company made charitable and other donations of approximately RMB1.59 million, Bank of Qingdao Charitable Foundation in Qingdao City made charitable donations of approximately RMB2.08 million, and the Company and Bank of Qingdao Charitable Foundation in Qingdao City made total external donations of approximately RMB3.67 million.

X. ENVIRONMENTAL POLICIES AND PERFORMANCE

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

XI. FIXED ASSETS

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

XII. ACQUISITIONS, DISPOSAL OF ASSETS DURING THE REPORTING PERIOD

During the Reporting Period, the Bank had no material acquisition and disposal of assets.

XIII. RETIREMENT BENEFITS

The retirement benefits provided by the Company to employees include defined contribution plan and defined benefit plan. The defined contribution plan is the enterprise annuity plan and the basic pension insurance in the social security system established and managed by the government agency that our employees participated in according to the requirements of relevant Chinese laws and regulations. As for defined benefit plan, an independent actuary, Towers Watson Management Consulting Co., Ltd. (韜睿惠悅管理諮詢有限公司), an independent actuary was engaged by the Company in 2022 to assess the plan. The plan did not have corresponding asset and contribution, without significant changes incurred during the Reporting Period. Towers Watson Management Consulting Co., Ltd. engaged a member of society of Actuaries in America. For details, please refer to notes to the financial statements of this annual report.

XIV. SUBSTANTIAL SHAREHOLDERS

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

XV. 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.

XVI. PRE-EMPTIVE RIGHTS

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

XVII.EMPLOYEES AND MAJOR CUSTOMER

Please refer to section "Corporate Governance" and the Social Responsibility Report published by the Bank on the website of the SZSE, HKEXnews website of the Hong Kong Stock Exchange, and the official website of the Bank for details of employees and employment policies of the Bank.

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

XVIII.ISSUANCE OF DEBENTURE

On 4 December 2023, the Bank issued "2023 Green Financial Bond of Bank of Qingdao Co., Ltd." in China's national inter-bank bond market. The issue size of the bonds was RMB8.0 billion. The green financial bonds are 3-year fixed-rate bonds with a coupon rate of 2.84%. All proceeds were applicable to the green projects specified in the Green Bond Endorsed Project Catalogue (2021 version) (《綠色債券支持項目目錄(2021版)》) in accordance with the applicable laws and as approved by relevant regulatory authorities.

XIX. EQUITY-LINKED AGREEMENT

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

XX. USE OF RAISED FUNDS

Please refer to section "Management Discussion and Analysis" for details of the use of raised funds of the Bank.

XXI. UNDERTAKINGS REGARDING THE LISTING OF H SHARES

As at the end of the Reporting Period, the Bank and the shareholders of the Bank have fulfilled their commitments in relation to the listing of H shares.

XXII.SHARE CAPITAL

Details of changes in the share capital of the Bank during the Reporting Period are set out in section "Changes in Shareholdings and Information on Shareholders".

XXIII. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Information on the Directors, Supervisors and senior management of the Bank during the Reporting Period are set out in section “Corporate Governance”.

XXIV. CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

XXVI. ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

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

XXVIII. PERMITTED INDEMNITY PROVISIONS AND INSURANCE FOR DIRECTORS

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

XXIX. MANAGEMENT CONTRACTS

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

XXX. DIRECTORS AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

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

XXXI. CORPORATE GOVERNANCE

Please refer to section “Corporate Governance” for details.

XXXII CONNECTED TRANSACTIONS

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

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

XXXIII. REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please refer to section "Corporate Governance" for details.

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

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

Name of Director/Supervisor/ chief executive	Type of shares	Capacity	Number of shares held	Percentage of the total number of ordinary shares ^{Note}	Percentage of the total number of A shares ^{Note}	Long position/ short position
YANG Fengjiang	A shares	Beneficial owner	650,000	0.01%	0.02%	Long position
CHEN Shuang	A shares	Beneficial owner	455,000	0.01%	0.01%	Long position
MENG Xianzheng	A shares	Beneficial owner	481,391	0.01%	0.01%	Long position

Note: The aforementioned percentages are calculated according to the total number of shares of 5,820,354,724 shares and the total number of A shares of 3,528,409,250 shares of the Bank at the end of the Reporting Period.

Apart from the above, in so far as the Directors, Supervisors and chief executives of the Bank are aware, no one had any interests or short positions in the shares, debentures and 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.

XXXV. PUBLIC FLOAT

Based on the public information available to the Bank and to the knowledge of the Directors, as at the end of the Reporting Period, the Bank has maintained sufficient public float as required by the Hong Kong Stock Exchange. As at the date of this report, the public float of the Bank's A shares and H shares was 49.34%.

XXXVI. AUDITORS

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

By order of the Board



JING Zailun
Chairman

Section XII Report of the Board of Supervisors

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

I. COMPLIANT OPERATIONS OF THE COMPANY

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

II. AUTHENTICITY OF FINANCIAL REPORT

KPMG Huazhen LLP and KPMG audited the 2023 annual financial statements prepared by the Company in accordance with Accounting Standards for Business Enterprises and IFRSs respectively, and issued unqualified audit reports. The financial report has truly and completely reflected the financial position and operating results of the Bank as at 31 December 2023.

III. INFORMATION DISCLOSURE

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

IV. ACQUISITION AND DISPOSAL OF ASSETS OF THE COMPANY

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

V. RELATED PARTY TRANSACTIONS

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

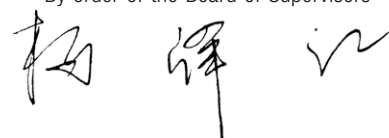
VI. IMPLEMENTATION OF RESOLUTIONS OF THE SHAREHOLDERS' GENERAL MEETING

The Board of Supervisors had no objection to the reports and proposals submitted by the Board of Directors to the shareholders' general meeting of the Bank in 2023; supervised the implementation of the resolutions of the shareholders' general meeting, and considered that the Board of Directors had conscientiously implemented the relevant resolutions of the shareholders' general meeting.

VII. INTERNAL CONTROL

The Board of Supervisors reviewed the 2023 Annual Internal Control Evaluation Report of Bank of Qingdao Co., Ltd. and had no objection to the contents of the report. During the Reporting Period, there was no material deficiency in the integrity, rationality, effectiveness and implementation of the Bank's internal control mechanisms and systems were found.

By order of the Board of Supervisors



YANG Fengjiang
Chief Supervisor

Independent auditor's report

Independent auditor's report to the shareholders of Bank of Qingdao Co., Ltd.

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

OPINION

We have audited the consolidated financial statements of Bank of Qingdao Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 186 to 313, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Independent auditor's report

Independent auditor's report to the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

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

Refer to the accounting policies in note 2(4), and note 19 and note 22 to the financial statements.

The Key Audit Matter

How the matter was addressed in our audit

As at 31 December 2023, gross loans and advances to customers and accrued interest included for the purpose of expected credit loss assessment, as presented in the Group's consolidated statement of financial position, amounted to RMB300,848 million, for which management recognized an impairment allowance of RMB7,997 million; total financial investments measured at amortised cost and accrued interest included for the purpose of expected credit loss assessment amounted to RMB57,237 million, for which management recognized an impairment allowance of RMB4,481 million.

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

The determination of loss allowances of loans and advances to customers and financial investments measured at amortised cost using the expected credit loss model is subject to the application of a number of key parameters and assumptions, including the credit risk staging, probability of default, loss given default, exposures at default and discount rates, adjustments for forward-looking information and other adjustment factors. Extensive management judgment is involved in the selection of those parameters and the application of the assumptions.

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

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

- understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and advances to customers and financial investments measured at amortised cost, the credit risk staging process and the measurement of provisions for impairment.
- with the assistance of our financial risk specialists, assessing the appropriateness of the expected credit loss model used by management in determining the loss allowances and the appropriateness of the key parameters and assumptions in the expected credit loss model, which included credit risk staging, probability of default, loss given default, exposure at default, adjustments for forward-looking information and other adjustments, and assessing the appropriateness of related key management judgment.
- for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collaterals. As part of these procedures, we assessed management's revisions to estimates and input parameters by comparing with prior period and considered the consistency of judgement.

Independent auditor's report

Independent auditor's report to the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

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

Refer to the accounting policies in note 2(4), and note 19 and note 22 to the financial statements.

The Key Audit Matter

How the matter was addressed in our audit

Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include the financial situation of the borrowers or the debtors, the security types, the recoverable amounts of collaterals, the seniority of the claims, and other repayment sources of the borrower or the debtor. Management refers to valuation reports of collaterals issued by qualified third party valuers and considers the influence of various factors including the market prices, locations and uses when assessing the value of property held a collateral. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of a collateral.

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

- comparing the macroeconomic forward-looking information used in the model with market information to assess whether they were aligned with market and economic development.
- assessing the completeness and accuracy of data used in the expected credit loss model. For key internal data, we compared the total balance of list of the loans and advances and financial investments measured at amortised cost used by management to assess the allowances for impairment with the general ledger, to check the completeness of the data. We also selected samples to compare individual loan and advance and investment information with the underlying agreements and other related documentation, to check the accuracy of the data, and to check the accuracy of external data by comparing them with public resources.
- for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the compilation logics of the overdue information of the loans and advances and financial investments measured at amortised cost and the system calculation of the internal credit grading of corporate customers for selected samples.

Independent auditor's report

Independent auditor's report to the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

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

Refer to the accounting policies in note 2(4), and note 19 and note 22 to the financial statements.

The Key Audit Matter

How the matter was addressed in our audit

- evaluating the validity of management's assessment on whether the credit risk of the loan and advance or the financial investment measured at amortised cost has, or has not, increased significantly since initial recognition and whether the loan and advance or the financial investment is credit-impaired by selecting samples which we checked loan and advance and investment overdue information, making enquiries of the credit managers about the borrowers' or the debtors' business operations, checking their financial information and researching market information about their businesses, understanding the credit risk status of the borrower or the debtor, and assessing the reasonableness of credit risk staging. Our samples of the loan and advance or the financial investment measured at amortised cost selected for credit review focus on accounts with high risk characteristics, including industries, public information and credit quality of accounts.
- evaluating the reasonableness of loss given default for selected samples of corporate loans and advances or financial investment measured at amortised cost that are credit-impaired, by checking the financial situation of the borrowers or the debtors, the security types, the seniority of the claims, the recoverable amount of collaterals, and other repayment sources of the borrower or the debtor. Evaluating management's assessment of the value of any property collateral, by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, assessed the viability of the Group's recovery plans; based on the above work, we selected samples and assessed the accuracy of calculation for the credit losses of loans and advances and financial investments measured at amortised cost by using the expected credit loss model.
- evaluating whether the presentation and disclosures in the consolidated financial statements in relation to loss allowances of loans and advances and financial investments measured at amortised cost meet the requirements of the prevailing accounting standards.

Independent auditor's report

Independent auditor's report to the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

2. Assessment of fair value of financial instruments

Refer to the accounting policies in note 2(4), and note 45 to the financial statements.

The Key Audit Matter

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

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

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

How the matter was addressed in our audit

Our audit procedures to assess the fair value of level 2 and 3 financial instruments included the following:

- understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the valuation, independent price verification, front office/back office reconciliations and valuation model approval for financial instruments.
- evaluating the fair value of level 2 and level 3 financial instruments on sample basis, by evaluating the Group's valuation models, obtaining inputs independently and verifying inputs, comparing our valuation results with the Group's results, and engaging KPMG valuation specialists to conduct independent valuation.
- evaluating whether the presentation and disclosures in the consolidated financial statements in relation to fair value of financial instruments meet the requirements of the prevailing accounting standards.

Independent auditor's report

Independent auditor's report to the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

3. Consolidation of structured entities

Refer to the accounting policies in note 2(24), and note 47 to the financial statements.

The Key Audit Matter

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

In determining whether the Group should consolidate a structured entity, management is required to consider the power it possesses, its exposure to variable returns, and its ability to use its power to affect returns. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions.

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

How the matter was addressed in our audit

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

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

Independent auditor's report

Independent auditor's report to the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Independent auditor's report

Independent auditor's report to the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Fong Hoi Wan.

KPMG

Certified Public Accountants

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

28 March 2024

Consolidated statement of profit or loss

for the year ended 31 December 2023 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2023	2022
Interest income		21,140,032	19,830,162
Interest expense		(11,858,063)	(11,541,848)
Net interest income	3	9,281,969	8,288,314
Fee and commission income		2,113,031	1,791,282
Fee and commission expense		(526,512)	(346,152)
Net fee and commission income	4	1,586,519	1,445,130
Net trading (losses)/gains	5	(168,992)	741,182
Net gains arising from investments	6	1,622,863	1,057,175
Other operating income	7	158,992	117,454
Operating income		12,481,351	11,649,255
Operating expenses	8	(4,516,428)	(4,218,441)
Expected credit losses	11	(4,014,079)	(4,288,828)
Impairment losses on other assets		(17,447)	(6,027)
Profit before taxation		3,933,397	3,135,959
Income tax expense	12	(261,977)	31,566
Net profit for the year		3,671,420	3,167,525
Net profit attributable to:			
Equity shareholders of the Bank		3,548,599	3,082,775
Non-controlling interests		122,821	84,750
Basic and diluted earnings per share (in RMB)	13	0.57	0.45

The notes on pages 194 to 313 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2023 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2023	2022
Net profit for the year		3,671,420	3,167,525
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Remeasurement of defined benefit liability	39(4)	(1,965)	(5,280)
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	39(4)	834,836	(459,440)
– Credit losses of financial assets measured at fair value through other comprehensive income	39(4)	30,614	(198,053)
Other comprehensive income, net of tax		863,485	(662,773)
Total comprehensive income for the year		4,534,905	2,504,752
Total comprehensive income attributable to:			
Equity shareholders of the Bank		4,412,084	2,420,002
Non-controlling interests		122,821	84,750

The notes on pages 194 to 313 form part of these financial statements.

Consolidated statement of financial position

as at 31 December 2023 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2023	31 December 2022
Assets			
Cash and deposits with the central bank	14	31,043,664	27,825,306
Deposits with banks and other financial institutions	15	2,210,368	2,301,037
Placements with banks and other financial institutions	16	14,021,225	8,432,022
Derivative financial assets	17	149,377	108,376
Financial assets held under resale agreements	18	13,944,652	–
Loans and advances to customers	19	292,992,926	262,518,662
Financial investments:			
– Financial investments measured at fair value through profit or loss	20	58,269,523	47,259,762
– Financial investments measured at fair value through other comprehensive income	21	114,985,134	96,678,701
– Financial investments measured at amortised cost	22	52,756,509	58,202,665
Long-term receivables	24	16,741,773	15,280,949
Property and equipment	25	3,540,989	3,466,386
Right-of-use assets	26	838,139	826,958
Deferred tax assets	27	3,793,887	3,446,343
Other assets	28	2,697,206	3,266,825
Total assets		607,985,372	529,613,992
Liabilities			
Borrowings from the central bank	29	18,235,088	13,256,605
Deposits from banks and other financial institutions	30	2,242,331	6,439,660
Placements from banks and other financial institutions	31	21,090,364	17,808,095
Derivative financial liabilities	17	71,107	188,147
Financial assets sold under repurchase agreements	32	36,880,567	25,634,354
Deposits from customers	33	395,467,359	348,043,307
Income tax payable		477,981	703,876
Debt securities issued	34	89,269,785	74,866,951
Lease liabilities	35	555,035	515,043
Other liabilities	36	3,756,512	5,564,659
Total liabilities		568,046,129	493,020,697

The notes on pages 194 to 313 form part of these financial statements.

Consolidated statement of financial position (continued)

as at 31 December 2023 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2023	31 December 2022
Equity			
Share capital	37	5,820,355	5,820,355
Other equity instruments			
Including: perpetual bonds	38	6,395,783	6,395,783
Capital reserve	39(1)	10,687,634	10,687,634
Surplus reserve	39(2)	2,718,114	2,388,248
General reserve	39(3)	7,483,824	6,618,047
Other comprehensive income	39(4)	947,211	83,726
Retained earnings	40	5,011,018	3,822,519
Total equity attributable to equity shareholders			
of the Bank		39,063,939	35,816,312
Non-controlling interests		875,304	776,983
Total equity		39,939,243	36,593,295
Total liabilities and equity		607,985,372	529,613,992

Approved and authorised for issue by the board of directors on 28 March 2024.

Jing Zailun

*Legal Representative
(Chairman)*

Wu Xianming

President

Chen Shuang

*Vice President in charge
of Finance Function*

Li Zhenguo

*General Manager of the Planning &
Finance Department*

(Company Stamp)

The notes on pages 194 to 313 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2023 (Expressed in thousands of Renminbi, unless otherwise stated)

For the year ended 31 December 2023

	Note	Attributable to equity shareholders of the Bank							Total	Non-controlling interests	Total equity
		Share capital	Other equity instrument Perpetual bonds	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings			
Balance at 1 January 2023		5,820,355	6,395,783	10,687,634	2,388,248	6,618,047	83,726	3,822,519	35,816,312	776,983	36,593,295
Total comprehensive income		-	-	-	-	-	863,485	3,548,599	4,412,084	122,821	4,534,905
Appropriation of profit:											
– Appropriation to surplus reserve	39(2)	-	-	-	329,866	-	-	(329,866)	-	-	-
– Appropriation to general reserve	39(3)	-	-	-	-	865,777	-	(865,777)	-	-	-
– Dividends	40	-	-	-	-	-	-	(1,164,457)	(1,164,457)	(24,500)	(1,188,957)
Balance at 31 December 2023		5,820,355	6,395,783	10,687,634	2,718,114	7,483,824	947,211	5,011,018	39,063,939	875,304	39,939,243

The notes on pages 194 to 313 form part of these financial statements.

