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

(A joint stock company incorporated in the People's Republic of China with limited liability)
(H Shares Stock Code: 3866)

Annual Results for the year ended 31 December 2023

The board of directors (the “**Board**”) of Bank of Qingdao Co., Ltd. (the “**Bank**” or “**Bank of Qingdao**”) is pleased to announce the audited annual results (the “**Annual Results**”) of the Bank and its subsidiaries (the “**Company**”) for the year ended 31 December 2023 (the “**Reporting Period**”) prepared in accordance with the International Financial Reporting Standards (the “**IFRSs**”) promulgated by the International Accounting Standards Board. The Board and its audit committee have reviewed and confirmed the Annual Results.

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

SECTION 1 CORPORATE BASIC INFORMATION

1.1 Corporate Basic Information

Legal name in Chinese:	青島銀行股份有限公司 (Abbreviation: 青島銀行)
Legal name in English:	BANK OF QINGDAO CO., LTD. (Abbreviation: BANK OF QINGDAO)
Legal representative:	Jing Zailun
Authorised representatives:	Jing Zailun, Zhang Qiaowen

Class of Shares	Stock Abbreviation	Stock Code	Listing Exchange
A shares	BQD	002948	Shenzhen Stock Exchange (“ SZSE ”)
H shares	BQD	3866	The Stock Exchange of Hong Kong Limited (the “ Hong Kong Stock Exchange ”)

1.2 Contact Persons and Contact Details

Secretary to the Board:	Zhang Qiaowen
Joint company secretaries:	Zhang Qiaowen, Yu Wing Sze
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SECTION 2 FINANCIAL HIGHLIGHTS

Key Accounting Data and Financial Indicators

The financial data and indicators contained in this Annual Results 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 Change (%)	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

Item	31 December 2023	31 December 2022	Year-on-year Change (%)	31 December 2021	31 December 2020	31 December 2019
Scale indicators (RMB'000)						
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)						
Net assets per share attributable to ordinary shareholders of the Bank ⁽⁴⁾	5.61	5.05	11.09	5.20	4.71	4.63

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	31 December		31 December	31 December	31 December
Item	2023	2022	Year-on-year	2021	2020	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

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 3 Management Discussion and Analysis” of this results announcement.
- (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.

SECTION 3 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.
- (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.
- (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.

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.

Item	<i>Unit: RMB'000</i>				
	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.

Item	2023			2022		
	Average balance	Interest income/expense	Average yield/cost rate	Average balance	Interest income/expense	Average yield/cost rate
<i>Unit: RMB'000</i>						
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:*
- 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.
 - 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.

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		
	Due to volume	Due to rate	Net increase (decrease)
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.

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%

Unit: RMB'000

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.

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.

Item	2023			2022		
	Average balance	Interest expense	Average cost ratio	Average balance	Interest expense	Average cost ratio
<i>Unit: RMB'000</i>						
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.

Item	<i>Unit:RMB'000</i>	
	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.

	<i>Unit:RMB'000</i>	
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

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.

Item	<i>Unit:RMB'000</i>	
	2023	2022
Net trading (losses) / gains ^(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.

Item	Unit:RMB'000	
	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.

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.

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

Unit: RMB'000

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.

	<i>Unit: RMB'000</i>	
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

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.

	<i>Unit: RMB'000</i>	
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.

Item	<i>Unit: RMB'000</i>	
	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	Change in	Amount	% 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	Change in	Amount	% 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 results announcement.

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.

Item	Unit: RMB'000	
	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 3 Management Discussion and Analysis" of this results announcement.

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 results announcement.

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:

Item	Unit: RMB'000	
	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

Item	<i>Unit: RMB’000</i>			
	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.

	<i>Unit: RMB’000</i>	
	31 December	31 December
The Company	2023	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

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.

	<i>Unit: RMB'000</i>	
	31 December	31 December
The Bank	2023	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.

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.

		<i>Unit: RMB'000</i>	
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

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.

	<i>Unit: RMB'000</i>			
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

	<i>Unit: RMB'000</i>			
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: 1. The said investments were included under financial investments measured at fair value through other comprehensive income in the statement of financial position.

2. 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 3 Management Discussion and Analysis” of this results announcement.

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:

	<i>Unit: RMB'000</i>	
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:

	<i>Unit: RMB'000</i>			
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

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 results announcement.

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 results announcement.

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
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

Item	31	31	Change (%)	Main Reason
	December 2023	December 2022		
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 in 100 million

Name of company	Type of company	Main Business	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.

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%.

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 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.

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.

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 China Securities Regulatory Commission ("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.

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.

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 results announcement.

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.
3. 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.
4. 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.
5. 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.

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.

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

	<i>Unit: RMB'000</i>	
	31 December	31 December
Item of liquidity coverage ratio	2023	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%.

	<i>Unit: RMB'000</i>			
	31 December 2023		30 September 2023	
Item of net stable funding ratio	The	The	The Company	The Bank
	Company	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 results announcement.

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.

	<i>Unit: RMB'000</i>	
	31 December	31 December
Item	2023 (Decrease)/	2022 (Decrease)/
	Increase	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

	<i>Unit: RMB'000</i>	
	31 December	31 December
Item	2023 (Decrease)/	2022 (Decrease)/
	Increase	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

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.

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: +86 40066 96588 ext 6

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.
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 4 OTHER EVENTS

4.1 Use of Proceeds Raised

Please refer to “14. Investment Analysis” in “Section 3 Management Discussion and Analysis” of this results announcement.

4.2 Corporate Governance Code

During the Reporting Period, the Bank strictly complied with the code provisions set out in the Corporate Governance Code as set out in Appendix C1 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), and, where appropriate, adopted the recommended best practices therein.

4.3 Securities Transactions by Directors and Supervisors

The Bank has adopted the required standard in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix C3 to the Listing Rules as the code of conduct regarding securities transactions by directors and supervisors of the Bank.

Having made enquiries to the directors and supervisors, the Bank has confirmed that they had complied with the above Model Code during the Reporting Period regarding securities transactions on H shares of the Bank.

4.4 Changes in Directors, Supervisors and Senior Management

The directors of the Bank are nominated by the Board and elected in accordance with the qualifications of directors and the election procedures as specified in the Articles of Association of the Bank. The shareholder supervisor and external supervisors are nominated by the board of supervisors, and the employee supervisors are nominated by the labor union's committee, and all of such supervisors are elected in accordance with the election procedures as specified in the Articles of Association of the Bank.

As of the date of publication of this results announcement, 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 of change
Wu Xianming	Executive Director, President	Newly elected	20 March 2023	–
Wang Lin	Former Executive Director, Former President	Resigned	18 January 2023	Due to approaching 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 authority.

As of the date of publication of this results announcement, save for the above, there were no other changes in the directors, supervisors and senior management of the Bank.

4.5 Profits and Dividends

The Company's profit for the year ended 31 December 2023 and the Company's financial position as at the same date are set out in the section headed Financial Statements of this results announcement.

1. Pursuant to the relevant resolutions considered and passed at the 2022 annual general meeting of the Bank on 31 May 2023, the Bank distributed to holders of A shares and holders of H shares whose names appear on the register of members of the Bank at the close of business on their respective share registration date, dividends in cash for 2022 in an aggregate amount of RMB931 million (tax inclusive), according to the dividend distribution plan to distribute a cash dividend of RMB0.16 per share (tax inclusive) on 21 June 2023.
2. The Board has proposed to pay a final dividend in cash of RMB1.60 per 10 shares (tax inclusive) for the year ended 31 December 2023 to all ordinary shareholders of the Bank. The total cash dividends will be calculated based on the total number of the share capital as at the record date of the dividend distribution. The dividend distribution plan will be submitted to the 2023 annual general meeting for consideration. In 2023, there are no bonus shares nor any conversion of capital reserve into share capital by the Bank.

If the proposal is approved by the 2023 annual general meeting, the dividend will be distributed to holders of A shares and holders of H shares whose names appear on the register of members of the Bank at the close of business on their respective record date. The proposed dividends mentioned above will be denominated in RMB. Dividends to holders of A shares shall be paid in RMB, and dividends to holders of H shares shall be paid in Hong Kong dollars. The applicable exchange rate for dividends payable in Hong Kong dollars shall be the average of the central parity rates of RMB in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends at the 2023 annual general meeting (including the date of the 2023 annual general meeting to be held) as announced by the People's Bank of China. The register of members of the Bank will be closed from 6 June 2024 to 10 June 2024 (both days inclusive), during such period no transfer of H shares will be registered. In order to be entitled to the 2023 final dividend distribution, holders of H shares of the Bank who have not registered the related transfer documents are required to lodge the transfer documents together with the relevant share certificates with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 5 June 2024.

The Board proposed to pay the final dividends for 2023 on or before 30 July 2024. If there are any changes to the expected dividend payment date, an announcement will be published regarding such changes.

4.6 2023 Annual General Meeting and Closure of Register of Members

The Bank's 2023 annual general meeting is proposed to be held on Friday, 31 May 2024. In order to determine the list of holders 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 share transfer will be registered. Holders of H shares of the Bank who intend to attend and vote at the annual general meeting must lodge all the transfer documents accompanied by the relevant share certificates with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 24 May 2024.