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2023 (Expressed in thousands of Renminbi, unless otherwise stated)

For the year ended 31 December 2022

	Attributable to equity shareholders of the Bank										Non-controlling interests	Total equity
	Note	Share capital	Other equity instruments		Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total		
			Preference shares	Perpetual bonds								
Balance at 1 January 2022		4,509,690	7,853,964	-	8,337,869	2,103,883	5,576,461	746,499	3,507,129	32,635,495	692,233	33,327,728
Total comprehensive income		-	-	-	-	-	-	(662,773)	3,082,775	2,420,002	84,750	2,504,752
Capital injection and deduction by shareholders:												
- Capital injection by ordinary shareholders	37	1,310,665	-	-	2,844,140	-	-	-	-	4,154,805	-	4,154,805
- Capital injection by other equity instrument holders	38	-	-	6,395,783	-	-	-	-	-	6,395,783	-	6,395,783
- Capital deduction by other equity instrument holders		-	(7,853,964)	-	(494,375)	-	-	-	-	(8,348,339)	-	(8,348,339)
Appropriation of profit:												
- Appropriation to surplus reserve	39(2)	-	-	-	-	284,365	-	-	(284,365)	-	-	-
- Appropriation to general reserve	39(3)	-	-	-	-	-	1,041,586	-	(1,041,586)	-	-	-
- Dividends	40	-	-	-	-	-	-	-	(1,441,434)	(1,441,434)	-	(1,441,434)
Balance at 31 December 2022		5,820,355	-	6,395,783	10,687,634	2,388,248	6,618,047	83,726	3,822,519	35,816,312	776,983	36,593,295

The notes on pages 194 to 313 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2023 (Expressed in thousands of Renminbi, unless otherwise stated)

	2023	2022
Cash flows from operating activities		
Profit before taxation	3,933,397	3,135,959
<i>Adjustments for:</i>		
Expected credit losses	4,014,079	4,288,828
Impairment losses on other assets	17,447	6,027
Depreciation and amortisation	565,168	547,473
Unrealised foreign exchange losses/(gains)	98,975	(653,140)
Net (gains)/losses on disposal of property and equipment, intangible assets and other assets	(27,369)	1,042
Dividend income	(5,800)	(8,000)
(Gains)/Losses from changes in fair value	(323,405)	1,326,823
Net gains arising from investments	(1,293,782)	(2,376,258)
Interest expense on debt securities issued	2,074,024	2,709,725
Interest income from financial investments	(5,470,243)	(5,210,430)
Others	(11,734)	2,407
	3,570,757	3,770,456
<i>Changes in operating assets</i>		
Net (increase)/decrease in deposits with the central bank	(1,299,260)	876,604
Net decrease/(increase) in deposits with banks and other financial institutions	100,000	(80,000)
Net increase in placements with banks and other financial institutions	(4,048,000)	(7,850,000)
Net increase in loans and advances to customers	(32,293,707)	(26,803,985)
Net (increase)/decrease in financial assets held under resale agreements	(13,950,000)	12,303,355
Net increase in long-term receivables	(1,672,286)	(3,683,039)
Net increase in other operating assets	(180,894)	(89,368)
	(53,344,147)	(25,326,433)
<i>Changes in operating liabilities</i>		
Net increase/(decrease) in borrowings from the central bank	4,877,609	(12,177,107)
Net (decrease)/increase in deposits from banks and other financial institutions	(4,174,687)	68,577
Net increase in placements from banks and other financial institutions	3,292,994	823,824
Net increase in financial assets sold under repurchase agreements	11,473,894	90,548
Net increase in deposits from customers	44,715,083	27,822,253
Net increase in other operating liabilities	848,670	3,569,064
	61,033,563	20,197,159
Income tax paid	(1,123,243)	(315,907)
Net cash flows generated from/(used in) operating activities	10,136,930	(1,674,725)
Cash flows from investing activities		
Cash received from disposal and redemption of investments	49,029,018	58,448,688
Cash received from investment gains and interest	7,273,934	7,417,275
Cash received from disposal of property and equipment, intangible assets and other assets	6,682	1,233
Payments for acquisition of investments	(72,959,278)	(75,639,964)
Payments for acquisition of property and equipment, intangible assets and other assets	(403,917)	(493,960)
Net cash flows used in investing activities	(17,053,561)	(10,266,728)

The notes on pages 194 to 313 form part of these financial statements.

Consolidated statement of cash flows (continued)

for the year ended 31 December 2023 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2023	2022
Cash flows from financing activities	41(2)		
Cash received from investors		–	4,177,534
Proceeds from issuance of other equity instruments		–	6,400,000
Cash received from debt securities issued		106,455,676	71,080,326
Repayment of debt securities issued		(91,930,519)	(88,101,992)
Payment for redemption of other equity instruments		–	(8,348,339)
Payments for interest on debt securities issued		(2,196,347)	(3,039,408)
Payments for dividends		(1,188,128)	(1,440,645)
Payment for lease liabilities		(148,387)	(146,863)
Payment for other financing activities		–	(29,533)
Net cash flows generated from/(used in) financing activities		10,992,295	(19,448,920)
Effect of foreign exchange rate changes on cash and cash equivalents		12,111	46,002
Net increase/(decrease) in cash and cash equivalents		4,087,775	(31,344,371)
Cash and cash equivalents as at 1 January		11,508,997	42,853,368
Cash and cash equivalents as at 31 December	41(1)	15,596,772	11,508,997
Net cash flows generated from operating activities include:			
Interest received		16,276,438	15,308,429
Interest paid		(7,077,063)	(6,520,564)

The notes on pages 194 to 313 form part of these financial statements.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

Bank of Qingdao Co., Ltd. (the “Bank”), formerly known as Qingdao City Cooperative Bank Co., Ltd., is a joint-stock commercial bank established on 15 November 1996 with the approval of the People’s Bank of China (the “PBOC”) according to the notices Yin Fu [1996] No. 220 “Approval upon the Preparing of Qingdao City Cooperative Bank” and Yin Fu [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 Lu Yin Fu [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 Yin Jian Fu [2007] No.485 issued by the former China Banking Regulatory Commission (the “CBRC”).

The Bank obtained its financial institution licence No. B0170H237020001 from the Qingdao Office of the former China Banking and Insurance Regulatory Commission (the “CBIRC”). The Bank obtained its business license with a unified social credit code 91370200264609602K from Qingdao Municipal Bureau of Administrative Services, and the registered office is located at Building No. 3, No. 6 Qinling Road, Laoshan District, Qingdao City, 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 Shenzhen Stock Exchange (Stock code: 002948). In January and February 2022, the Bank completed the A Share Rights Issue and H Share Rights Issue respectively. The share capital of the Bank increased to RMB5.820 billion after the completion of the above rights issue. The share capital of the Bank is RMB5.820 billion as at 31 December 2023.

The Bank has 16 branches, respectively in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Qingdao Westcoast, Laiwu, Linyi, Jining, Taian, Heze and Rizhao as at 31 December 2023. 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 the subsidiaries is shown in Note 23. The Bank mainly operates in Shandong Province.

For the purpose of this report, Chinese Mainland excludes the Hong Kong Special Administrative Region of the PRC (“Hong Kong”), the Macau Special Administrative Region of the PRC (“Macau”) and Taiwan region.

2 MATERIAL ACCOUNTING POLICY INFORMATION

(1) Statement of compliance and basis of preparation

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

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

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(24).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(1) Statement of compliance and basis of preparation (continued)

The measurement basis used in the preparation of financial statements is historical cost, with the exception of certain financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(4).

(2) Translation of foreign currencies

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

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

Monetary assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rates ruling at the end of the reporting period. Changes in the fair value of monetary assets denominated in foreign currency classified as financial investments at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the monetary assets and other changes in the carrying amount. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in other comprehensive income. The translation differences of other monetary assets and liabilities denominated in foreign currency are recognised in profit or loss.

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

(3) Cash and cash equivalents

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(4) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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

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

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

Measurement of fair value

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

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

(ii) **Classification and subsequent measurement of financial assets**

(a) Classification of financial assets

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

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

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

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(4) Financial instruments (continued)

(ii) Classification and subsequent measurement of financial assets (continued)

(a) Classification of financial assets (continued)

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

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

(b) Subsequent measurement of financial assets

– *Financial assets measured at FVTPL*

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

– *Financial assets measured at amortised cost*

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(4) Financial instruments (continued)

(ii) Classification and subsequent measurement of financial assets (continued)

(b) Subsequent measurement of financial assets (continued)

– Debt investments measured at FVOCI

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

– Equity investments designated as at FVOCI

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

(iii) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as financial liabilities measured at FVTPL and other financial liabilities.

– Financial liabilities measured at FVTPL

A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability, separately stated in the statement of financial position) or it is designated as such on initial recognition.

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

– Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities, financial guarantee contracts and credit commitments arising from transfers of financial assets which did not qualify for derecognition or continuing involvement (see Note 2(4)(iv)).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(4) Financial instruments (continued)

(iv) *Financial guarantee contracts and credit commitments*

Financial guarantee contracts

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

Financial guarantee contracts are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, income related to financial guarantee is allocated and recognised in profit or loss in accordance with the policies in Note 2(16). A financial guarantee contract is measured at the higher of the amount of the loss allowance determined in accordance with impairment policies of financial instruments (see Note 2(4)(v)) and the amount initially recognised less the cumulative amount of income.

Credit commitments

Credit commitments are commitments to grant credit under the established contract terms and conditions.

The impairment allowance of credit commitments provided by the Group is measured using the expected credit loss (ECL) model. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by issuing another financial instrument.

For credit commitments and financial guarantee contracts, the loss allowance is recognised as a provision.

(v) *Impairment*

The Group recognises loss allowances for ECL on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI;
- lease receivables; and
- financial guarantee contracts issued and loan commitments, which are not measured at FVTPL.

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(4) Financial instruments (continued)

(v) *Impairment (continued)*

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value, discounted at effective interest rate or the credit-adjusted effective interest rate on purchased or originated credit-impaired (POCI) financial assets, of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The Group's method of measuring ECLs of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

The maximum period considered when estimating ECLs is the maximum contractual period (including extension options) over which the Group is exposed to credit risk.

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

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

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

Presentation of allowance for ECL

ECLs are remeasured at the end of each reporting period to reflect changes in the financial instruments' credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income. The Group recognises loss allowances for loan commitments and financial guarantee contracts that are not measured at FVTPL in contingent liabilities. (See Note 36(2)).

Write-off

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(4) Financial instruments (continued)

(vi) **Offsetting**

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

- The Group currently has a legally enforceable right to set off the recognised amounts; and
- The Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(vii) **Derecognition of financial assets and financial liabilities**

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

- The Group's contractual rights to the cash flows from the financial asset expire;
- The financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or
- The financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

When the financial asset has been transferred, if the Group neither transfers nor retains substantially all of the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(4) Financial instruments (continued)

(vii) Derecognition of financial assets and financial liabilities (continued)

Securitisation

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

Sales of assets on condition of repurchase

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

(viii) Modification of financial assets contracts

In some cases, the Group may modify or otherwise renegotiate the financial assets contracts. The Group would assess whether or not the modified or renegotiated contractual terms are substantially different to the original terms.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a new asset under the revised terms.

If the modification or renegotiation does not result in derecognition, but leads to changes in contractual cash flows, the Group recalculates the carrying amount of the financial asset and recognised the relevant gain or loss in profit or loss for the period. When assessing whether a significant increase in credit risk has occurred, the Group compares the risk of a default occurring under the revised terms as at the end of the reporting period with that as at the date of initial recognition under original terms.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(4) Financial instruments (continued)

(ix) *Derivative financial instruments*

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

An embedded derivative and the host contract together form the hybrid contract. If the host contract included in the hybrid contract is an asset within the scope of International Financial Reporting Standards 9, Financial Instruments, the embedded derivative is no longer split from the host contract of the financial asset, but the hybrid financial instrument as a whole is related to the classification of the financial asset provision. If the host contract included in the hybrid contract is not an asset within the scope of International Financial Reporting Standards 9, Financial Instruments, when their economic characteristics and risks are not closely related to those of the hybrid contract, those separate instruments with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid instrument is not carried at FVTPL, certain derivatives embedded in other financial instruments should be split from the hybrid contract and treated as separate derivatives. These embedded derivatives are measured at fair value with the changes in fair value recognised in profit or loss.

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

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

(x) *Equity instrument*

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(4) Financial instruments (continued)

(xi) Preference shares and perpetual bonds

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

Preference shares and perpetual bonds issued by the Group that should be classified as equity instruments are recognised in equity based on the actual proceeds received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the preference shares and perpetual bonds are redeemed according to the contractual terms, the redemption amount is recognised as a deduction from equity.

(5) Resale and repurchase agreements transactions (including securities borrowing and lending)

Financial assets held under resale agreements refers to the funds paid by the Group in transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under the resale agreement. Financial assets sold under repurchase agreements refers to the funds received by the Group in transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under the repurchase agreement.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(6) Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realizable value. The Group determines the net realizable value of precious metals at the end of the reporting period, and if the influence factors of the previous write-down of the value of precious metals have disappeared, the amount of the write-down shall be recovered and reversed within the amount of the original provision for price declines, and the amount of the reversal shall be recognised in profit or loss. Precious metals that are related to the Group's trading activities are initially recognized at fair value and subsequent changes in fair value are recognised in profit or loss.

(7) Property and equipment

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

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

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

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

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

Property and equipment assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see Note 2(11)).

The cost of a property and equipment, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life, unless the property and equipment is classified as held for sale.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(7) Property and equipment (continued)

The estimated useful lives, residual values and annual depreciation rates of each class of property and equipment are as follows:

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

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

The carrying amount of a property and equipment is derecognised:

- When the property and equipment is holding for disposal; or
- When no future economic benefit is expected to be generated from its use or disposal.

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

(8) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated in the statements of financial position at cost less accumulated amortisation and impairment losses (see Note 2(11)). The cost of intangible assets less residual value and impairment losses is amortised on a straight-line basis over the estimated useful lives, unless the intangible asset is classified as held for sale.

The amortisation period for intangible assets is as follows:

	Amortisation period
Software	3 – 10 years

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

(9) Long-term deferred expenses

Long-term deferred expenses are amortised using a straight-line method within the expected benefit period and stated in “other assets” at actual cost less accumulated amortisation and impairment losses (see Note 2(11)).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(10) Repossessed assets

Repossessed assets refer to the physical assets or property rights of the debtor, guarantor or a third party that the Group exercises its creditor's rights or security rights in accordance with the law.

Transferred financial repossessed assets are initially measured at their fair value, and classified and subsequently measured by the Group according to the accounting policies in Note 2(4)(ii).

Transferred non-financial repossessed assets are initially measured at the fair value of the relinquished creditor's rights and other costs such as taxes directly attributable to the asset, and subsequently measured at the lower of the book value of the repossessed assets and the recoverable amount by the Group. Please refer to Note 2(11) for the method of impairment test and provision for impairment.

(11) Impairment of non-financial assets other than precious metals

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

- property and equipment
- right-of-use assets
- intangible assets
- investments in subsidiaries, associates and joint ventures
- non-financial repossessed assets
- long-term deferred expenses, etc.

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(11) Impairment of non-financial assets other than precious metals (continued)

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

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

(12) Employee benefits

(i) Short-term employee benefits

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

(ii) Post-employment benefits – defined contribution plans

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

(iii) Post-employment benefits – defined benefit plans

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(12) Employee benefits (continued)

(iv) Termination benefits

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

- When the Group can no longer withdraw an offer of those benefits;
- When the Group has a specific, concrete restructure plan involving payment of termination benefits, and the plan has started or been informed to each affected party, therefore each party has formed reasonable expectation.

(13) Income tax

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

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

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

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

Deferred tax is not recognised for temporary differences arising from the initial recognition of assets or liabilities in a single transaction that is not a business combination, affects neither accounting profit nor taxable profit (or deductible loss) and does not give rise to equal taxable and deductible temporary differences. Deferred tax is also not recognised for taxable temporary differences arising from the initial recognition of goodwill.

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

The carrying amount of a deferred tax asset is reviewed at the end of the reporting period, and is reduced to the extent that it is no longer probable that the related tax benefits will be utilised. Such reductions are reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(13) Income tax (continued)

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

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

(14) Provisions and contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events. It can also be a present obligation arising from past events which is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. The obligation is not recognised, and only contingent liabilities are disclosed in Note 46 to the financial statements.

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

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

- Where the contingency involves a single item, the best estimate is the most likely outcome.
- Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

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

(15) Fiduciary activities

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(15) Fiduciary activities (continued)

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

(16) Income recognition

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

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

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

(i) Interest income

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

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

- POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortised cost; and
- Purchased or originated financial assets that are not credit-impaired but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(16) Income recognition (continued)

(ii) **Fee and commission income**

The Group earns fee and commission income from a diverse range of services which provides to the customers. Fee and commission income is recognised when the Group fulfills its performance obligation, either at a point in time or over time when a customer obtains control of the service.

The Group satisfies a performance obligation over time if one of the following criteria is met; otherwise, the performance obligation is satisfied at a point in time:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The customer controls the service provided by the Group in the course of performance; or
- The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

(iii) **Dividend income**

Dividend income from equity instrument is recognised in profit or loss when the Group's right to receive payment is established.

(17) Government grants

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(18) Expenses recognition

(i) **Interest expenses**

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

(ii) **Other expenses**

Other expenses are recognised on an accrual basis.

(19) Leases

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

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

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

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

For a contract that contains more separate lease components, the lessee and the lessor separate lease components and account for each lease component as a lease separately. For a contract that contains lease and non-lease components, the lessee and the lessor separate lease components from non-lease components. For a contract that contains lease and non-lease components, the lessee allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The lessor allocates the consideration in the contract in accordance with the accounting policy in Note 2(16).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(19) Leases (continued)

(i) *As a lessee*

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

The right-of-use asset is depreciated using the straight-line method. If the lessee is reasonably certain to exercise a purchase option by the end of the lease term, the right-of-use asset is depreciated over the remaining useful lives of the underlying asset. Otherwise, the right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Impairment losses of right-of-use assets are accounted for in accordance with the accounting policy described in Note 2(11).

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

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

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(19) Leases (continued)

(ii) *As a lessor*

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

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

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

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return. The derecognition and impairment of the finance lease receivable are recognised in accordance with the accounting policy in Note 2(4). Variable lease payments not included in the measurement of net investment in the lease are recognised as income as they are earned.

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

(20) Dividends

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(21) Related parties

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

- (i) A person, or a close member of that person's family, if that person:
 - (a) has significant influence over the Group; or
 - (b) is a member of the key management personnel of the Group.
- (ii) An entity, if that entity:
 - (a) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (b) has significant influence over the Group;
 - (c) controls an entity identified in (ii)(b);
 - (d) is controlled or jointly controlled by an entity identified in (ii)(b) and (ii)(c);
 - (e) is controlled or jointly controlled by a person identified in (i).

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

(22) Segment reporting

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(23) Subsidiaries and non-controlling interests

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

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual or other arrangements.

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

An investment in a subsidiary is stated at cost less impairment losses in the Bank's statements of financial position.

For the method of impairment test and provision for impairment of an investment in a subsidiary, see Note 2(11).

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

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

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

(24) Significant accounting estimates and judgements

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

In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements, estimates and assumptions concerning the uncertainty of the future at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(24) Significant accounting estimates and judgements (continued)

(i) **Measurement of ECLs**

The measurement of the ECLs for loans and advances to customers and debt investments measured at amortised cost and measured at FVOCI, loan commitments and financial guarantee contracts, is subject to complex models and a number of assumptions about future economic conditions and credit conditions (for example, the possibility of customers defaulting and the resulting losses). For the descriptions of the inputs, assumptions and estimation techniques used in measuring ECLs, please refer to Note 44(1).

(ii) **Fair value of financial instruments**

If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

(iii) **Income taxes**

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

(iv) **Impairment of non-financial assets (excluding precious metals)**

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

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

(v) **Depreciation and amortisation**

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(24) Significant accounting estimates and judgements (continued)

(vi) Determination of control over structured entities

The Group acts as manager to a number of investment funds, wealth management products, asset management plans, trust plans and assets-backed securities. When assessing whether controls such a structured entity, the Group would determine whether it exercises the decision-making rights as a principal or an agent and usually focuses on the assessment of the aggregate economic interests of the Group in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. The Group would also determine whether another entity with decision-making rights is acting as an agent for it.

For further disclosure in respect of unconsolidated investment funds, wealth management products, asset management plans, trust plans and assets-backed securities in which the Group has an interest or for which it is a sponsor, see Note 47.

3 NET INTEREST INCOME

	2023	2022
Interest income arising from		
Deposits with the central bank	313,957	312,506
Deposits with banks and other financial institutions	39,605	32,124
Placements with banks and other financial institutions	434,720	269,147
Loans and advances to customers		
– Corporate loans and advances	9,478,638	8,396,220
– Personal loans and advances	3,697,252	3,957,348
– Discounted bills	455,061	378,374
Financial assets held under resale agreements	138,768	304,872
Financial investments	5,470,243	5,210,430
Long-term receivables	1,111,788	969,141
Sub-total	21,140,032	19,830,162
Interest expense arising from		
Borrowings from the central bank	(405,466)	(503,458)
Deposits from banks and other financial institutions	(134,510)	(180,286)
Placements from banks and other financial institutions	(571,665)	(607,577)
Deposits from customers	(8,060,870)	(7,046,209)
Financial assets sold under repurchase agreements	(602,063)	(454,745)
Debt securities issued	(2,074,024)	(2,709,725)
Others	(9,465)	(39,848)
Sub-total	(11,858,063)	(11,541,848)
Net interest income	9,281,969	8,288,314

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

	2023	2022
Fee and commission income		
Wealth management service fees	929,831	859,349
Agency service fees	556,492	458,418
Custody and bank card service fees	377,895	319,653
Settlement fees	97,033	84,663
Financial leasing service fees	–	26,864
Others	151,780	42,335
Sub-total	2,113,031	1,791,282
Fee and commission expense	(526,512)	(346,152)
Net fee and commission income	1,586,519	1,445,130

5 NET TRADING (LOSSES)/GAINS

	Note	2023	2022
Net (losses)/gains of foreign exchange and foreign exchange derivative financial instruments	(i)	(155,909)	738,300
Net (losses)/gains from debt securities	(ii)	(5,594)	25,013
Net losses of non-foreign exchange derivative financial instruments		(7,489)	(21,655)
Others		–	(476)
Total		(168,992)	741,182

Notes:

- (i) Net (losses)/gains of foreign exchange and foreign exchange derivative financial instruments include gains or losses from the purchase and sale of foreign currency spot, foreign exchange derivatives, and translation of foreign currency monetary assets and liabilities, etc.
- (ii) Net (losses)/gains from debt securities mainly include gains or losses arising from the purchase and sale of, and changes in the fair value of debt securities held for trading.

6 NET GAINS ARISING FROM INVESTMENTS

	2023	2022
Net gains on financial investments measured at FVTPL	1,192,290	540,041
Net gains on disposal of financial assets measured at FVOCI	436,381	509,085
Others	(5,808)	8,049
Total	1,622,863	1,057,175

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

7 OTHER OPERATING INCOME

	2023	2022
Government grants	123,782	107,256
Rental income	1,501	10,343
Net gains/(losses) on disposal of property and equipment, intangible assets and other assets	27,369	(1,042)
Others	6,340	897
Total	158,992	117,454

8 OPERATING EXPENSES

	2023	2022
Staff costs		
– Salaries, bonuses and allowances	1,474,379	1,314,992
– Social insurance and housing allowances	194,635	174,120
– Staff welfare expenses	189,643	175,977
– Staff education expenses	40,339	35,665
– Labor union expenses	29,563	26,392
– Post-employment benefits		
– defined contribution plans	266,038	240,096
– Early retirement and supplementary retirement plans	9,910	(8,425)
Sub-total	2,204,507	1,958,817
Property and equipment expenses		
– Depreciation and amortization	565,168	547,473
– Electronic equipment operating expenses	142,468	150,138
– Maintenance expenses	128,474	122,102
Sub-total	836,110	819,713
Tax and surcharges	156,268	146,885
Other general and administrative expenses	1,319,543	1,293,026
Total	4,516,428	4,218,441

Note:

- (i) Other general and administrative expenses include auditor's remunerations (after tax) of RMB6.45 million for the year ended 31 December 2023 (2022: RMB6.25 million).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

Name	Year ended 31 December 2023					Total emoluments before tax
	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	
Executive directors						
JING Zailun (Note (1) (i))	–	1,406	643	152	324	2,525
WU Xianming (Note (1) (iii))	–	992	457	111	234	1,794
CHEN Shuang (Note(1) (v))	–	930	421	152	261	1,764
LIU Peng	–	930	421	152	263	1,766
WANG Lin (Note (1) (iii))	–	39	21	6	12	78
Non-executive directors						
ZHOU Yunjie	125	–	–	–	–	125
Rosario STRANO (Note (2))	–	–	–	–	–	–
TAN Lixia	132	–	–	–	–	132
Marco MUSSITA (Note (2))	–	–	–	–	–	–
DENG Youcheng	131	–	–	–	–	131
Independent non-executive directors						
CHEUNG Simon (Note (1) (iv))	190	–	–	–	–	190
FANG Qiaoling	230	–	–	–	–	230
Tingjie ZHANG (Note (1) (iv))	61	–	–	–	–	61
XING Lecheng	224	–	–	–	–	224
ZHANG Xu	224	–	–	–	–	224
CHEUNG Man Chor, Elton (Note (1) (iv))	136	–	–	–	–	136
DU Ning (Note (1) (iv))	–	–	–	–	–	–
Supervisors						
YANG Fengjiang	–	930	421	152	323	1,826
WANG Dawei	–	607	904	152	160	1,823
MENG Xianzheng	–	600	958	152	169	1,879
HE Liangjun	77	–	–	–	–	77
HAO Xianjing	124	–	–	–	–	124
JIANG Xinglu	124	–	–	–	–	124
LU Kun	124	–	–	–	–	124
Total	1,902	6,434	4,246	1,029	1,746	15,357

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Name	Year ended 31 December 2022					Total emoluments before tax
	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	
Executive directors						
JING Zailun (Note (1) (i))	–	703	633	76	166	1,578
GUO Shaoquan (Note (1) (i))	–	696	528	72	39	1,335
WANG Lin (Note (1) (iii))	–	1,277	1,147	158	311	2,893
LU Lan (Note (1) (ii))	–	578	605	–	111	1,294
LIU Peng	–	927	944	151	259	2,281
Non-executive directors						
ZHOU Yunjie	127	–	–	–	–	127
Rosario STRANO (Note (2))	–	–	–	–	–	–
TAN Lixia	127	–	–	–	–	127
Marco MUSSITA (Note (2))	–	–	–	–	–	–
DENG Youcheng	127	–	–	–	–	127
CHOI Chi Kin, Calvin (Note (1) (ii))	66	–	–	–	–	66
Independent non-executive directors						
CHEUNG Simon (Note (1) (iv))	191	–	–	–	–	191
FANG Qiaoling	197	–	–	–	–	197
Tingjie ZHANG (Note (1) (iv))	197	–	–	–	–	197
XING Lecheng	197	–	–	–	–	197
ZHANG Xu	197	–	–	–	–	197
Supervisors						
YANG Fengjiang	–	927	1,034	151	318	2,430
WANG Dawei	–	603	1,084	151	158	1,996
MENG Xianzheng	–	606	850	151	157	1,764
HE Liangjun	77	–	–	–	–	77
HAO Xianjing	114	–	–	–	–	114
JIANG Xinglu	114	–	–	–	–	114
LU Kun	114	–	–	–	–	114
Total	1,845	6,317	6,825	910	1,519	17,416

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Notes:

- (1) The emoluments of non-executive directors ("NED"), independent non-executive directors ("INED"), shareholder supervisors and external supervisors were affected by the time of service during the reporting period. Directors and supervisors received emoluments since their assumption of duty until their resignation. The changes in directors and supervisors in the year of 2023 and 2022 are as follows:
 - (i) In June 2022, Mr. GUO Shaoquan no longer served as executive director of the Bank. In July 2022, Mr. JING Zailun began to assume his duty as executive director.
 - (ii) In August 2022, Ms. LU Lan no longer served as executive director of the Bank. Mr. CHOI Chi Kin, Calvin no longer served as NED of the Bank.
 - (iii) In January 2023, Mr. WANG Lin no longer served as executive director of the Bank. In March 2023, Mr. WU Xianming began to assume his duty as executive director.
 - (iv) In April 2023, Mr. Tingjie ZHANG no longer served as INED of the Bank. In April 2023, Mr. CHEUNG Man Chor, Elton began to assume his duty as INED of the Bank. In December 2023, Mr. DU Ning began to assume his duty as INED of the Bank, and has not received any emoluments from the Bank; Mr. ZHANG Simon no longer served as INED of the Bank.
 - (v) In November 2023, Ms. CHEN Shuang began to assume her duty as executive director.
- (2) The emoluments of Mr. Rosario STRANO and Mr. Marco MUSSITA were waived with their authorization. There was no other arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the reporting period.
- (3) There were no amounts paid during the reporting period to the directors and supervisors in connection with their retirement from employment or as compensation for loss of office with the Bank or as inducement to join.
- (4) The total compensation package for certain directors and supervisors for the year ended 31 December 2023 have not yet been finalised. The difference in emoluments is not expected to have any significant impact on the Group's financial statements for the year ended 31 December 2023.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2023, the five individuals with the highest emoluments included two directors and three supervisors of the Bank (2022: two directors and one supervisor), whose emoluments are disclosed in Note 9. The emoluments before individual income tax for the remaining two highest paid individuals for 2022 was as follows:

	2023	2022
Salaries and other emoluments	–	2,366
Discretionary bonuses	–	1,935
Contributions to pension schemes	–	302
Total	–	4,603

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

	2023	2022
HKD nil-1,000,000	–	–
HKD1,000,001-1,500,000	–	–
HKD1,500,001-2,000,000	–	–
HKD2,000,001-2,500,000	–	–
HKD2,500,001-3,000,000	–	2

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

11 EXPECTED CREDIT LOSSES

	2023	2022
Deposits with banks and other financial institutions	(942)	1,117
Placements with banks and other financial institutions	15,022	22,445
Financial assets held under resale agreements	8,130	(21,110)
Loans and advances to customers		
– Loans and advances to customers measured at amortised cost	1,933,153	2,621,883
– Loans and advances to customers measured at FVOCI	114,700	14,401
Financial investments measured at amortised cost	1,501,595	1,598,896
Financial investments measured at FVOCI		
– Debt instruments	(73,881)	(278,471)
Long-term receivables	207,306	183,238
Credit commitments	313,125	115,201
Others	(4,129)	31,228
Total	4,014,079	4,288,828

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

12 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

	Note	2023	2022
Current tax		897,350	688,411
Deferred tax	27(2)	(635,373)	(719,977)
Total		261,977	(31,566)

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

	2023	2022
Profit before taxation	3,933,397	3,135,959
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	983,349	783,990
Tax effect of non-deductible expenses for tax purpose		
– Entertainment expenses	2,994	2,883
– Annuity	7,497	9,176
– Others	30,126	17,052
Sub-total	40,617	29,111
Tax effect of non-taxable income for tax purpose (Note (i))	(703,689)	(844,667)
Tax effect of perpetual bonds interest expense	(58,300)	–
Income tax	261,977	(31,566)

Note:

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

13 BASIC AND DILUTED EARNINGS PER SHARE

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

	Note	2023	2022
Weighted average number of ordinary shares (in thousands)	13(1)	5,820,355	5,692,062
Net profit attributable to equity shareholders of the Bank		3,548,599	3,082,775
Less: net profit attributable to other equity instruments holders of the Bank		233,200	510,176
Net profit attributable to ordinary shareholders of the Bank		3,315,399	2,572,599
Basic and diluted earnings per share (in RMB)		0.57	0.45

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

	2023	2022
Number of ordinary shares in issue as at 1 January	5,820,355	4,509,690
Effect of the rights issues	–	1,182,372
Weighted average number of ordinary shares	5,820,355	5,692,062

In January and February 2022, the Bank completed the A Share Rights Issue and H Share Rights Issue respectively. Therefore, the weighted average number of ordinary shares were adjusted accordingly.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

14 CASH AND DEPOSITS WITH THE CENTRAL BANK

	Note	31 December 2023	31 December 2022
Cash on hand		532,013	349,481
Deposits with the central bank			
– Statutory deposit reserves	14(1)	18,919,609	17,661,919
– Surplus deposit reserves	14(2)	11,505,177	9,769,018
– Other deposits with the central bank	14(3)	76,964	35,394
Sub-total		30,501,750	27,466,331
Accrued interest		9,901	9,494
Total		31,043,664	27,825,306

- (1) The Bank places statutory deposit reserves with the PBOC in accordance with the relevant regulations. As at 31 December 2023, the statutory deposit reserve ratios for RMB deposits applicable to the Bank were 5.00% (31 December 2022: 5.25%). As at 31 December 2023, the statutory deposit reserve ratios for foreign currency deposits applicable to the Bank were 4.00% (31 December 2022: 6.0%). The Bank's subsidiaries place 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 placed with the PBOC mainly for the purpose of clearing.
- (3) Other deposits with the central bank primarily represent fiscal deposits and foreign exchange risk reserve placed with the PBOC that are not available for use in the Group's daily operations.

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2023	31 December 2022
In Chinese Mainland		
– Banks	1,766,460	1,679,178
– Other financial institutions	17,814	34,957
Outside Chinese Mainland		
– Banks	407,904	576,363
Accrued interest	19,839	13,130
Sub-total	2,212,017	2,303,628
Less: Provision for impairment losses	(1,649)	(2,591)
Total	2,210,368	2,301,037

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2023	31 December 2022
In Chinese Mainland		
– Other financial institutions	13,798,000	8,250,000
Accrued interest	265,602	209,377
Sub-total	14,063,602	8,459,377
Less: Provision for impairment losses	(42,377)	(27,355)
Total	14,021,225	8,432,022

17 DERIVATIVE FINANCIAL INSTRUMENTS

The Group primarily enters into foreign exchange rate and interest rate derivative contracts related to trading, asset and liability management, and customer initiated transactions.

The contractual/notional amounts and fair values of the derivative financial instruments entered into by the Group are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognised in the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregated fair values of derivative financial assets and liabilities can fluctuate significantly.

	31 December 2023			31 December 2022		
	Nominal amount	Fair value of		Nominal amount	Fair value of	
		Assets	Liabilities		Assets	Liabilities
Interest rate derivatives	72,856,704	67,032	(67,862)	49,204,972	102,911	(101,859)
Exchange rate derivatives	5,313,762	78,793	(1,699)	5,890,408	5,465	(86,288)
Precious metal derivatives	954,899	3,552	(1,546)	–	–	–
Total	79,125,365	149,377	(71,107)	55,095,380	108,376	(188,147)

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2023	31 December 2022
In Chinese Mainland		
– Banks	13,950,000	–
Accrued interest	2,782	–
Sub-total	13,952,782	–
Less: Provision for impairment losses	(8,130)	–
Total	13,944,652	–

(2) Analysed by type of security held

	31 December 2023	31 December 2022
Debt securities	13,950,000	–
Accrued interest	2,782	–
Sub-total	13,952,782	–
Less: Provision for impairment losses	(8,130)	–
Total	13,944,652	–

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	31 December 2023	31 December 2022
Measured at amortised cost:		
Corporate loans and advances		
– Corporate loans	200,029,767	172,955,292
Sub-total	200,029,767	172,955,292
Personal loans and advances		
– Personal residential mortgages	46,945,476	46,459,431
– Personal consumption loans	21,842,557	16,931,630
– Personal business loans	10,295,732	9,988,969
Sub-total	79,083,765	73,380,030
Accrued interest	758,512	598,681
Sub-total	279,872,044	246,934,003
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost		
– 12-month ECL	(5,000,788)	(3,901,150)
– Lifetime ECL		
– not credit-impaired loans	(350,943)	(510,711)
– credit-impaired loans	(2,503,396)	(2,697,610)
Sub-total	(7,855,127)	(7,109,471)
Measured at FVOCI:		
Corporate loans and advances		
– Discounted bills	19,441,303	22,501,207
– Corporate loans (Forfeiting)	1,534,706	192,923
Sub-total	20,976,009	22,694,130
Carrying amount of loans and advances to customers	292,992,926	262,518,662

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

	31 December 2023	31 December 2022
Unsecured loans	61,496,406	52,463,310
Guaranteed loans	68,562,521	56,725,873
Loans secured by mortgages	114,490,600	104,787,862
Pledged loans	55,540,014	55,052,407
Gross loans and advances to customers	300,089,541	269,029,452

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	31 December 2023				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	362,919	529,698	126,931	8,447	1,027,995
Guaranteed loans	304,840	178,266	982,602	176,787	1,642,495
Loans secured by mortgages	966,163	218,145	290,692	34,233	1,509,233
Pledged loans	–	–	77,441	–	77,441
Total	1,633,922	926,109	1,477,666	219,467	4,257,164
As a percentage of gross loans and advances to customers	0.54%	0.31%	0.50%	0.07%	1.42%

	31 December 2022				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	380,033	473,148	19,913	2,430	875,524
Guaranteed loans	747,334	923,685	279,806	315,317	2,266,142
Loans secured by mortgages	443,768	305,377	154,135	41,774	945,054
Pledged loans	1,513	77,771	–	–	79,284
Total	1,572,648	1,779,981	453,854	359,521	4,166,004
As a percentage of gross loans and advances to customers	0.59%	0.66%	0.17%	0.13%	1.55%

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 financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

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

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

	31 December 2023			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)	274,696,221	1,632,927	3,542,896	279,872,044
Less: Provision for impairment losses	(5,000,788)	(350,943)	(2,503,396)	(7,855,127)
Net carrying amount of loans and advances to customers measured at amortised cost	269,695,433	1,281,984	1,039,500	272,016,917
	31 December 2022			
	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)	241,459,799	2,210,427	3,263,777	246,934,003
Less: Provision for impairment losses	(3,901,150)	(510,711)	(2,697,610)	(7,109,471)
Net carrying amount of loans and advances to customers measured at amortised cost	237,558,649	1,699,716	566,167	239,824,532

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	31 December 2023			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL- credit-impaired (Note (i))	
Gross/ Carrying amount of loans and advances to customers at FVOCI	20,976,009	–	–	20,976,009
Provision for impairment losses included in other comprehensive income	(142,370)	–	–	(142,370)

	31 December 2022			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL- credit-impaired (Note (i))	
Gross/ Carrying amount of loans and advances to customers at FVOCI	22,676,508	17,622	–	22,694,130
Provision for impairment losses included in other comprehensive income	(27,639)	(31)	–	(27,670)

Note:

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(5) Movements of provision for impairment losses

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

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

	2023			Total
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	
As at 1 January 2023	3,901,150	510,711	2,697,610	7,109,471
Transfer to				
– 12-month ECL	45,754	(35,119)	(10,635)	–
– Lifetime ECL				
– not credit-impaired loans	(10,029)	11,714	(1,685)	–
– credit-impaired loans	(23,701)	(98,022)	121,723	–
Charge/(Reversal) for the year	1,087,614	(38,341)	883,880	1,933,153
Write-offs and transfer out	–	–	(1,243,813)	(1,243,813)
Recoveries of loans and advances previously written off	–	–	86,700	86,700
Other changes	–	–	(30,384)	(30,384)
As at 31 December 2023	5,000,788	350,943	2,503,396	7,855,127
	2022			Total
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	
As at 1 January 2022	3,159,298	603,867	2,663,172	6,426,337
Transfer to				
– 12-month ECL	362	(357)	(5)	–
– Lifetime ECL				
– not credit-impaired loans	(263,591)	264,239	(648)	–
– credit-impaired loans	(360,066)	(308,837)	668,903	–
Charge/(Reversal) for the year	1,365,147	(48,201)	1,304,937	2,621,883
Write-offs and transfer out	–	–	(2,046,387)	(2,046,387)
Recoveries of loans and advances previously written off	–	–	122,818	122,818
Other changes	–	–	(15,180)	(15,180)
As at 31 December 2022	3,901,150	510,711	2,697,610	7,109,471

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	2023			Total
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	
As at 1 January 2023	27,639	31	–	27,670
Charge/(Reversal) for the year	114,731	(31)	–	114,700
As at 31 December 2023	142,370	–	–	142,370

	2022			Total
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	
As at 1 January 2022	13,269	–	–	13,269
Charge for the year	14,370	31	–	14,401
As at 31 December 2022	27,639	31	–	27,670

For information about the asset-backed securitisation transactions conducted by the Group in its normal course of business, refer to Note 48(2).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	31 December 2023	31 December 2022
Financial investments held for trading			
Debt securities, analysed by type of issuers:			
– Governments and the central bank		200,957	–
– Banks and other financial institutions		3,344,037	–
Sub-total		3,544,994	–
Other financial investments measured at FVTPL			
Debt securities, analysed by type of issuers:			
– Governments and the central bank		25,820	24,637
– Banks and other financial institutions		2,467,351	2,684,943
– Corporate entities		1,091,864	1,017,848
Sub-total		3,585,035	3,727,428
Investment funds		43,799,513	34,950,084
Asset management plans		6,895,445	7,787,802
Trust fund plans		444,536	791,832
Other investments		–	2,616
Total		58,269,523	47,259,762
Listed	20(1)	1,132,525	1,318,187
Of which: listed outside Hong Kong		386,256	460,708
Unlisted		57,136,998	45,941,575
Total		58,269,523	47,259,762