4.7 Purchase, Sale or Redemption of Listed Securities

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

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

During the Reporting Period, there was no change in significant accounting policies, accounting estimates or correction of significant accounting errors of the Company.

4.9 Review of Annual Results

KPMG Huazhen LLP and KPMG audited the 2023 annual financial statements prepared by the Company in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards, respectively, and issued unqualified auditor's reports. The Board and its audit committee have reviewed the Annual Results and the financial statements of the Company for the year ended 31 December 2023.

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

SECTION 5 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 100 to 230, 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.

1. Loss allowances of loans and advances to customers and financial investments measured at amortised cost	
<i>Refer to the accounting policies in note 2(4), and note 19 and note 22 to the financial statements.</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>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.</p> <p>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.</p> <p>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.</p>	<p>Our audit procedures to assess loss allowances of loans and advances to customers and financial investments measured at amortised cost included the following:</p> <ul style="list-style-type: none">• 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.

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

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.

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.

How the matter was addressed in our audit

- 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.
- 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.

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

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.

How the matter was addressed in our audit

- 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.
- 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.

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 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.

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	How the matter was addressed in our audit
<p>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.</p> <p>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.</p> <p>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.</p>	<p>Our audit procedures to assess the fair value of level 2 and 3 financial instruments included the following:</p> <ul style="list-style-type: none">• 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.

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	How the matter was addressed in our audit
<p>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.</p> <p>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.</p>	<p>Our audit procedures to assess the consolidation of structured entities included the following:</p> <ul style="list-style-type: none">• 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:<ul style="list-style-type: none">– 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;

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	How the matter was addressed in our audit
<p>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.</p>	<ul style="list-style-type: none"><li data-bbox="887 310 1474 683">– 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;<li data-bbox="887 736 1474 1108">– 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;<li data-bbox="887 1161 1474 1278">– evaluating management’s judgement over whether the structured entity should be consolidated or not.<li data-bbox="810 1332 1474 1544">• 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.

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is 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		<u>(11,858,063)</u>	<u>(11,541,848)</u>
Net interest income	3	<u>9,281,969</u>	<u>8,288,314</u>
Fee and commission income		2,113,031	1,791,282
Fee and commission expense		<u>(526,512)</u>	<u>(346,152)</u>
Net fee and commission income	4	<u>1,586,519</u>	<u>1,445,130</u>
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	<u>158,992</u>	<u>117,454</u>
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		<u>(17,447)</u>	<u>(6,027)</u>
Profit before taxation		3,933,397	3,135,959
Income tax expense	12	<u>(261,977)</u>	<u>31,566</u>
Net profit for the year		<u>3,671,420</u>	<u>3,167,525</u>
Net profit attributable to:			
Equity shareholders of the Bank		3,548,599	3,082,775
Non-controlling interests		<u>122,821</u>	<u>84,750</u>
Basic and diluted earnings per share (in RMB)	13	<u>0.57</u>	<u>0.45</u>

The notes on pages 109 to 230 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)

	<i>Note</i>	2023	2022
Net profit for the year		<u>3,671,420</u>	<u>3,167,525</u>
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)	<u>30,614</u>	<u>(198,053)</u>
Other comprehensive income, net of tax		<u>863,485</u>	<u>(662,773)</u>
Total comprehensive income for the year		<u>4,534,905</u>	<u>2,504,752</u>
Total comprehensive income attributable to:			
Equity shareholders of the Bank		4,412,084	2,420,002
Non-controlling interests		<u>122,821</u>	<u>84,750</u>

The notes on pages 109 to 230 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 109 to 230 form part of these financial statements.

	<i>Note</i>	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 109 to 230 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

	Attributable to equity shareholders of the Bank							Total	Non-controlling interests	Total equity	
	Note	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		<u>5,820,355</u>	<u>6,395,783</u>	<u>10,687,634</u>	<u>2,718,114</u>	<u>7,483,824</u>	<u>947,211</u>	<u>5,011,018</u>	<u>39,063,939</u>	<u>875,304</u>	<u>39,939,243</u>

The notes on pages 109 to 230 form part of these financial statements.

For the year ended 31 December 2022

	Attributable to equity shareholders of the Bank											
	Note	Share capital	Other equity instruments		Capital reserve	Surplus reserve	General reserve	Other	Retained earnings	Total	Non-controlling interests	Total equity
			Preference shares	Perpetual bonds				comprehensive income				
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		<u>5,820,355</u>	<u>-</u>	<u>6,395,783</u>	<u>10,687,634</u>	<u>2,388,248</u>	<u>6,618,047</u>	<u>83,726</u>	<u>3,822,519</u>	<u>35,816,312</u>	<u>776,983</u>	<u>36,593,295</u>

The notes on pages 109 to 230 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
	<u>3,570,757</u>	<u>3,770,456</u>
<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)
	<u>(53,344,147)</u>	<u>(25,326,433)</u>

The notes on pages 109 to 230 form part of these financial statements.