(1) Only bonds traded on stock exchanges are included in listed bonds.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	31 December 2023	31 December 2022
Debt securities, analysed by type of issuers:			
– Governments and the central bank		24,874,801	34,298,700
– Policy banks		13,527,638	7,179,615
– Banks and other financial institutions		32,336,039	19,761,408
– Corporate entities		42,386,232	33,292,034
Sub-total		113,124,710	94,531,757
Asset management plans		–	712,934
Other equity investments	21(1)	23,250	23,250
Accrued interest		1,837,174	1,410,760
Total		114,985,134	96,678,701
Listed	21(2)	35,671,807	26,770,249
Of which: listed outside Hong Kong		33,887,676	24,391,557
Unlisted		79,313,327	69,908,452
Total		114,985,134	96,678,701

(1) The Group holds a number of unlisted equity investments not held for trading. The Group designates them as financial investments measured at FVOCI, and the details are as follows:

	2023					
	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Percentage of ownership in investees (%)	Cash dividend for the year
Investees						
China UnionPay Co., Ltd.	13,000	–	–	13,000	0.34	5,800
Shandong City Commercial Bank Alliance Co., Ltd.	10,000	–	–	10,000	1.14	–
City Commercial Banks Clearing (Note (i))	250	–	–	250	0.81	–
Total	23,250	–	–	23,250		5,800

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

Investees	2022					
	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Percentage of ownership in investees (%)	Cash dividend for the year
China UnionPay Co., Ltd.	13,000	–	–	13,000	0.34	8,000
Shandong City Commercial Bank Alliance Co., Ltd.	10,000	–	–	10,000	1.14	–
City Commercial Banks Clearing (Note (i))	250	–	–	250	0.81	–
Total	23,250	–	–	23,250		8,000

Notes:

- (i) City Commercial Banks Clearing is formerly known as Clearing Center for City Commercial Banks.
- (ii) For the year ended 31 December 2023 and 31 December 2022, the Group did not dispose of any such equity investment, and there were no gains or losses recognised in other comprehensive income, nor cumulative gains or losses transferred from other comprehensive income to retained earnings.
- (2) Only bonds traded on stock exchanges are included in listed bonds.
- (3) Movements of the provision for impairment losses on debt instruments of financial investments at FVOCI are as follows:

	2023			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2023	51,725	152,028	–	203,753
Transfer to				
– 12-month ECL	71,631	(71,631)	–	–
– Lifetime ECL				
– credit-impaired	–	(560)	560	–
(Reversal)/Charge for the year	(48,284)	(78,786)	53,189	(73,881)
As at 31 December 2023	75,072	1,051	53,749	129,872

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

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

	2022			Total
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	
As at 1 January 2022	60,404	121,265	300,555	482,224
Transfer to				
– 12-month ECL	95,571	(95,571)	–	–
– Lifetime ECL				
– not credit-impaired	(4,100)	27,247	(23,147)	–
(Reversal)/Charge for the year	(100,150)	99,087	(277,408)	(278,471)
As at 31 December 2022	51,725	152,028	–	203,753

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

22 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

	Note	31 December 2023	31 December 2022
Debt securities, analysed by type of issuers:			
– Governments and the central bank		28,428,968	29,382,700
– Policy banks		10,718,845	10,720,004
– Banks and other financial institutions		5,771,567	8,957,230
– Corporate entities		3,262,782	801,917
Sub-total		48,182,162	49,861,851
Asset management plans		1,935,620	2,609,200
Trust fund plans		1,596,703	1,738,700
Other investments		4,758,576	6,070,640
Accrued interest		764,409	868,992
Less: Provision for impairment losses	22(1)	(4,480,961)	(2,946,718)
Total		52,756,509	58,202,665
Listed	22(2)	16,856,264	17,456,387
Of which: listed outside Hong Kong		16,856,264	17,456,387
Unlisted		35,900,245	40,746,278
Total		52,756,509	58,202,665

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST (continued)

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

	2023			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2023	191,705	27,839	2,727,174	2,946,718
Transfer to				
– Lifetime ECL				
– not credit-impaired	(908)	908	–	–
(Reversal)/Charge for the year	(64,367)	(5,950)	1,571,912	1,501,595
Others	–	–	32,648	32,648
As at 31 December 2023	126,430	22,797	4,331,734	4,480,961

	2022			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2022	298,990	516,032	432,800	1,247,822
Transfer to				
– 12-month ECL	14,111	(14,111)	–	–
– Lifetime ECL				
– not credit-impaired	(183)	183	–	–
– credit-impaired	(5,887)	(497,184)	503,071	–
(Reversal)/Charge for the year	(115,326)	22,919	1,691,303	1,598,896
Others	–	–	100,000	100,000
As at 31 December 2022	191,705	27,839	2,727,174	2,946,718

(2) Only bonds traded on stock exchanges are included in listed bonds.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 INVESTMENT IN SUBSIDIARIES

	31 December 2023	31 December 2022
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

The subsidiaries are as follows:

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

Notes:

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 LONG-TERM RECEIVABLES

	31 December 2023	31 December 2022
Minimum finance lease receivables	870,964	562,714
Less: Unearned finance lease income	(91,333)	(53,981)
Balance of direct lease receivables	779,631	508,733
Finance leaseback receivables	16,421,930	14,989,671
Sub-total	17,201,561	15,498,404
Accrued interest	214,762	220,389
Less: Provision for impairment losses		
– 12-month ECL	(446,463)	(265,041)
– Lifetime ECL		
– not credit-impaired	(174,694)	(65,109)
– credit-impaired	(53,393)	(107,694)
Carrying amount	16,741,773	15,280,949

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

	2023			
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	Total
As at 1 January 2023	265,041	65,109	107,694	437,844
Transfer to				
– Lifetime ECL				
– not credit-impaired	(3,464)	3,464	–	–
Charge/(Reversal) for the year	184,886	106,121	(83,701)	207,306
Others	–	–	29,400	29,400
As at 31 December 2023	446,463	174,694	53,393	674,550

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 LONG-TERM RECEIVABLES (continued)

	2022			Total
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	
As at 1 January 2022	227,836	36,120	45,036	308,992
Transfer to				
– 12-month ECL	968	(968)	–	–
– Lifetime ECL				
– not credit-impaired	(5,402)	5,402	–	–
– credit-impaired	–	(24,933)	24,933	–
Charge for the year	41,639	49,488	92,111	183,238
Others	–	–	(54,386)	(54,386)
As at 31 December 2022	265,041	65,109	107,694	437,844

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

	31 December 2023		
	Minimum direct lease receivables	Unearned finance lease income	Balance of direct lease receivables
Repayable on demand	–	–	–
Less than 1 year (inclusive)	386,192	(42,691)	343,501
1 year to 2 years (inclusive)	254,901	(23,620)	231,281
2 years to 3 years (inclusive)	116,160	(10,285)	105,875
3 years to 4 years (inclusive)	38,227	(6,158)	32,069
4 years to 5 years (inclusive)	27,499	(4,273)	23,226
More than 5 years	47,985	(4,306)	43,679
Indefinite (Note (i))	–	–	–
Total	870,964	(91,333)	779,631

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 LONG-TERM RECEIVABLES (continued)

	31 December 2022		
	Minimum direct lease receivables	Unearned finance lease income	Balance of direct lease receivables
Repayable on demand	–	–	–
Less than 1 year (inclusive)	277,506	(26,977)	250,529
1 year to 2 years (inclusive)	178,855	(12,150)	166,705
2 years to 3 years (inclusive)	54,390	(5,054)	49,336
3 years to 4 years (inclusive)	17,649	(2,458)	15,191
4 years to 5 years (inclusive)	8,216	(1,716)	6,500
More than 5 years	26,098	(5,626)	20,472
Indefinite (Note (i))	–	–	–
Total	562,714	(53,981)	508,733

Note:

- (i) See Note 44 (3) for the definition of indefinite direct lease receivables.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

25 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	Construction in progress ("CIP")	Total
Cost						
As at 1 January 2022	3,477,058	733,001	72,664	119,376	73,908	4,476,007
Increase	81,573	128,729	5,736	15,825	25,791	257,654
Decrease	(98)	(16,946)	(3,691)	(2,119)	–	(22,854)
As at 31 December 2022	3,558,533	844,784	74,709	133,082	99,699	4,710,807
Increase	118,232	130,857	4,790	8,365	6,610	268,854
Decrease	(3,215)	(32,170)	(2,930)	(2,919)	–	(41,234)
As at 31 December 2023	3,673,550	943,471	76,569	138,528	106,309	4,938,427
Accumulated depreciation						
As at 1 January 2022	(490,838)	(471,337)	(50,700)	(72,939)	–	(1,085,814)
Increase	(81,581)	(78,442)	(6,429)	(13,510)	–	(179,962)
Decrease	–	15,832	3,507	2,016	–	21,355
As at 31 December 2022	(572,419)	(533,947)	(53,622)	(84,433)	–	(1,244,421)
Increase	(84,651)	(85,201)	(5,995)	(13,210)	–	(189,057)
Decrease	–	30,488	2,784	2,768	–	36,040
As at 31 December 2023	(657,070)	(588,660)	(56,833)	(94,875)	–	(1,397,438)
Net book value						
As at 31 December 2023	3,016,480	354,811	19,736	43,653	106,309	3,540,989
As at 31 December 2022	2,986,114	310,837	21,087	48,649	99,699	3,466,386

As at 31 December 2023 and 31 December 2022, the Group did not have significant property and equipment which were temporarily idle.

As at 31 December 2023, the net book value of the Group's premises with incomplete title deeds was RMB93 million (31 December 2022: RMB11 million). Management was of the opinion that the incomplete title deeds would not affect the Group's rights to these assets.

As at 31 December 2023 and 31 December 2022, the Group was not aware of any indicators for the possibility of property and equipment impairment, hence no impairment loss was recognised.

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

	31 December 2023	31 December 2022
Held in Chinese Mainland		
– Long-term leases (over 50 years)	15,523	15,913
– Medium-term leases (10 – 50 years)	2,966,394	2,963,234
– Short-term leases (less than 10 years)	34,563	6,967
Total	3,016,480	2,986,114

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

26 RIGHT-OF-USE ASSETS

	Premises	Others	Total
Cost			
As at 1 January 2022	1,239,664	4,114	1,243,778
Additions	139,087	–	139,087
Decrease	(72,752)	–	(72,752)
As at 31 December 2022	1,305,999	4,114	1,310,113
Additions	168,646	–	168,646
Decrease	(102,493)	–	(102,493)
As at 31 December 2023	1,372,152	4,114	1,376,266
Accumulated amortisation			
As at 1 January 2022	(395,936)	(1,953)	(397,889)
Additions	(157,367)	(651)	(158,018)
Decrease	72,752	–	72,752
As at 31 December 2022	(480,551)	(2,604)	(483,155)
Additions	(156,801)	(651)	(157,452)
Decrease	102,480	–	102,480
As at 31 December 2023	(534,872)	(3,255)	(538,127)
Net value			
As at 31 December 2023	837,280	859	838,139
As at 31 December 2022	825,448	1,510	826,958

27 DEFERRED INCOME TAX ASSETS

(1) Analysed by nature

	31 December 2023		31 December 2022	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Provision for impairment losses	14,171,170	3,542,792	11,660,966	2,915,242
Deferred interest income from discounted bills	84,659	21,165	163,569	40,892
Change in fair value	(35,900)	(8,975)	1,400,620	350,155
Others	955,618	238,905	560,218	140,054
Total	15,175,547	3,793,887	13,785,373	3,446,343

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

27 DEFERRED INCOME TAX ASSETS (continued)

(2) Analysed by movement

	Provision for impairment losses	Deferred interest income from discounted bills Note (i)	Change in fair value	Others Note (ii)	Total
As at 1 January 2022	2,489,556	45,711	(134,697)	104,872	2,505,442
Recognised in profit or loss	359,669	(4,819)	331,705	33,422	719,977
Recognised in other comprehensive income	66,017	–	153,147	1,760	220,924
As at 31 December 2022	2,915,242	40,892	350,155	140,054	3,446,343
Recognised in profit or loss	637,755	(19,727)	(80,851)	98,196	635,373
Recognised in other comprehensive income	(10,205)	–	(278,279)	655	(287,829)
As at 31 December 2023	3,542,792	21,165	(8,975)	238,905	3,793,887

Notes:

- (i) Pursuant to the requirement issued by the local tax authority, income 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 the amount accrued for early retirement and supplementary retirement plans, provisions, and other accrued expenses, which are deductible against taxable income when actual payment occurs.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 OTHER ASSETS

	Note	31 December 2023	31 December 2022
Continuously involved assets		922,695	922,695
Intangible assets	28(1)	420,085	353,076
Long-term deferred expense		388,450	379,973
Precious metals		96,151	112,690
Prepayments		79,244	184,694
Interest receivables (Note (i))	28(2)	38,929	39,810
Deferred expense		8,896	5,759
Repossessed assets (Note (ii))		6,056	–
Others (Note (iii))		777,250	1,306,712
Sub-total		2,737,756	3,305,409
Less: Provision for impairment losses		(40,550)	(38,584)
Total		2,697,206	3,266,825

Notes:

- (i) As at 31 December 2023, the book value of the Group's interest receivables after deducting the provision for impairment is RMB30.53 million (31 December 2022: RMB15.44 million).
- (ii) As at 31 December 2023, repossessed assets of the Group mainly included premises, etc. The book value of the Group's repossessed assets is RMB5.15 million. The impairment provision for repossessed assets of the Group is RMB0.91 million. As at 31 December 2022, the Group has no repossessed.
- (iii) Mainly includes settlement receivables and other receivables.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 OTHER ASSETS (continued)

(1) Intangible assets

	2023	2022
Cost		
As at 1 January	967,286	799,866
Additions	199,902	167,420
Decrease	–	–
As at 31 December	1,167,188	967,286
Accumulated amortisation		
As at 1 January	(614,210)	(503,254)
Additions	(132,893)	(110,956)
Decrease	–	–
As at 31 December	(747,103)	(614,210)
Net value		
As at 31 December	420,085	353,076
As at 1 January	353,076	296,612

Intangible assets of the Group mainly include software.

As at 31 December 2023 and 31 December 2022, the Group was not aware of any indicators for the possibility of intangible assets impairment, hence no impairment loss was recognised.

(2) Interests receivables

	31 December 2023	31 December 2022
Interest receivables arising from:		
– Loans and advances to customers	38,929	39,810
Total	38,929	39,810

29 BORROWINGS FROM THE CENTRAL BANK

	31 December 2023	31 December 2022
Borrowings	18,027,260	13,125,175
Re-discounted bills	49,386	73,957
Accrued interest	158,442	57,473
Total	18,235,088	13,256,605

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

30 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2023	31 December 2022
In Chinese Mainland		
– Banks	873,923	2,526,890
– Other financial institutions	1,351,707	3,873,427
Accrued interest	16,701	39,343
Total	2,242,331	6,439,660

31 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2023	31 December 2022
In Chinese Mainland		
– Banks	17,570,190	16,753,990
– Other financial institutions	1,337,000	727,000
Outside Chinese Mainland		
– Banks	246,937	143,051
– Other financial institutions	808,236	–
Designated at FVTPL (relevant to gold leasing) (Note (i))		
In Chinese Mainland		
– Banks	959,180	–
Accrued interest	168,821	184,054
Total	21,090,364	17,808,095

Note:

- (i) Gold leasing business is recognised in placements from banks and other financial institutions by the Group in 2023.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

32 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2023	31 December 2022
In Chinese Mainland		
– Banks	36,872,938	25,394,779
Outside Chinese Mainland		
– Other financial institutions	–	237,752
Accrued interest	7,629	1,823
Total	36,880,567	25,634,354

(2) Analysed by types of collaterals

	31 December 2023	31 December 2022
Debt securities	26,800,000	7,632,752
Discounted bills	10,072,938	17,999,779
Accrued interest	7,629	1,823
Total	36,880,567	25,634,354

33 DEPOSITS FROM CUSTOMERS

	31 December 2023	31 December 2022
Demand deposits		
– Corporate customers	89,927,435	91,660,860
– Personal customers	29,854,416	29,571,148
Sub-total	119,781,851	121,232,008
Time deposits		
– Corporate customers	107,301,003	101,968,834
– Personal customers	158,589,578	117,757,021
Sub-total	265,890,581	219,725,855
Other deposits	389,827	389,313
Accrued interest	9,405,100	6,696,131
Total	395,467,359	348,043,307
Including:		
Pledged deposits	16,852,955	17,495,516

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 DEBT SECURITIES ISSUED

	31 December 2023	31 December 2022
Debt securities issued (Note (i))	17,993,005	9,993,574
Certificates of interbank deposit issued (Note (ii))	71,008,248	64,620,293
Accrued interest	268,532	253,084
Total	89,269,785	74,866,951

Notes:

- (i) The Group has issued several debt securities with fixed interest rates. The details are as follows:
- (a) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB1.0 billion in May 2019. The debts will mature on 22 May 2024 with annual interest payments. As at 31 December 2023, the fair value of the debts was RMB1.006 billion (31 December 2022: RMB1.016 billion).
 - (b) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB1.0 billion in May 2019. The debts will mature on 31 May 2024 with annual interest payments. As at 31 December 2023, the fair value of the debts was RMB1.006 billion (31 December 2022: RMB1.016 billion).
 - (c) Five-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.84% per annum and with a nominal amount of RMB1.0 billion in December 2019. The debts will mature on 5 December 2024 with annual interest payments. As at 31 December 2023, the fair value of the debts was RMB1.012 billion (31 December 2022: RMB1.017 billion).
 - (d) Five-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.80% per annum and with a nominal amount of RMB1.0 billion in December 2019. The debts will mature on 16 December 2024 with annual interest payments. As at 31 December 2023, the fair value of the debts was RMB1.012 billion (31 December 2022: RMB1.017 billion).
 - (e) 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. As at 31 December 2023, the fair value of the debts was RMB4.151 billion (31 December 2022: RMB4.086 billion).
 - (f) 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. As at 31 December 2023, the fair value of the debts was RMB2.059 billion (31 December 2022: RMB2.014 billion).
 - (g) Three-year Green Bonds were issued with an interest rate of 2.84% per annum and with a nominal amount of RMB8.0 billion in December 2023. The debts will mature on 4 December 2026 with annual interest payments. As at 31 December 2023, the fair value of the debts was RMB8.022 billion.
- (ii) The Group issued a number of certificates of interbank deposit with duration between 1 month to 1 year. As at 31 December 2023 and 2022, the outstanding fair value of certificates of interbank deposit was RMB71.050 billion and RMB64.583 billion respectively.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 LEASE LIABILITIES

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

	31 December 2023	31 December 2022
Less than 1 year (inclusive)	153,462	133,544
1 year to 2 years (inclusive)	119,559	110,492
2 years to 3 years (inclusive)	90,302	93,757
3 years to 5 years (inclusive)	140,888	119,643
More than 5 years	111,467	118,182
Total undiscounted lease liabilities	615,678	575,618
Lease liabilities on statement of financial position	555,035	515,043

Note:

- (i) The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases or leases of low value assets. In 2023, the Group's operating expenses include lease expenses relating to short-term leases and leases of low-value assets of RMB30.39 million (2022: RMB25.27 million).

36 OTHER LIABILITIES

	Note	31 December 2023	31 December 2022
Continuously involved liabilities		922,695	922,695
Employee benefits payable	36(1)	758,284	652,469
ECL on credit commitments	36(2)	565,767	252,642
Risk guarantee deposits for leasing business		381,633	677,270
Taxes payable	36(3)	219,512	195,142
Settlement payable		157,760	114,183
Payable raising from fiduciary activities		92,314	110,469
Dividend payable		20,087	19,258
Financial liabilities related to precious metals (Note (i))		–	1,830,079
Others		638,460	790,452
Total		3,756,512	5,564,659

Note:

- (i) Gold leasing business is recognised in placements from banks and other financial institutions by the Group in 2023.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 OTHER LIABILITIES (continued)

(1) Employee benefits payable

	31 December 2023	31 December 2022
Salaries, bonuses and allowances payable	614,228	525,727
Staff welfare expenses	8,341	2,611
Staff education expenses	29,565	25,068
Labor union expenses	21,840	18,200
Post-employment benefits		
– defined contribution plans (Note (i))	–	133
Early retirement and supplementary retirement plans (Note (ii))	84,310	80,730
Total	758,284	652,469

Notes:

- (i) Pursuant to the relevant laws and regulations of the PRC, the Group participated in a defined contribution basic pension insurance and unemployment insurance under the social insurance system established and managed by government authorities, and annuity plan.

As for defined contribution plan, forfeited contributions may not be used by the Group to reduce the existing level of contributions.

- (ii) Early retirement and supplementary retirement plans

Early retirement plan

The Bank provides early retirement benefit 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 Bank provides a supplementary retirement plan to its eligible employees. The relevant obligations are recognised in accordance with the accounting policy in Note 2(12).

In accordance with the projected unit credit method, the Bank measures the obligations using actuarial assumptions to estimate the present value of the payables of early retirement and supplementary retirement plan.

Primary assumptions used:

	31 December 2023	31 December 2022
Discount rate – early retirement plans	2.50%	2.50%
Discount rate – supplementary retirement plans	3.00%	3.25%

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (2010-2013), which is published historical statistics in China.

As at 31 December 2023 and 31 December 2022, there was no significant change in liabilities of early retirement and supplementary retirement plans that was attributable to changes in actuarial assumptions.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 OTHER LIABILITIES (continued)

(2) Expected credit loss on credit commitments

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

	2023			Total
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	
As at 1 January 2023	249,614	3,028	–	252,642
Transfer to				
– 12-month ECL	1,682	(1,682)	–	–
– Lifetime ECL				
– not credit-impaired loans	(47)	47	–	–
– credit-impaired loans	(18)	(261)	279	–
Charge/(Reversal) for the year	313,699	(295)	(279)	313,125
As at 31 December 2023	564,930	837	–	565,767

	2022			Total
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	
As at 1 January 2022	129,789	7,652	–	137,441
Transfer to				
– 12-month ECL	52	(52)	–	–
– Lifetime ECL				
– not credit-impaired loans	(1,658)	1,658	–	–
– credit-impaired loans	(744)	–	744	–
Charge/(Reversal) for the year	122,175	(6,230)	(744)	115,201
As at 31 December 2022	249,614	3,028	–	252,642

(3) Taxes payable

	31 December 2023	31 December 2022
Value added tax payable	166,720	146,222
Urban construction tax and surcharges payable	32,844	29,467
Others	19,948	19,453
Total	219,512	195,142

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 SHARE CAPITAL

Authorised and issued share capital

	31 December 2023	31 December 2022
Number of shares authorised, issued and fully paid at nominal value (in thousands)	5,820,355	5,820,355

In January 2022, the Bank issued 782 million ordinary A shares with a nominal value of RMB1 per share at RMB3.20 per share. In February 2022, the Bank issued 529 million ordinary H shares with a nominal value of RMB1 per share at HKD3.92 per share. After deducting the related issuance costs, the premium arising from the A Share and H Share Issue amounting to RMB2.844 billion was recorded in capital reserve. After the completion of the above rights issues, the balance of the share capital was RMB5.820 billion.

38 OTHER EQUITY INSTRUMENTS

(1) Perpetual bonds outstanding at the end of the year

The Bank's undated capital bonds (the "Perpetual bonds") outstanding in the statement of financial position as at 31 December 2023 are as follows:

Financial instrument outstanding	Issue date	Accounting classification	Interest rate	Issue price	Amount (in thousands of units)	In RMB (in thousands)	Maturity	Conversion
2022 Domestic Perpetual Bond Series 1	14 July 2022	Equity	3.70%	100RMB/Unit	40,000	4,000,000	None	None
2022 Domestic Perpetual Bond Series 2	16 Aug 2022	Equity	3.55%	100RMB/Unit	24,000	2,400,000	None	None
Total						6,400,000		
Less: Issue costs						(4,217)		
Book value						6,395,783		

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 OTHER EQUITY INSTRUMENTS (continued)

(2) Main Clauses and Basic information

With the approvals of relevant regulatory authorities, the Bank issued RMB4 billion and RMB2.4 billion of undated capital bonds on 14 July 2022 and 16 August 2022 (hereinafter referred to as “2022 Domestic Perpetual Bond Series 1” and “2022 Domestic Perpetual Bond Series 2” respectively, collectively “Domestic Perpetual Bonds”) in the National Interbank Bond Market. The funds raised by the Bank from the bonds are used to supplement additional tier 1 capital of the Bank in accordance with the relevant laws and approvals by regulatory authorities.

(a) Interest

Each Domestic Perpetual Bond has a par value of RMB100, and the interest rate of the bonds for the first five years are 3.70% for 2022 Domestic Perpetual Bond Series 1 and 3.55% for 2022 Domestic Perpetual Bond Series 2, resetting every 5 years. The rates are determined by a benchmark rate plus a fixed spread. The initial fixed spreads are the difference between the interest rate and the benchmark rate as determined at the time of issuance. The fixed spread will not be adjusted once determined during the duration period. The interest of Domestic Perpetual Bond shall be paid annually.

(b) Interest stopper and setting mechanism

The interest payment for both the Domestic Perpetual Bonds is non-cumulative. The Bank shall have the right to cancel, in whole or in part, distributions on the interest payment and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. However, the Bank shall not distribute profits to ordinary shareholders until resumption of full interest payment.

(c) Order of distribution and liquidation method

The claims in respect of Domestic Perpetual Bonds will be subordinated to claims of depositors, general creditors, and subordinated indebtedness that rank senior to Domestic Perpetual Bonds, and will rank in priority to all classes of shares held by shareholders of the Bank. Domestic Perpetual Bond will rank pari passu with the claims in respect of any other Additional Tier 1 Capital instruments of the Bank that rank pari passu with the perpetual bonds.

(d) Write down conditions

Upon the occurrence of the non survival trigger event, without the need for the consent of the holders of the Domestic Perpetual Bonds, the Bank has the right to write down all or part of the aggregate amount of the Bonds then issued and outstanding. The non survival trigger event means the earlier of the following events: (1) the CBIRC having concluded that without a write-off of the Bank's capital, the Bank would become non-viable, and (2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable. The write down is unrecoverable.

(e) Redemption

The duration of the Domestic Perpetual Bonds is the same as the continuing operation of the Bank. Five years after the issuance date of the Domestic Perpetual Bonds, the Bank shall have the right to redeem them in whole or in part on each distribution payment date (including the fifth distribution payment date since the issuance). In the event that the Domestic Perpetual Bonds are not classified as additional tier 1 capital due to unpredicted changes in regulations, the Bank shall have the right to redeem Domestic Perpetual Bonds fully instead of partly.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 OTHER EQUITY INSTRUMENTS (continued)

(3) Changes in perpetual bonds outstanding

Perpetual bonds outstanding	31 December 2022		Increase during the year		31 December 2023	
	Amount (in thousands of units)	Book value (in thousands of RMB)	Amount (in thousands of units)	Book value (in thousands of RMB)	Amount (in thousands of units)	Book value (in thousands of RMB)
Domestic						
2022 Domestic Perpetual Bond Series 1	40,000	3,997,236	–	–	40,000	3,997,236
2022 Domestic Perpetual Bond Series 2	24,000	2,398,547	–	–	24,000	2,398,547
Total	64,000	6,395,783	–	–	64,000	6,395,783

(4) Interests attribute to equity instruments' holders

Item	31 December 2023	31 December 2022
Total equity attribute to equity holders of the Bank	39,063,939	35,816,312
– Equity attribute to ordinary shareholders of the Bank	32,668,156	29,420,529
– Equity attribute to other equity instrument holders of the Bank	6,395,783	6,395,783
Total equity attribute to non-controlling interests	875,304	776,983
– Equity attribute to non-controlling interests of ordinary shares	875,304	776,983

39 RESERVES

(1) Capital reserve

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

(2) Surplus reserve

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RESERVES (continued)

(3) General reserve

Pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)” issued by the MOF in March 2012, the Bank is required to set aside a general reserve from net profit as profit appropriation which should not be lower than 1.50% of the ending balance of its gross risk-bearing assets.

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 2023 amounted to RMB7.072 billion (2022: RMB6.317 billion), which has reached 1.50% of the year ending balance of the Bank’s gross risk-bearing assets respectively.

(4) Other comprehensive income

Item	2023						
	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Previously recognised amount transferred to retained earnings	Less: Income tax expense	Net-of-tax amount	Balance at the end of the year
Items that will not be reclassified to profit or loss							
Including: Remeasurements of defined benefit plan	(16,853)	(2,620)	–	–	655	(1,965)	(18,818)
Items that may be reclassified to profit or loss							
Including: Changes in fair value from financial assets measured at FVOCI	(72,988)	1,549,496	(436,381)	–	(278,279)	834,836	761,848
Credit losses of financial assets measured at FVOCI	173,567	165,933	(125,114)	–	(10,205)	30,614	204,181
Total	83,726	1,712,809	(561,495)	–	(287,829)	863,485	947,211

Item	2022						
	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Previously recognised amount transferred to retained earnings	Less: Income tax expense	Net-of-tax amount	Balance at the end of the year
Items that will not be reclassified to profit or loss							
Including: Remeasurements of defined benefit plan	(11,573)	(7,040)	–	–	1,760	(5,280)	(16,853)
Items that may be reclassified to profit or loss							
Including: Changes in fair value from financial assets measured at FVOCI	386,452	(134,216)	(478,371)	–	153,147	(459,440)	(72,988)
Credit losses of financial assets measured at FVOCI	371,620	63,659	(327,729)	–	66,017	(198,053)	173,567
Total	746,499	(77,597)	(806,100)	–	220,924	(662,773)	83,726

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RESERVES (continued)

(5) Movements in components of equity

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

	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
			Perpetual bonds						
Balance at 1 January 2023		5,820,355	6,395,783	10,687,634	2,388,248	6,316,926	83,726	3,263,408	34,956,080
Total comprehensive income		-	-	-	-	-	863,485	3,298,655	4,162,140
Appropriation of profit:									
– Appropriation to surplus reserve	39(2)	-	-	-	329,866	-	-	(329,866)	-
– Appropriation to general reserve	39(3)	-	-	-	-	755,477	-	(755,477)	-
– Dividends	40	-	-	-	-	-	-	(1,164,457)	(1,164,457)
Balance at 31 December 2023		5,820,355	6,395,783	10,687,634	2,718,114	7,072,403	947,211	4,312,263	37,953,763

	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity	
			Preference shares	Perpetual bonds						
Balance at 1 January 2022		4,509,690	7,853,964	-	8,337,869	2,103,883	5,409,946	746,499	3,052,533	32,014,384
Total comprehensive income		-	-	-	-	-	-	(662,773)	2,843,654	2,180,881
Capital injection and deduction by shareholders:										
– Capital injection by ordinary shareholders	37	1,310,665	-	-	2,844,140	-	-	-	-	4,154,805
– Capital injection by other equity instrument holders	38	-	-	6,395,783	-	-	-	-	-	6,395,783
– Capital deduction by other equity instrument holders		-	(7,853,964)	-	(494,375)	-	-	-	-	(8,348,339)
Appropriation of profit:										
– Appropriation to surplus reserve	39(2)	-	-	-	-	284,365	-	-	(284,365)	-
– Appropriation to general reserve	39(3)	-	-	-	-	906,980	-	-	(906,980)	-
– Dividends	40	-	-	-	-	-	-	-	(1,441,434)	(1,441,434)
Balance at 31 December 2022		5,820,355	-	6,395,783	10,687,634	2,388,248	6,316,926	83,726	3,263,408	34,956,080

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 PROFIT APPROPRIATION

(1) At the Bank's board of directors meeting held on 28 March 2024, the directors approved the following profit appropriation for the year ended 31 December 2023:

- Appropriated RMB330 million to surplus reserve;
- Appropriated RMB755 million to general reserve;
- Declared cash dividends to all ordinary shareholders of approximately RMB931 million representing RMB1.60 per 10 shares (before tax).

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

(2) A distribution payment related to the 2022 Domestic Perpetual Bond Series 1, at the distribution rate of 3.70% with the total amount of RMB4.0 billion, amounting to RMB148 million in total was distributed on 18 July 2023.

A distribution payment related to the 2022 Domestic Perpetual Bond Series 2, at the distribution rate of 3.55% with the total amount of RMB2.4 billion, amounting to RMB85.20 million in total was distributed on 18 August 2023.

(3) At the Bank's 2022 annual general meeting held on 31 May 2023, the directors approved the following profit appropriation for the year ended 31 December 2022:

- Appropriated RMB284 million to surplus reserve;
- Appropriated RMB907 million to general reserve;
- Declared cash dividends to all ordinary shareholders of approximately RMB931 million representing RMB1.60 per 10 shares (before tax).

(4) According to the terms of issuance of the Offshore Preference Shares and related authorisation, the chairman, the president and the secretary to the board of directors of the Bank jointly signed the Decision on Full Distribution of Dividends on Offshore Preference Shares of Bank of Qingdao Co., Ltd. for the Fifth Dividend Accruing Year at the Bank's board of directors meeting held on 22 July 2022 and agreed the dividend distribution plan for Offshore Preference Shares, with dividends of USD73.5167 million (before tax) to be distributed, which was calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of Offshore Preference Shares. The dividend payment date was 20 September 2022, and the amount of dividend was equivalent to approximately RMB510 million (before tax).

(5) At the Bank's 2021 annual general meeting held on 10 May 2022, the shareholders approved the following profit appropriation for the year ended 31 December 2021:

- Appropriated RMB244 million to surplus reserve;
- Appropriated RMB429 million to general reserve;
- Declared cash dividends to all ordinary shareholders of approximately RMB931 million representing RMB1.60 per 10 shares (before tax).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents:

	31 December 2023	31 December 2022
Cash	532,013	349,481
Surplus deposit reserves with the central bank	11,505,177	9,769,018
Original maturity within three months:		
– Deposits with banks and other financial institutions	1,392,178	1,390,498
– Placements with banks and other financial institutions	1,500,000	–
– Certificates of interbank deposit issued	667,404	–
Total	15,596,772	11,508,997

(2) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Debt securities issued	Dividend payable	Lease liabilities	Total
Balance at 1 January 2023	74,866,951	19,258	515,043	75,401,252
Changes from financing cash flows:				
– Cash received from debt securities issued	106,455,676	–	–	106,455,676
– Payments for interest on debt securities issued	(2,196,347)	–	–	(2,196,347)
– Repayment of debt securities issued	(91,930,519)	–	–	(91,930,519)
– Payment for dividends	–	(1,188,128)	–	(1,188,128)
– Payment for lease liabilities	–	–	(148,387)	(148,387)
Total changes from financing cash flows	12,328,810	(1,188,128)	(148,387)	10,992,295
Other changes:				
– Dividends declared	–	1,188,957	–	1,188,957
– Increase in lease liabilities	–	–	168,517	168,517
– Interest expense	2,074,024	–	19,862	2,093,886
Balance at 31 December 2023	89,269,785	20,087	555,035	89,844,907

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(2) Reconciliation of movements of liabilities to cash flows arising from financing activities: (continued)

	Debt securities issued	Dividend payable	Lease liabilities	Total
Balance at 1 January 2022	92,218,300	18,469	505,895	92,742,664
Changes from financing cash flows:				
– Cash received from debt securities issued	71,080,326	–	–	71,080,326
– Payments for interest on debt securities issued	(3,039,408)	–	–	(3,039,408)
– Repayment of debt securities issued	(88,101,992)	–	–	(88,101,992)
– Payment for dividends	–	(1,440,645)	–	(1,440,645)
– Payment for lease liabilities	–	–	(146,863)	(146,863)
Total changes from financing cash flows	(20,061,074)	(1,440,645)	(146,863)	(21,648,582)
Other changes:				
– Dividends declared	–	1,441,434	–	1,441,434
– Increase in lease liabilities	–	–	137,159	137,159
– Interest expense	2,709,725	–	18,852	2,728,577
Balance at 31 December 2022	74,866,951	19,258	515,043	75,401,252

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

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

Major shareholders' information

Company name	Number of ordinary shares of the Bank held by the Company (in thousands)	Proportion of ordinary shares of the Bank held by the Company		Registered location	Principal activities	Legal form	Legal representative
		31 December 2023	31 December 2022				
Intesa Sanpaolo S.p.A. ("ISP")	1,018,562	17.50%	17.50%	Italy	Commercial banking	Joint stock limited company	Gian Maria GROS-PIETRO
Qingdao Conson Industrial Co., Ltd. ("Qingdao Conson")	654,623	11.25%	11.25%	Qingdao	State-owned assets operation and investment, import and export of goods and technology	Limited liability company	LIU Luqiang
Qingdao Haier Industrial Development Co., Ltd. ("Haier Industrial Development")	532,601	9.15%	9.15%	Qingdao	Business services	Limited liability company	XIE Juzhi

Changes in ordinary shares of the Bank held by major shareholders

	ISP		Qingdao Conson		Haier Industrial Development	
	Number (in thousands of shares)	Percentage	Number (in thousands of shares)	Percentage	Number (in thousands of shares)	Percentage
As at 1 January 2022	624,754	13.85%	503,556	11.17%	409,693	9.08%
Increase	393,808	3.65%	151,067	0.08%	122,908	0.07%
As at 31 December 2022	1,018,562	17.50%	654,623	11.25%	532,601	9.15%
Increase	—	—	—	—	—	—
As at 31 December 2023	1,018,562	17.50%	654,623	11.25%	532,601	9.15%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(1) Relationship of related parties (continued)

(a) Major shareholders (continued)

Changes in registered capital of major shareholders

	Currency	31 December 2023	31 December 2022
ISP	EUR	10,369 Million	10,369 Million
Qingdao Conson	RMB	2,000 Million	2,000 Million
Haier Industrial Development	RMB	4,500 Million	4,500 Million

(b) Subsidiary of the Bank

The detailed information of the Bank's subsidiaries is set out in Note 23.

(c) Other related parties

Other related parties include members of the board of directors, the board of supervisors and senior management and close family members of such individuals; entities (and their subsidiaries) which members of the board of directors, the board of supervisors and senior management, and close family members of such individuals can control, jointly control or act as directors or senior management, etc.

(2) Related party transactions and balances

Related party transactions of the Group mainly refer to loans, deposits and financial investments, which are entered into in the normal course and terms of business at the time of the transaction, with consistent pricing policies as in transactions with independent third parties.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Related party transactions and balances (continued)

(a) Transactions with the related parties except subsidiaries (excluding remuneration of key management personnel)

	ISP and its group	Qingdao Conson and its group	Haier Industrial Development and its group	Other corporate related parties	Other individual related parties	Total	Proportion to gross amount/balance of similar transactions
As at 31 December 2023							
Loans and advances to customers	–	10,250	1,532,652	1,477	301,535	1,845,914	0.63%
Financial investments measured at FVOCI	–	771,852	–	–	–	771,852	0.67%
Long-term receivables	–	–	63,484	–	–	63,484	0.38%
Deposits with banks and other financial institutions	2	–	–	–	–	2	0.00%
Deposits from customers	125,473	23,267	386,334	3,473,963	946,501	4,955,538	1.25%
Deposits from banks and other financial institutions	–	1,017	6,818	–	–	7,835	0.35%
Credit commitments:							
Bank acceptances	–	38,719	2,775	100	–	41,594	0.14%
2023							
Interest income	–	13,945	85,610	14	11,846	111,415	0.53%
Interest expense	1,334	414	4,359	105,591	13,498	125,196	1.06%
Fee and commission income	–	18,875	–	–	–	18,875	0.89%
Fee and commission expense	–	–	–	104	–	104	0.02%
Operating expenses	–	566	–	–	–	566	0.01%
Other net operating losses	–	–	–	1,590	–	1,590	1.00%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Related party transactions and balances (continued)

(a) Transactions with the related parties except subsidiaries (excluding remuneration of key management personnel) (continued)

	ISP and its group	Qingdao Conson and its group	Haier Industrial Development and its group	Other corporate related parties	Other individual related parties	Total	Proportion to gross amount/balance of similar transactions
As at 31 December 2022							
Loans and advances to customers	–	–	1,351,200	–	311,449	1,662,649	0.62%
Financial investments measured at amortised cost	–	–	–	1,005,318	–	1,005,318	1.64%
Financial investments measured at FVTPL	–	–	–	444,301	–	444,301	0.94%
Long-term receivables	–	–	193,436	–	–	193,436	1.23%
Deposits with banks and other financial institutions	19,498	–	–	–	–	19,498	0.85%
Deposits from customers	134,322	48,349	334,017	3,745,736	556,003	4,818,427	1.38%
Deposits from banks and other financial institutions	–	–	516	5,534	–	6,050	0.09%
Credit commitments:							
Bank acceptances	–	100	–	100	–	200	0.00%
2022							
Interest income	–	–	94,529	–	13,812	108,341	0.55%
Interest expense	1,784	344	5,707	100,183	14,482	122,500	1.06%
Fee and commission income	–	–	–	36,358	–	36,358	2.03%
Fee and commission expense	–	–	–	293	–	293	0.08%
Operating expenses	–	706	–	–	–	706	0.02%
Other net operating losses	–	–	–	5,050	–	5,050	4.30%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Related party transactions and balances (continued)

(b) Main transactions with subsidiaries

	31 December 2023	31 December 2022
Balances at the end of the year:		
Placements with banks and other financial institutions	820,437	1,311,569
Deposits from banks and other financial institutions	1,187,087	829,336
Other liabilities	1,594	1,524
	2023	2022
Transactions during the year:		
Interest income	61,675	11,569
Interest expense	6,757	6,712
Fee and commission income	239,159	238,833
Fee and commission expense	–	55,519
Other net operating income	2,033	2,033

Intra-group balances and transactions are eliminated in full in preparing the consolidated financial statements.

(3) Key management personnel

The Bank's key management personnel includes people having authority and responsibility, directly or indirectly, to plan, command and control the activities of the Bank, including directors, supervisors and senior management at bank level.

	2023	2022
Remuneration of key management personnel	17,842	22,019

The total compensation package for certain key management personnel for the year ended 31 December 2023 have not yet been finalised. The difference in emoluments is not expected to have significant impact on the Group's financial statements for the year ended 31 December 2023.

The Bank enters into banking transactions with key management personnel in the normal course of business. For the reporting period, the Bank had no material banking transactions and balances with key management personnel. As at 31 December 2023, the credit card overdraft balance of the Bank to the key management personnel amounted to RMB15.2 thousand (31 December 2022: RMB10.6 thousand), which have been included in loans and advances to related parties stated in Note 42(2).

(4) Transactions with the annuity

Except for normal contributions, there were no other related party transactions in the enterprise annuity funds established by the Group and the Bank during the reporting period.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 SEGMENT REPORTING

Segment reporting is disclosed in accordance with the accounting policy set out in Note 2(22).

The Group manages its businesses by business lines. Segment assets and liabilities, and segment income, expense and operating results are measured in accordance with the Group's accounting policies. Internal charges and transfer pricing of transactions between segments are determined for management purpose and have been reflected in the performance of each segment. Interest income and expenses earned from third parties are referred to as "External net interest income/expense". Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "Internal net interest income/expense".

Segment income, expense, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets, and liabilities are determined before intra-group balances, and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total payment during the period to acquire property and equipment, intangible assets and other long-term assets.

The Group defines its reporting segments based on the following for management purpose:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, deposit taking activities, agency services, remittance and settlement services.

Retail banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans and deposit services.

Financial market business

This segment covers financial market operations. The financial market business enters into inter-bank money market transactions, repurchases transactions, investments in debt securities, and non-standardised debt investments, etc.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 SEGMENT REPORTING (continued)

Unallocated 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.

	2023				Total
	Corporate banking	Retail banking	Financial market business	Unallocated items and others	
External net interest income/(expense)	5,827,897	(643,671)	3,448,708	649,035	9,281,969
Internal net interest (expense)/income	(768,042)	3,146,158	(2,378,116)	–	–
Net interest income	5,059,855	2,502,487	1,070,592	649,035	9,281,969
Net fee and commission income/(expense)	432,583	663,130	493,837	(3,031)	1,586,519
Net trading gains/(losses)	26,340	(827)	(194,505)	–	(168,992)
Net gains arising from investments	107,267	–	1,514,709	887	1,622,863
Other net operating income	124,165	13,526	13,246	8,055	158,992
Operating income	5,750,210	3,178,316	2,897,879	654,946	12,481,351
Operating expenses	(2,068,507)	(1,618,989)	(720,430)	(108,502)	(4,516,428)
Expected credit losses	(1,477,774)	(1,042,762)	(1,283,824)	(209,719)	(4,014,079)
Impairment losses on other assets	(908)	(16,539)	–	–	(17,447)
Profit before taxation	2,203,021	500,026	893,625	336,725	3,933,397
Other segment information					
– Depreciation and amortisation	(257,711)	(226,384)	(78,665)	(2,408)	(565,168)
– Capital expenditure	184,362	161,952	56,266	1,337	403,917

	31 December 2023				Total
	Corporate banking	Retail banking	Financial market business	Unallocated items and others	
Segment assets	234,423,008	95,339,912	257,396,759	17,031,806	604,191,485
Deferred tax assets					3,793,887
Total assets					607,985,372
Segment liabilities/Total liabilities	235,963,324	197,512,142	119,307,535	15,263,128	568,046,129
Credit commitments	53,460,793	23,106,489	–	–	76,567,282

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 SEGMENT REPORTING (continued)

Unallocated items and others (continued)

	2022				Total
	Corporate banking	Retail banking	Financial market business	Unallocated items and others	
External net interest income	4,937,009	671,076	2,212,047	468,182	8,288,314
Internal net interest income/(expense)	775,606	940,589	(1,716,195)	–	–
Net interest income	5,712,615	1,611,665	495,852	468,182	8,288,314
Net fee and commission income	186,786	675,281	559,512	23,551	1,445,130
Net trading (losses)/gains	(125,987)	(11,782)	879,427	(476)	741,182
Net gains arising from investments	68,964	–	988,211	–	1,057,175
Other net operating income	51,707	26,054	10,300	29,393	117,454
Operating income	5,894,085	2,301,218	2,933,302	520,650	11,649,255
Operating expenses	(2,036,089)	(1,330,464)	(758,574)	(93,314)	(4,218,441)
Expected credit losses	(2,391,739)	(443,235)	(1,270,304)	(183,550)	(4,288,828)
Impairment losses on other assets	(6,027)	–	–	–	(6,027)
Profit before taxation	1,460,230	527,519	904,424	243,786	3,135,959
Other segment information					
– Depreciation and amortisation	(229,778)	(277,830)	(32,469)	(7,396)	(547,473)
– Capital expenditure	206,014	249,096	36,785	2,065	493,960

	31 December 2022				Total
	Corporate banking	Retail banking	Financial market business	Unallocated items and others	
Segment assets	209,943,060	88,215,513	212,537,502	15,471,574	526,167,649
Deferred tax assets					3,446,343
Total assets					529,613,992
Segment liabilities/Total liabilities	223,436,198	153,209,549	103,132,597	13,242,353	493,020,697
Credit commitments	49,637,911	18,441,375	–	–	68,079,286

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT

The main risks of the Group are described and analysed 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.

The Group establishes the enterprise risk management committee, which is mainly in charge of the enterprise risk management. 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 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 relevant risk management departments 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 enhancement 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 utilisation of limits by means of reliable and up-to-date management information systems.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(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 monitors the controls of credit risk, and regularly reviews related reports on risk profile. Credit risk management is under the unified leadership of the Comprehensive Risk Management Committee of the head office. Each business unit is required to implement credit policies and procedures, and is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

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

(b) Credit risk assessment method

Stage of financial instruments

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

The three risk stages are defined as follows:

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

Financial instruments that have low credit risk

The credit risk on a financial instrument is considered low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(b) Credit risk assessment method (continued)

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, 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;
- 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.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

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

Definition of default

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(b) Credit risk assessment method (continued)

Credit impairment assessment

At the end of each reporting period, 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 issuer or borrower;
- A breach of contract, such as a default or delinquency in interest or principal payments for over 90 days, etc;
- 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 reorganisation; or
- The disappearance of an active market for that financial asset because of the issuer's or borrower's financial difficulties.

Measuring ECL – the parameters, assumptions and valuation techniques

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

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. The Group's PD is adjusted based on the results of the internal rating model, taking into account the forward-looking information to reflect the influence on future's point-in-time PD.
- LGD is expressed as a percentage loss per unit of exposure at the time of default. It varies depending on the type of products, collateral and other factors.
- EAD is based on the amounts the Group expects to be at risk at the time of default.

The Group considered credit risk characteristics such as product type, client type and the industry in which the client operates, and has divided exposures with common credit risk characteristics into separate groups. The impairment of expected credit loss is calculated by the method of single evaluation and combination evaluation. The Group obtained sufficient information to ensure it is statistically reliable.

During the reporting period, there has been no significant changes in the estimate techniques and key assumptions of the Group.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(b) Credit risk assessment method (continued)

Measuring ECL – the parameters, assumptions and valuation techniques (continued)

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(b) Credit risk assessment method (continued)

Measuring ECL – the parameters, assumptions and valuation techniques (continued)

Forward-looking information contained in ECL

Both the assessment of significant increase in credit risk since initial recognition and the measurement of ECL of financial instruments involve forward-looking information.

The Group assumes three economic scenarios: the base scenario in line with the average internal forecast; the upside scenario and the downside scenario. As at 31 December 2023, the average scenario has the highest weighting. Weighted credit loss is the expected credit loss calculated by assigning scenario weighting of multiple scenarios.

Based on the analysis on historical data, the Group periodically assessed alternative macroeconomic indicators and identified key economic indicators that affect the credit risk and ECL of business types, including gross domestic product (GDP), consumer price index (CPI), and monetary aggregates (M2) etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting future economic indicators.

For the year ended 31 December 2023, the Group has taken into account different macroeconomic scenarios and made forward-looking forecasts of key economic indicators, including the average forecasted cumulative growth rate of GDP, used to estimate ECL, which is about 5.00% in the neutral scenario.

The Group has carried out sensitivity analysis of key economic variables, used in forward-looking measurement. As at 31 December 2023 and 31 December 2022, when the key economic indicators in the neutral scenario move up or down by 5%, the ECL will not change by more than 5%.

Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

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

In order to maximise cash collection, the Group may modify the contractual terms of loans as a result of business negotiations or due to financial difficulties of the borrowers at times.

Such modification may include extended payment term arrangements, payment holidays and payment forgiveness. The Group's loan 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

(d) Collaterals and other credit enhancements

The Group and its subsidiaries have established a range of risk management policies and adopted various methods to mitigate credit risk. A critical method for the Group to control its credit risks is to get 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 reduce the credit limit. It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not hold repossessed assets for business use.

Collateral held as security for financial assets other than loans and receivables is determined by the nature of the financial instruments. Debt securities are generally unsecured while asset-backed securities and other similar instruments, are usually secured by portfolios of financial instruments.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(e) Maximum credit risk exposure

As at the end of the reporting period, the maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements is set out below:

The Group

	31 December 2023	31 December 2022
Deposits with the central bank	30,511,651	27,475,825
Deposits with banks and other financial institutions	2,210,368	2,301,037
Placements with banks and other financial institutions	14,021,225	8,432,022
Derivative financial assets	149,377	108,376
Financial assets held under resale agreements	13,944,652	—
Loans and advances to customers	292,992,926	262,518,662
Financial investments		
– Financial investments measured at FVTPL	14,470,010	12,307,062
– Financial investments measured at FVOCI	114,961,884	96,655,451
– Financial investments measured at amortised cost	52,756,509	58,202,665
Long-term receivables	16,741,773	15,280,949
Others	776,537	1,307,938
Subtotal	553,536,912	484,589,987
Credit commitments	76,567,282	68,079,286
Total	630,104,194	552,669,273

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(f) Risk concentration

Credit risk is often greater when transactions are concentrated in one single industry or have comparable economic features. In addition, different industrial sectors have their sector unique characteristics in terms of economic development, and could present a different credit risk.

The composition of the Group's and the Bank's gross loans and advances to customers (excluding accrued interest) by industry is analysed as follows:

	31 December 2023		31 December 2022	
	Amount	Percentage	Amount	Percentage
Wholesale and retail trade	40,112,000	13.37%	27,177,633	10.10%
Construction	36,305,398	12.10%	36,870,337	13.70%
Leasing and business activities	29,443,983	9.81%	22,197,699	8.25%
Manufacturing	27,820,169	9.27%	30,836,317	11.46%
Water, environment and public utility management	25,460,916	8.48%	24,242,353	9.01%
Real estate	22,645,613	7.55%	21,744,001	8.08%
Financial service	15,227,141	5.07%	13,558,837	5.04%
Transportation, storage and postal services	5,858,262	1.95%	5,031,283	1.87%
Production and supply of electric and heating power, gas and water	5,478,243	1.83%	4,837,379	1.80%
Scientific research and technological services industries	3,874,193	1.29%	2,788,039	1.04%
Others	8,779,858	2.93%	6,365,544	2.37%
Subtotal for corporate loans and advances (including discounted bills and forfeiting)	221,005,776	73.65%	195,649,422	72.72%
Personal loans and advances	79,083,765	26.35%	73,380,030	27.28%
Total for loans and advances to customers	300,089,541	100.00%	269,029,452	100.00%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(f) Risk concentration (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. Debt securities investments analysed by rating as at the end of the reporting period are as follows:

	31 December 2023					
	Unrated	AAA	AA	A	Below A	Total
Debt securities (analysed by type of issuers):						
Governments and the central bank	–	53,530,546	–	–	–	53,530,546
Policy banks	–	24,246,483	–	–	–	24,246,483
Banks and other financial institutions	415,583	40,675,409	2,331,253	142,925	353,824	43,918,994
Corporate entities	2,934,092	26,135,790	15,217,608	153,621	2,299,767	46,740,878
Total	3,349,675	144,588,228	17,548,861	296,546	2,653,591	168,436,901

	31 December 2022					
	Unrated	AAA	AA	A	Below A	Total
Debt securities (analysed by type of issuers):						
Governments and the central bank	–	63,706,037	–	–	–	63,706,037
Policy banks	–	17,899,619	–	–	–	17,899,619
Banks and other financial institutions	3,376,161	25,658,379	1,875,288	237,208	256,545	31,403,581
Corporate entities	91,295	15,810,493	16,450,173	83,875	2,675,963	35,111,799
Total	3,467,456	123,074,528	18,325,461	321,083	2,932,508	148,121,036

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(g) Analysis on the credit quality of financial instruments

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

The Group

Financial assets measured at amortised cost	31 December 2023							
	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 the central bank	31,043,664	-	-	31,043,664	-	-	-	-
Deposits with banks and other financial institutions	2,212,017	-	-	2,212,017	(1,649)	-	-	(1,649)
Placements with banks and other financial institutions	14,063,602	-	-	14,063,602	(42,377)	-	-	(42,377)
Financial assets held under resale agreements	13,952,782	-	-	13,952,782	(8,130)	-	-	(8,130)
Loans and advances to customers								
– Corporate loans and advances	197,449,270	768,692	2,401,251	200,619,213	(4,565,865)	(162,644)	(1,576,878)	(6,305,387)
– Personal loans and advances	77,246,951	864,235	1,141,645	79,252,831	(434,923)	(188,299)	(926,518)	(1,549,740)
Financial investments	52,460,255	328,570	4,448,645	57,237,470	(126,430)	(22,797)	(4,331,734)	(4,480,961)
Long-term receivables	16,447,862	898,979	69,482	17,416,323	(446,463)	(174,694)	(53,393)	(674,550)
Total	404,876,403	2,860,476	8,061,023	415,797,902	(5,625,837)	(548,434)	(6,888,523)	(13,062,794)

Financial assets measured at FVOCI	31 December 2023							
	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 and forfeiting	20,976,009	-	-	20,976,009	(142,370)	-	-	(142,370)
Financial investments	114,847,595	109,556	4,733	114,961,884	(75,072)	(1,051)	(53,749)	(129,872)
Total	135,823,604	109,556	4,733	135,937,893	(217,442)	(1,051)	(53,749)	(272,242)
Credit commitments	76,556,283	10,899	100	76,567,282	(564,930)	(837)	-	(565,767)

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(g) Analysis on the credit quality of financial instruments (continued)

The Group

	31 December 2022							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Cash and balances with the central bank	27,825,306	–	–	27,825,306	–	–	–	–
Deposits with banks and other financial institutions	2,303,628	–	–	2,303,628	(2,591)	–	–	(2,591)
Placements with banks and other financial institutions	8,459,377	–	–	8,459,377	(27,355)	–	–	(27,355)
Loans and advances to customers								
– Corporate loans and advances	169,381,379	1,395,899	2,608,188	173,385,466	(3,631,302)	(312,800)	(2,263,910)	(6,208,012)
– Personal loans and advances	72,078,420	814,528	655,589	73,548,537	(269,848)	(197,911)	(433,700)	(901,459)
Financial investments	56,482,930	235,908	4,430,545	61,149,383	(191,705)	(27,839)	(2,727,174)	(2,946,718)
Long-term receivables	15,340,939	216,795	161,059	15,718,793	(265,041)	(65,109)	(107,694)	(437,844)
Total	351,871,979	2,663,130	7,855,381	362,390,490	(4,387,842)	(603,659)	(5,532,478)	(10,523,979)

	31 December 2022							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at FVOCI								
Loans and advances to customers								
– Discounted bills and forfeiting	22,676,508	17,622	–	22,694,130	(27,639)	(31)	–	(27,670)
Financial investments	94,715,912	1,939,539	–	96,655,451	(51,725)	(152,028)	–	(203,753)
Total	117,392,420	1,957,161	–	119,349,581	(79,364)	(152,059)	–	(231,423)
Credit commitments	67,960,640	97,646	21,000	68,079,286	(249,614)	(3,028)	–	(252,642)

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(2) Market risk

Market risk is the risk of loss, in respect of the Group's on- and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates and other prices, etc.

The Group has implemented a market risk management system that formulates procedures to identify, measure, monitor and control market risks. This system aims to minimise market risk to an acceptable level through examining and approving new products and limit management.

The Group adopts sensitivity analysis, interest repricing gap analysis and foreign currency gap analysis to measure and monitor market risks. The Group classifies transactions as banking book and trading book transactions, and applies different approaches based on the nature and characteristics of these books to monitor the associated risks.

The Group is exposed to market risk in the ordinary course of business, which includes the interest rate risk and the currency risk.

(a) *Interest rate risk*

Interest rate risk refers to the risk that the adverse changes in interest rate levels and maturity structures will cause the overall revenue and economic value of financial instruments to suffer losses. 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 portfolio mix of floating and fixed rate loans, the loan repricing cycle, as well as optimises the term structure of its customer deposits.

The Group implements various methods, such as sensitivity analysis and scenario simulation to measure and monitor interest risk exposure and limits. Such interest rate sensitivity and risk exposure are set regularly, and the respective limits are also monitored, managed and reported on a regular basis.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

The following tables indicate the assets and liabilities analysis as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	31 December 2023					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	31,043,664	618,878	30,424,786	–	–	–
Deposits with banks and other financial institutions	2,210,368	19,839	2,190,529	–	–	–
Placements with banks and other financial institutions	14,021,225	264,764	7,728,689	5,830,950	196,822	–
Financial assets held under resale agreements	13,944,652	2,773	13,941,879	–	–	–
Loans and advances to customers (Note (i))	292,992,926	741,732	78,759,912	167,515,322	39,666,710	6,309,250
Financial investments (Note (ii))	226,011,166	52,049,245	4,612,581	18,677,727	89,722,313	60,949,300
Long-term receivables	16,741,773	206,949	6,638,805	5,095,740	4,800,279	–
Others	11,019,598	11,019,598	–	–	–	–
Total assets	607,985,372	64,923,778	144,297,181	197,119,739	134,386,124	67,258,550
Liabilities						
Borrowings from the central bank	18,235,088	158,442	5,791,966	12,284,680	–	–
Deposits from banks and other financial institutions	2,242,331	16,701	1,816,495	409,135	–	–
Placements from banks and other financial institutions	21,090,364	168,821	4,825,173	15,728,870	367,500	–
Financial assets sold under repurchase agreements	36,880,567	7,629	36,872,938	–	–	–
Deposits from customers	395,467,359	9,794,927	176,706,141	73,163,699	135,802,592	–
Debt securities issued	89,269,785	268,532	26,985,268	48,022,299	13,993,686	–
Others	4,860,635	4,305,600	59,115	87,745	318,647	89,528
Total liabilities	568,046,129	14,720,652	253,057,096	149,696,428	150,482,425	89,528
Asset-liability gap	39,939,243	50,203,126	(108,759,915)	47,423,311	(16,096,301)	67,169,022

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

	31 December 2022					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	27,825,306	394,369	27,430,937	–	–	–
Deposits with banks and other financial institutions	2,301,037	13,130	2,088,048	199,859	–	–
Placements with banks and other financial institutions	8,432,022	208,644	4,733,686	3,489,692	–	–
Loans and advances to customers (Note (i))	262,518,662	563,118	68,781,574	152,363,980	35,395,663	5,414,327
Financial investments (Note (ii))	202,141,128	43,709,191	7,991,469	11,534,615	69,140,563	69,765,290
Long-term receivables	15,280,949	216,532	6,469,227	5,168,662	3,426,528	–
Others	11,114,888	11,114,888	–	–	–	–
Total assets	529,613,992	56,219,872	117,494,941	172,756,808	107,962,754	75,179,617
Liabilities						
Borrowings from the central bank	13,256,605	57,473	3,477,252	9,721,880	–	–
Deposits from banks and other financial institutions	6,439,660	39,343	2,898,857	3,501,460	–	–
Placements from banks and other financial institutions	17,808,095	184,054	5,216,610	12,307,431	100,000	–
Financial assets sold under repurchase agreements	25,634,354	1,823	25,632,531	–	–	–
Deposits from customers	348,043,307	7,085,444	167,691,199	67,206,597	106,042,651	17,416
Debt securities issued	74,866,951	253,084	21,435,717	43,184,576	9,993,574	–
Others	6,971,725	4,666,033	1,853,926	64,869	293,537	93,360
Total liabilities	493,020,697	12,287,254	228,206,092	135,986,813	116,429,762	110,776
Asset-liability gap	36,593,295	43,932,618	(110,711,151)	36,769,995	(8,467,008)	75,068,841

Notes:

- (i) As at 31 December 2023 and 31 December 2022, the category “Less than three months” of the Group’s loans and advances to customers includes overdue loans and advances (net of provision for impairment losses) of RMB1,687 million and RMB1,237 million, respectively.
- (ii) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI, and financial investments measured at amortised cost.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income and equity. The following table sets forth the effect on the Group's net interest income and equity from possible and reasonable interest rate fluctuations with all other variables held constant. The effect on net interest income refers to the effect of certain interest rate changes on the net interest income generated by financial assets and liabilities that are held at the end of the reporting period and whose interest rate are expected to be repriced within one year. The effect on equity refers to the effect of certain interest rate changes on the fair value change generated by debt investments measured at FVOCI that are held at the end of the reporting period.

	31 December 2023	31 December 2022
<u>Changes in annualised net interest income</u>	<u>(Decrease)/Increase</u>	<u>(Decrease)/Increase</u>
Interest rates increase by 100 bps	(731,924)	(831,337)
Interest rates decrease by 100 bps	731,924	831,337

	31 December 2023	31 December 2022
<u>Changes in annualised equity</u>	<u>(Decrease)/Increase</u>	<u>(Decrease)/Increase</u>
Interest rates increase by 100 bps	(2,301,467)	(2,782,794)
Interest rates decrease by 100 bps	2,465,394	3,051,735

This sensitivity analysis is based on a static interest rate risk profile of the assets and liabilities and certain simplified assumptions. The analysis shows how annualised interest income and equity would have been affected by the repricing of the Group's assets and liabilities. The analysis is based on the following assumptions:

- (i) Regardless of subsequent changes, the analysis is based on the static gap at the end of the reporting period;
- (ii) In measuring the effect of changes in interest rates on the Group's net interest income, all assets and liabilities that are repriced or matured within three months, after three months but within one year, or already matured are assumed to be repriced at the beginning of the respective periods;
- (iii) Interest rates for deposits with the central bank and demand deposits placed and taken are remain unchanged;
- (iv) There is a parallel shift in the yield curve and in interest rates;
- (v) There are no other changes to the portfolio and all positions will be retained and rolled over upon maturity;
- (vi) other variables (including exchange rates) remain unchanged; and
- (vii) no consideration of impact on customers' behavior, market price and off-balance sheet business resulting from interest rate changes.

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 and equity resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk

Currency risk is the risk of losses caused by adverse changes in market exchange rates. The Group's currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The currency exposures of the Group's assets and liabilities as at the end of the reporting period are as follows:

	31 December 2023			
	RMB	USD	Others	Total
	(RMB equivalent)	(RMB equivalent)	(RMB equivalent)	(RMB equivalent)
Assets				
Cash and deposits with the central bank	30,874,843	164,850	3,971	31,043,664
Deposits with banks and other financial institutions	1,519,343	646,507	44,518	2,210,368
Placements with banks and other financial institutions	14,021,225	–	–	14,021,225
Financial assets held under resale agreements	13,944,652	–	–	13,944,652
Loans and advances to customers	292,134,455	858,471	–	292,992,926
Financial investments (Note (i))	219,582,545	6,428,621	–	226,011,166
Long-term receivables	16,741,773	–	–	16,741,773
Others	10,815,883	201,051	2,664	11,019,598
Total assets	599,634,719	8,299,500	51,153	607,985,372
Liabilities				
Borrowings from the central bank	18,235,088	–	–	18,235,088
Deposits from banks and other financial institutions	1,518,537	723,794	–	2,242,331
Placements from banks and other financial institutions	20,031,173	1,059,191	–	21,090,364
Financial assets sold under repurchase agreements	36,880,567	–	–	36,880,567
Deposits from customers	393,885,030	1,564,963	17,366	395,467,359
Debt securities issued	89,269,785	–	–	89,269,785
Others	4,801,894	32,994	25,747	4,860,635
Total liabilities	564,622,074	3,380,942	43,113	568,046,129
Net on-balance sheet position	35,012,645	4,918,558	8,040	39,939,243
Net position of foreign exchange swaps and others	–	(4,926,226)	3,173	(4,923,053)
Net position	35,012,645	(7,668)	11,213	35,016,190
Credit commitments	72,812,430	2,627,962	1,126,890	76,567,282

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk (continued)

	31 December 2022			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Assets				
Cash and deposits with the central bank	27,689,844	131,884	3,578	27,825,306
Deposits with banks and other financial institutions	1,465,218	757,794	78,025	2,301,037
Placements with banks and other financial institutions	8,432,022	–	–	8,432,022
Loans and advances to customers	260,885,963	1,629,357	3,342	262,518,662
Financial investments (Note (i))	194,601,933	7,539,195	–	202,141,128
Long-term receivables	15,280,949	–	–	15,280,949
Others	10,676,780	435,312	2,796	11,114,888
Total assets	519,032,709	10,493,542	87,741	529,613,992
Liabilities				
Borrowings from the central bank	13,256,605	–	–	13,256,605
Deposits from banks and other financial institutions	3,960,620	2,479,040	–	6,439,660
Placements from banks and other financial institutions	17,663,785	144,310	–	17,808,095
Financial assets sold under repurchase agreements	25,395,789	238,565	–	25,634,354
Deposits from customers	346,301,171	1,684,653	57,483	348,043,307
Debt securities issued	74,866,951	–	–	74,866,951
Others	984,776	5,969,696	17,253	6,971,725
Total liabilities	482,429,697	10,516,264	74,736	493,020,697
Net position	36,603,012	(22,722)	13,005	36,593,295
Credit commitments	65,256,071	2,406,503	416,712	68,079,286

Note:

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

The Group uses sensitivity analysis to measure the potential effect of changes in foreign currency on the Group's net profit. The following table sets forth the results of the Group's foreign exchange sensitivity analysis at the end of the reporting period.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk (continued)

Changes in annualised net profit and equity	31 December 2023 Increase/(Decrease)	31 December 2022 (Decrease)/Increase
Foreign exchange rate increase by 100 bps	4	(10)
Foreign exchange rate decrease by 100 bps	(4)	10

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 fluctuation of exchange rates by 100 basis points at the reporting date is based on the anticipated exchange rates movement over the next 12 months;
- (iii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously;
- (iv) Since the Group's assets and liabilities in other foreign currencies (excluding in USD) are not significant in proportion to the total assets and total liabilities, the possible impact of other foreign currencies on the Group's net profit and equity is calculated at the amount converted into USD in the above sensitivity analysis;
- (v) 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;
- (vi) other variables (including interest rates) remain unchanged; and
- (vii) no consideration of impact on customers' behavior and market price resulting from exchange rate changes.

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 gain or loss and equity resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(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. The 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 placements 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 the normal payment of the business.

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis

The following tables provide an analysis of assets and liabilities of the Group into respective maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	31 December 2023							
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	18,996,573	12,047,091	-	-	-	-	-	31,043,664
Deposits with banks and other financial institutions	-	1,392,344	204,824	613,200	-	-	-	2,210,368
Placements with banks and other financial institutions	-	-	2,743,123	5,182,786	5,898,304	197,012	-	14,021,225
Financial assets held under resale agreements	-	-	13,944,652	-	-	-	-	13,944,652
Loans and advances to customers	1,158,219	529,295	26,255,077	24,352,523	90,063,777	80,582,868	70,051,167	292,992,926
Financial investments (Note (i))	212,289	-	27,251,756	7,515,812	20,025,622	104,657,017	66,348,670	226,011,166
Long-term receivables	18,361	-	786,671	1,021,260	4,925,045	9,846,309	144,127	16,741,773
Others	8,501,958	214,626	101,801	83,972	306,394	254,282	1,556,565	11,019,598
Total assets	28,887,400	14,183,356	71,287,904	38,769,553	121,219,142	195,537,488	138,100,529	607,985,372
Liabilities								
Borrowings from the central bank	-	-	231,661	5,683,599	12,319,828	-	-	18,235,088
Deposits from banks and other financial institutions	-	1,462,398	-	361,820	418,113	-	-	2,242,331
Placements from banks and other financial institutions	-	-	1,152,805	2,686,202	15,825,869	1,425,488	-	21,090,364
Financial assets sold under repurchase agreements	-	-	36,880,567	-	-	-	-	36,880,567
Deposits from customers	-	121,349,619	26,507,966	30,325,208	75,831,293	141,453,273	-	395,467,359
Debt securities issued	-	-	9,125,354	18,008,373	48,142,372	7,997,815	5,995,871	89,269,785
Others	580,348	83,108	526,439	700,614	761,477	1,102,407	1,106,242	4,860,635
Total liabilities	580,348	122,895,125	74,424,792	57,765,816	153,298,952	151,978,983	7,102,113	568,046,129
Net position	28,307,052	(108,711,769)	(3,136,888)	(18,996,263)	(32,079,810)	43,558,505	130,998,416	39,939,243

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

	31 December 2022							
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	17,697,313	10,127,993	–	–	–	–	–	27,825,306
Deposits with banks and other financial institutions	–	1,389,349	204,888	503,947	202,853	–	–	2,301,037
Placements with banks and other financial institutions	–	–	1,851,427	3,038,226	3,542,369	–	–	8,432,022
Loans and advances to customers	719,658	385,543	20,949,483	21,389,393	87,255,059	67,179,734	64,639,792	262,518,662
Financial investments (Note (i))	326,384	46,246	22,850,091	6,299,348	17,944,465	76,135,202	78,539,392	202,141,128
Long-term receivables	53,366	8,481	1,165,757	1,182,373	4,893,901	7,590,630	386,441	15,280,949
Others	8,603,214	432,394	40,037	38,057	142,250	308,774	1,550,162	11,114,888
Total assets	27,399,935	12,390,006	47,061,683	32,451,344	113,980,897	151,214,340	145,115,787	529,613,992
Liabilities								
Borrowings from the central bank	–	–	54,040	3,470,285	9,732,280	–	–	13,256,605
Deposits from banks and other financial institutions	–	1,158,513	–	1,765,320	3,515,827	–	–	6,439,660
Placements from banks and other financial institutions	–	–	2,058,040	3,278,093	12,371,962	100,000	–	17,808,095
Financial assets sold under repurchase agreements	–	–	25,531,243	103,111	–	–	–	25,634,354
Deposits from customers	–	122,042,969	19,152,844	27,829,442	68,818,498	110,181,658	17,896	348,043,307
Debt securities issued	–	–	4,982,830	16,601,753	43,288,794	3,998,641	5,994,933	74,866,951
Others	267,224	166,769	855,276	1,939,064	1,551,557	1,074,057	1,117,778	6,971,725
Total liabilities	267,224	123,368,251	52,634,273	54,987,068	139,278,918	115,354,356	7,130,607	493,020,697
Net position	27,132,711	(110,978,245)	(5,572,590)	(22,535,724)	(25,298,021)	35,859,984	137,985,180	36,593,295

Notes:

- (i) Financial investments include financial assets measured at FVTPL, financial investment measured at FVOCI, and financial investment measured at amortised cost.
- (ii) For cash and deposits with the central bank, the indefinite period amount represents statutory deposit reserves, fiscal deposits and foreign exchange risk reserves maintained with the PBOC. Other equity instruments are reported under indefinite period. For loans and advances to customers, financial investments and long-term receivables, the “indefinite” period amount represents the balance being credit-impaired or not credit-impaired but overdue for more than one month, and the balance not credit-impaired but overdue within one month is included in “repayable on demand”.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(b) Analysis on contractual undiscounted cash flows of non-derivative financial liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities at the end of the reporting period:

	31 December 2023								
	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 the central bank	-	-	232,022	5,744,867	12,459,403	-	-	18,436,292	18,235,088
Deposits from banks and other financial institutions	-	1,462,398	-	365,386	433,163	-	-	2,260,947	2,242,331
Placements from banks and other financial institutions	-	-	1,153,854	2,756,377	16,144,021	1,526,428	-	21,580,680	21,090,364
Financial assets sold under repurchase agreements	-	-	36,884,708	-	-	-	-	36,884,708	36,880,567
Deposits from customers	-	121,349,619	27,254,653	30,459,475	78,726,999	151,534,377	-	409,325,123	395,467,359
Debt securities issued	-	-	9,140,000	18,132,000	49,090,000	9,569,600	6,836,400	92,768,000	89,269,785
Lease liabilities	-	17,035	27,987	18,482	89,958	350,748	111,467	615,677	555,035
Other financial liabilities	14,582	66,073	83,953	274,404	32,852	318,611	922,695	1,713,170	1,713,170
Total	14,582	122,895,125	74,777,177	57,750,991	156,976,396	163,299,764	7,870,562	583,584,597	565,453,699

	31 December 2022								
	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 the central bank	-	-	54,076	3,517,460	9,864,710	-	-	13,436,246	13,256,605
Deposits from banks and other financial institutions	-	1,158,513	-	1,775,204	3,570,747	-	-	6,504,464	6,439,660
Placements from banks and other financial institutions	-	-	2,072,109	3,290,564	12,630,182	105,776	-	18,098,631	17,808,095
Financial assets sold under repurchase agreements	-	-	25,537,711	103,572	-	-	-	25,641,283	25,634,354
Deposits from customers	-	122,042,969	19,181,984	28,189,089	70,741,471	118,416,931	35,653	358,608,097	348,043,307
Debt securities issued	-	-	4,990,000	16,712,000	43,922,800	5,271,200	7,115,200	78,011,200	74,866,951
Lease liabilities	-	9,537	28,906	14,949	80,152	323,892	118,182	575,618	515,043
Other financial liabilities	13,418	157,232	121,294	1,792,607	404,847	183,624	922,695	3,595,717	3,595,717
Total	13,418	123,368,251	51,986,080	55,395,445	141,214,909	124,301,423	8,191,730	504,471,256	490,159,732

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(c) Analysis on contractual undiscounted cash flows of derivative financial instruments.

The following tables provide an analysis of the contractual undiscounted cash flow of derivative financial instruments at the end of the reporting period:

The Group

	31 December 2023							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	
Cash flows of derivative financial instruments:								
Derivative financial instruments settled on net basis	-	-	(74)	1,236	269	(230)	-	1,201
Derivative financial instruments settled on gross basis								
Including: Cash inflow	-	-	18,158	236,902	5,025,338	-	-	5,280,398
Cash outflow	-	-	(18,151)	(235,551)	(5,060,830)	-	-	(5,314,532)
Total	-	-	7	1,351	(35,492)	-	-	(34,134)

	31 December 2022							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	
Cash flows of derivative financial instruments:								
Derivative financial instruments settled on net basis	-	-	23	(109)	(549)	1,621	-	986
Derivative financial instruments settled on gross basis								
Including: Cash inflow	-	-	14,333	336,595	5,616,499	-	-	5,967,427
Cash outflow	-	-	(14,315)	(336,458)	(5,804,543)	-	-	(6,155,316)
Total	-	-	18	137	(188,044)	-	-	(187,889)

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(4) Operational risk

Operational risk refers to the risk of loss arising from problems with internal procedures, employees, information technology systems, and external events, including legal risk, but excluding strategic risk and reputational risk.

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 defences" to manage operational risk on an end-to-end basis.

(5) Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management. Among them, capital adequacy ratio management is especially important. The Group calculates capital adequacy ratios in accordance with the guidance issued by the former CBRC. The capital of the Group is divided into three pieces: core tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the core of the capital management of the Group. Capital adequacy ratio reflects the Group's sound operations and risk management capability. The Group's capital adequacy ratio 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 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.

The Group calculated the core tier-one capital adequacy ratio, the tier-one capital adequacy ratio and the capital adequacy ratio in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) issued by the former CBRC in 2012 and other relevant requirements promulgated by the former CBRC as follows:

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(5) Capital management (continued)

	31 December 2023	31 December 2022
Total core tier-one capital	33,328,054	30,003,939
– Share capital	5,820,355	5,820,355
– Eligible portion of capital reserve	10,687,634	10,687,634
– Other comprehensive income	947,211	83,726
– Surplus reserve	2,718,114	2,388,248
– General reserve	7,483,824	6,618,047
– Retained earnings	5,011,018	3,822,519
– Eligible portion of non-controlling interests	659,898	583,410
Core tier-one capital deductions	(923,175)	(834,333)
Net core tier-one capital	32,404,879	29,169,606
Other tier-one capital	6,483,769	6,473,571
– Additional tier-one capital instruments and related premium	6,395,783	6,395,783
– Eligible portion of minority interests	87,986	77,788
Net tier-one capital	38,888,648	35,643,177
Tier two capital	10,358,946	9,569,041
– Eligible portions of tier-two capital instruments issued	6,000,000	6,000,000
– Surplus provision for loan impairment	4,182,973	3,413,465
– Eligible portion of non-controlling interests	175,973	155,576
Total net capital	49,247,594	45,212,218
Total risk weighted assets	384,977,512	333,440,925
Core tier-one capital adequacy ratio	8.42%	8.75%
Tier-one capital adequacy ratio	10.10%	10.69%
Capital adequacy ratio	12.79%	13.56%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE

(1) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs that have a significant effect on the recorded fair value are not based on observable market data.

The Group has established policies and internal controls with respect to the measurement of fair value, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

The Group adopts the following methods and assumptions when evaluating fair value:

(a) **Debt securities investments**

The fair value of debt securities that are traded in an active market is based on their quoted market prices in an active market at the end of the reporting period.

(b) **Other financial investments and other non-derivative financial assets**

Fair value is estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(c) **Debt securities issued and other non-derivative financial liabilities**

The fair value of debt securities issued is based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair value of other non-derivative financial liabilities is evaluated at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(d) **Derivative financial instruments**

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards and swaps, etc. The most frequently applied valuation techniques include discounted cash flow model, etc. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

(2) Financial instruments measured at fair value

The following tables show an analysis of financial instruments measured at fair value by level of the fair value hierarchy:

The Group

	31 December 2023			Total
	Level 1	Level 2	Level 3 Note (i)	
Financial investments measured at FVTPL				
– Debt securities	–	7,130,029	–	7,130,029
– Asset management plans	–	–	6,895,445	6,895,445
– Trust fund plans	–	–	444,536	444,536
– Investment funds	–	43,799,513	–	43,799,513
Derivative financial assets	–	149,377	–	149,377
Financial investments measured at FVOCI				
– Debt securities	–	114,961,884	–	114,961,884
– Other equity investments	–	–	23,250	23,250
Loans and advances to customers measured at FVOCI	–	–	20,976,009	20,976,009
Total financial assets	–	166,040,803	28,339,240	194,380,043
Placements from banks and other financial institutions measured at FVTPL	–	959,180	–	959,180
Derivative financial liabilities	–	69,353	1,754	71,107
Total financial liabilities	–	1,028,533	1,754	1,030,287

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

(2) Financial instruments measured at fair value (continued)

The Group (continued)

	31 December 2022			Total
	Level 1	Level 2	Level 3 Note (i)	
Financial investments measured at FVTPL				
– Debt securities	–	3,727,428	–	3,727,428
– Asset management plans	–	–	7,787,802	7,787,802
– Trust fund plans	–	–	791,832	791,832
– Investment funds	–	34,950,084	–	34,950,084
– Other Investments	–	2,616	–	2,616
Derivative financial assets	–	108,376	–	108,376
Financial investments measured at FVOCI				
– Debt securities	–	95,922,326	–	95,922,326
– Asset management plans	–	733,125	–	733,125
– Other equity investments	–	–	23,250	23,250
Loans and advances to customers measured at FVOCI	–	–	22,694,130	22,694,130
Total financial assets	–	135,443,955	31,297,014	166,740,969
Derivative financial liabilities	–	187,076	1,071	188,147
Total financial liabilities	–	187,076	1,071	188,147

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

(2) Financial instruments measured at fair value (continued)

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

The Group

The following table shows the movement of level 3 financial instruments measured at fair value during the year of 2023:

	As at 1 January 2023	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year		Purchases, issues, disposals and settlements			As at 31 December 2023
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
Financial investments measured at FVTPL									
– Asset management plans	7,787,802	-	-	(404,175)	-	1,000,000	-	(1,488,182)	6,895,445
– Trust fund plans	791,832	-	-	308,126	-	76,820	-	(732,242)	444,536
Financial investments measured at FVOCI									
– Other equity investments	23,250	-	-	-	-	-	-	-	23,250
Loans and advances to customers measured at FVOCI	22,694,130	-	-	599,273	29,447	90,014,037	-	(92,360,878)	20,976,009
Total financial assets	31,297,014	-	-	503,224	29,447	91,090,857	-	(94,581,302)	28,339,240
Derivative financial liabilities	1,071	-	-	683	-	-	-	-	1,754
Total financial liabilities	1,071	-	-	683	-	-	-	-	1,754

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

(2) Financial instruments measured at fair value (continued)

(i) Movements in Level 3 of the fair value hierarchy (continued)

The following table shows the movement of level 3 financial instruments measured at fair value during the year of 2022:

	As at 1 January 2022	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year		Purchases, issues, disposals and settlements			As at 31 December 2022
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
Financial investments measured at FVTPL									
– Asset management plans	13,488,145	–	(2,453,369)	(62,684)	–	4,390,000	–	(7,574,290)	7,787,802
– Trust fund plans	1,501,437	–	–	(513,923)	–	–	–	(195,682)	791,832
Financial investments measured at FVOCI									
– Other equity investments	23,250	–	–	–	–	–	–	–	23,250
– Other investments	728,917	–	–	2,695	(31,612)	–	–	(700,000)	–
Loans and advances to customers measured at FVOCI	17,640,224	–	–	266,049	(29,912)	71,488,373	–	(66,670,604)	22,694,130
Total financial assets	33,381,973	–	(2,453,369)	(307,863)	(61,524)	75,878,373	–	(75,140,576)	31,297,014
Derivative financial liabilities	2,447	–	–	(1,376)	–	–	–	–	1,071
Total financial liabilities	2,447	–	–	(1,376)	–	–	–	–	1,071

(3) Transfers between levels

For the year ended 31 December 2023, there were no transfers between levels.

For the year ended 31 December 2022, certain financial instruments were transferred out from level 3 to level 2 of the fair value hierarchy for financial instruments, when significant inputs used in their fair value measurements, which was previously unobservable became observable, or when there was a change in valuation technique.

(4) Valuation of financial instruments with significant unobservable inputs

A majority of the financial instruments classified as level 3 fair value are discounted bills, asset management plans and trust fund plans. As not all of the inputs needed to estimate the fair value of these assets are observable, the Group classified these underlying assets within Level 3 of the fair value hierarchy. The significant unobservable inputs related to these assets are those parameter relating to credit risk, liquidity and discount rate. Management has made assumptions on unobservable inputs based on observed indicators of impairment, significant changes in yield, external credit ratings and comparable credit spreads, but the fair value of these financial assets could be different from those disclosed.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

(5) Level 2 of the fair value hierarchy

A majority of the financial instruments classified as level 2 fair value 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.

(6) Fair value of financial assets and liabilities not measured at fair value

(i) **Cash and deposits with the central bank, borrowings from the 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 current and saving deposits is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices is estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(v) **Debt securities issued**

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

(6) Fair value of financial assets and liabilities not measured at fair value (continued)

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of debt securities financial instruments measured at amortised cost and debt securities issued:

	31 December 2023				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial investments measured at amortised cost (including accrued interest)					
– Debt securities	45,953,528	48,852,365	–	48,767,500	84,865
Total	45,953,528	48,852,365	–	48,767,500	84,865
Financial liabilities					
Securities issued (including accrued interest)					
– Debt securities	18,261,537	18,537,559	–	18,537,559	–
– Certificates of interbank deposit	71,008,248	71,049,727	–	71,049,727	–
Total	89,269,785	89,587,286	–	89,587,286	–

	31 December 2022				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial investments measured at amortised cost (including accrued interest)					
– Debt securities	48,911,446	49,180,473	–	48,356,749	823,724
Total	48,911,446	49,180,473	–	48,356,749	823,724
Financial liabilities					
Securities issued (including accrued interest)					
– Debt securities	10,246,658	10,419,636	–	10,419,636	–
– Certificates of interbank deposit	64,620,293	64,583,013	–	64,583,013	–
Total	74,866,951	75,002,649	–	75,002,649	–

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 COMMITMENTS AND CONTINGENCIES

(1) Credit commitments

The Group's credit commitments take the form of bank acceptances bills, 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 credit and facilities be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

	31 December 2023	31 December 2022
Bank acceptances	30,246,042	36,283,077
Unused credit card commitments	23,106,489	18,441,375
Usance letters of credit	10,263,325	8,253,753
Financing letters of guarantees issued	9,269,141	3,145,598
Non-financing letters of guarantees issued	1,502,597	754,600
Irrevocable loan commitments	1,272,714	983,936
Sight letters of credit	906,974	216,947
Total	76,567,282	68,079,286

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

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

For details of ECL of credit commitments, please refer to Note 36(2).

(2) Credit risk-weighted amount

	31 December 2023	31 December 2022
Credit risk-weighted amount of contingent liabilities and commitments	24,236,360	18,680,164

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 financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 COMMITMENTS AND CONTINGENCIES (continued)

(3) Capital commitments

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

	31 December 2023	31 December 2022
Contracted but not paid for	56,049	82,606

(4) Outstanding litigations and disputes

A number of outstanding litigations against the Group had arisen in the normal course of its operation as at 31 December 2023 and 31 December 2022. With the professional advice from counselors, the Group's management believes that the final result of such litigations will not have a material impact on the financial position or operations of the Group.

(5) Bond redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold, but not yet matured at the end of the reporting period:

	31 December 2023	31 December 2022
Bond redemption obligations	3,822,379	3,536,451

(6) Pledged assets

	31 December 2023	31 December 2022
Investment securities	59,141,534	26,190,712
Discounted bills	10,072,938	17,999,779
Total	69,214,472	44,190,491

Some of the Group's assets are pledged as collateral under repurchase agreements, borrowings from the central bank and deposits from customers.

The Group maintains statutory deposit reserves with the PBOC as required (Note 14). These deposits are not available for the Group's daily operations.

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 31 December 2023 and 31 December 2022, the Group did not have these discounted bills under resale agreements. As at 31 December 2023 and 31 December 2022, the Group did not sell or repledge any pledged assets which it has an obligation to repurchase when they are due.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

47 INTERESTS IN 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 asset management plans, trust fund plans, asset-backed securities and investment funds. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 31 December 2023 and 31 December 2022 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	31 December 2023				
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Investment funds	43,799,513	–	–	43,799,513	43,799,513
Asset management plans	6,895,445	–	1,811,073	8,706,518	8,706,518
Trust fund plans	444,536	–	116,904	561,440	561,440
Asset-backed securities	107,227	4,789,048	922,411	5,818,686	5,818,686
Total	51,246,721	4,789,048	2,850,388	58,886,157	58,886,157

	31 December 2022				
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Investment funds	34,950,084	–	–	34,950,084	34,950,084
Asset management plans	7,787,802	733,125	2,469,057	10,989,984	10,989,984
Trust fund plans	791,832	–	607,482	1,399,314	1,399,314
Asset-backed securities	124,277	1,919,509	922,253	2,966,039	2,966,039
Total	43,653,995	2,652,634	3,998,792	50,305,421	50,305,421

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

47 INTERESTS IN STRUCTURED ENTITIES (continued)

(2) Unconsolidated structured entities sponsored by the Group in which the Group holds an interest

The types of unconsolidated structured entities sponsored by the Group mainly include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services to these structured entities. As at 31 December 2023, the carrying amounts of the management and other service fee receivables being recognised was RMB190 million in the consolidated statement of financial position (31 December 2022: RMB106 million).

As at 31 December 2023, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB208.122 billion (31 December 2022: RMB200.815 billion).

(3) Unconsolidated structured entities sponsored and issued by the Group after 1 January but matured before 31 December at the end of the reporting period in which the Group no longer holds an interest

During the year ended 31 December 2023, the amount of fee and commission income recognised from the above mentioned structured entities by the Group was RMB16 million (2022: RMB36 million).

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2023 but matured before 31 December 2023 was RMB6.862 billion (2022: RMB5.852 billion).

(4) Consolidated structured entities

The consolidated structured entities of the Group are primarily asset-backed securities initiated by the Group and certain asset management plans invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has rights to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

48 TRANSFERS OF FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets in the statement of financial position.

(1) Repurchase transactions and securities lending transactions

Transfers of 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. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

48 TRANSFERS OF FINANCIAL ASSETS (continued)

(2) Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors, or carries out trust beneficial rights registration and transfer business in China Credit Assets Registry & Exchange Co., Ltd..

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

In 2023 and 2022, the Group did not carry out new asset securitisation business.

(3) Transfer of non-performing loans

In 2023 and 2022, the Group transferred loans and advances to customers to independent third parties with principal amount of RMB85 million and RMB314 million respectively, and with the transfer price (including overdue interest, penalty interest, etc.) of RMB88 million and RMB183 million respectively. The Group carried out an assessment based on the criteria as detailed in Note 2(4)(vii) and concluded that these transferred assets qualified for full derecognition in the statement of financial position.

49 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in the statements of financial position as they are not the Group's assets.

As at 31 December 2023, the entrusted loans balance of the Group was RMB5.603 billion (31 December 2022: RMB5.301 billion).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2023	31 December 2022
Assets		
Cash and deposits with the central bank	31,024,474	27,786,532
Deposits with banks and other financial institutions	1,112,039	1,207,554
Placements with banks and other financial institutions	14,841,661	9,735,919
Derivative financial assets	149,377	108,376
Financial assets held under resale agreements	13,944,652	–
Loans and advances to customers	292,992,926	262,518,662
Financial investments:		
– Financial investments measured at fair value through profit or loss	58,269,523	47,257,146
– Financial investments measured at fair value through other comprehensive income	114,985,134	96,678,701
– Financial investments measured at amortised cost	52,756,509	58,202,665
Investment in subsidiary	1,510,000	1,510,000
Property and equipment	3,320,366	3,237,570
Right-of-use assets	836,684	826,531
Deferred tax assets	3,649,736	3,360,737
Other assets	2,353,839	3,052,497
Total assets	591,746,920	515,482,890
Liabilities		
Borrowings from the central bank	18,235,088	13,256,605
Deposits from banks and other financial institutions	3,429,418	7,268,996
Placements from banks and other financial institutions	6,521,623	5,451,383
Derivative financial liabilities	71,107	188,147
Financial assets sold under repurchase agreements	36,880,567	25,634,354
Deposits from customers	395,467,359	348,043,307
Income tax payable	402,070	670,755
Debt securities issued	89,269,785	74,866,951
Lease liabilities	553,923	514,627
Other liabilities	2,962,217	4,631,685
Total liabilities	553,793,157	480,526,810

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (continued)

	31 December 2023	31 December 2022
Equity		
Share capital	5,820,355	5,820,355
Other equity instruments		
Including: perpetual bonds	6,395,783	6,395,783
Capital reserve	10,687,634	10,687,634
Surplus reserve	2,718,114	2,388,248
General reserve	7,072,403	6,316,926
Other comprehensive income	947,211	83,726
Retained earnings	4,312,263	3,263,408
Total equity	37,953,763	34,956,080
Total liabilities and equity	591,746,920	515,482,890

Approved and authorised for issue by the board of directors on 28 March 2024.

Jing Zailun

*Legal Representative
(Chairman)*

Wu Xianming

President

Chen Shuang

*Vice President in charge
of Finance Function*

Li Zhenguo

*General Manager of the Planning
& Finance Department*

(Company Stamp)

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

51 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2023

Up to the date of issue of these financial statements, the IASB has issued a number of new and revised IFRSs. For the purpose of preparing the financial statements, the Group has adopted all the new and revised IFRSs in issue which are relevant to the Group for the reporting period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2023. The revised and new accounting standards and interpretations which are issued but not yet effective for the accounting period ended 31 December 2023, are set out below:

	Effective for accounting periods beginning on or after
Non-current Liabilities with Covenants – Amendments to IAS 1	1 January 2024
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2024
Lease Liabilities in a Sale and Leaseback – Amendments to IFRS 16	1 January 2024
Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7	1 January 2024
Lack of Exchangeability – Amendments to IAS 21	1 January 2025

The Group has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

52 SUBSEQUENT EVENTS

The profit distribution plan

The profit appropriation of the Bank was proposed in accordance with the resolution of the Bank's board of directors meeting as disclosed in Note 40.

Up to the approval date of the financial statements, except for the above, the Group has no other significant subsequent events for disclosure.

53 COMPARATIVE FIGURES

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

Unaudited supplementary financial information

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the audited financial statements, and is included herein for information purposes only.

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplementary Financial Information as follows:

1 Liquidity coverage ratio, leverage ratio and net stable funding ratio

Liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the relevant regulations promulgated by the former CBRC and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises issued by the MOF.

(1) Liquidity coverage ratio

	31 December 2023	31 December 2022
Qualified and high-quality current assets	75,270,402	90,470,924
Net cash outflows in the next 30 days	47,606,972	73,656,093
Liquidity coverage ratio (RMB and foreign currency)	158.11%	122.83%

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

(2) Leverage ratio

	31 December 2023	31 December 2022
Leverage ratio	5.83%	6.07%

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

	31 December 2023	30 September 2023
Available stable funding	368,742,355	356,788,521
Required stable funding	315,655,638	305,263,011
Net stable funding ratio	116.82%	116.88%

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

Unaudited supplementary financial information

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Currency concentrations

	31 December 2023			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	8,299,500	7,542	43,611	8,350,653
Spot liabilities	(3,380,942)	(601)	(42,512)	(3,424,055)
Forward purchases	251,396	–	3,876	255,272
Forward sales	(5,177,622)	–	(703)	(5,178,325)
Net long position	(7,668)	6,941	4,272	3,545
Structural exposure	–	–	–	–

	31 December 2022			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	10,493,542	9,260	78,481	10,581,283
Spot liabilities	(10,516,264)	(2,378)	(72,358)	(10,591,000)
Forward purchases	42,793	–	–	42,793
Forward sales	19,409	–	–	19,409
Net long position	39,480	6,882	6,123	52,485
Structural exposure	(139,292)	–	–	(139,292)

Unaudited supplementary financial information

(Expressed in thousands of Renminbi, unless otherwise stated)

3 International claims

The Group regards all claims on third parties outside Chinese Mainland and claims dominated in foreign currency on third parties in Chinese Mainland as international claims.

International claims include loans and advances to customers, deposits with the central bank, deposits and placements with banks and other financial institutions and financial investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	31 December 2023			Total
	Public sector entities	Banks and other financial institutions	Non-bank private sector institutions	
– Asia Pacific	163,649	4,921,472	2,662,833	7,747,954
– of which attributed to Hong Kong	–	4,490,416	–	4,490,416
– North and South America	–	378,902	–	378,902
– Europe	–	14,909	–	14,909
	163,649	5,315,283	2,662,833	8,141,765

	31 December 2022			Total
	Public sector entities	Banks and other financial institutions	Non-bank private sector institutions	
– Asia Pacific	129,114	5,474,744	3,967,781	9,571,639
– of which attributed to Hong Kong	–	5,075,937	–	5,075,937
– North and South America	–	532,705	–	532,705
– Europe	–	32,287	–	32,287
	129,114	6,039,736	3,967,781	10,136,631

4 Total amount of overdue loans and advances to customers

	31 December 2023	31 December 2022
Total loans and advances whose principal or interest has been overdue		
– between 3 and 6 months (inclusive)	351,864	664,466
– between 6 months and 1 year (inclusive)	574,245	1,115,515
– over 1 year	1,697,133	813,375
Total	2,623,242	2,593,356
As a percentage of total loans and advances (excluding accrued interest)		
– between 3 and 6 months (inclusive)	0.12%	0.25%
– between 6 months and 1 year (inclusive)	0.19%	0.41%
– over 1 year	0.57%	0.30%
Total	0.88%	0.96%

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