	2023	2022
Cash flows from operating activities (continued)		
<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
	<u>61,033,563</u>	<u>20,197,159</u>
Income tax paid	(1,123,243)	(315,907)
Net cash flows generated from/(used in) operating activities	<u>10,136,930</u>	<u>(1,674,725)</u>
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	<u>(17,053,561)</u>	<u>(10,266,728)</u>

The notes on pages 109 to 230 form part of these financial statements.

	<i>Note</i>	2023	2022
Cash flows from financing activities	<i>41(2)</i>		
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	<i>41(1)</i>	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 109 to 230 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).

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.

(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.

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.

- 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)).

(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.

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.

(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.

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.

(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.

(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.

(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.

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)).

(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.

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.

(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.

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.

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.

(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.

(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).

(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.

(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.

(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.

(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.

(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.

(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
	<hr/>	<hr/>
Sub-total	21,140,032	19,830,162
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
Sub-total	(11,858,063)	(11,541,848)
	<hr/>	<hr/>
Net interest income	9,281,969	8,288,314
	<hr/>	<hr/>

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
	<u>2,113,031</u>	<u>1,791,282</u>
Sub-total	2,113,031	1,791,282
Fee and commission expense	<u>(526,512)</u>	<u>(346,152)</u>
Net fee and commission income	<u>1,586,519</u>	<u>1,445,130</u>

5 NET TRADING (LOSSES)/GAINS

	<i>Note</i>	2023	2022
Net (losses)/gains of foreign exchange and foreign exchange derivative financial instruments	<i>(i)</i>	(155,909)	738,300
Net (losses)/gains from debt securities	<i>(ii)</i>	(5,594)	25,013
Net losses of non-foreign exchange derivative financial instruments		(7,489)	(21,655)
Others		–	(476)
		<u>–</u>	<u>(476)</u>
Total		<u>(168,992)</u>	<u>741,182</u>

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	<u>(5,808)</u>	<u>8,049</u>
Total	<u><u>1,622,863</u></u>	<u><u>1,057,175</u></u>

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	<u>6,340</u>	<u>897</u>
Total	<u><u>158,992</u></u>	<u><u>117,454</u></u>

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	<u>9,910</u>	<u>(8,425)</u>
Sub-total	<u><u>2,204,507</u></u>	<u><u>1,958,817</u></u>
Property and equipment expenses		
– Depreciation and amortization	565,168	547,473
– Electronic equipment operating expenses	142,468	150,138
– Maintenance expenses	<u>128,474</u>	<u>122,102</u>
Sub-total	<u><u>836,110</u></u>	<u><u>819,713</u></u>
Tax and surcharges	156,268	146,885
Other general and administrative expenses	<u>1,319,543</u>	<u>1,293,026</u>
Total	<u><u>4,516,428</u></u>	<u><u>4,218,441</u></u>

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).

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 (<i>Note (1) (i)</i>)	-	1,406	643	152	324	2,525
WU Xianming (<i>Note (1) (iii)</i>)	-	992	457	111	234	1,794
CHEN Shuang (<i>Note(1) (v)</i>)	-	930	421	152	261	1,764
LIU Peng	-	930	421	152	263	1,766
WANG Lin (<i>Note (1) (iii)</i>)	-	39	21	6	12	78
Non-executive directors						
ZHOU Yunjie	125	-	-	-	-	125
Rosario STRANO (<i>Note (2)</i>)	-	-	-	-	-	-
TAN Lixia	132	-	-	-	-	132
Marco MUSSITA (<i>Note (2)</i>)	-	-	-	-	-	-
DENG Youcheng	131	-	-	-	-	131
Independent non-executive directors						
CHEUNG Simon (<i>Note (1) (iv)</i>)	190	-	-	-	-	190
FANG Qiaoling	230	-	-	-	-	230
Tingjie ZHANG (<i>Note (1) (iv)</i>)	61	-	-	-	-	61
XING Lecheng	224	-	-	-	-	224
ZHANG Xu	224	-	-	-	-	224
CHEUNG Man Chor, Elton (<i>Note (1) (iv)</i>)	136	-	-	-	-	136
DU Ning (<i>Note (1) (iv)</i>)	-	-	-	-	-	-
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	<u>1,902</u>	<u>6,434</u>	<u>4,246</u>	<u>1,029</u>	<u>1,746</u>	<u>15,357</u>

Year ended 31 December 2022

Name	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	Total emoluments before tax
Executive directors						
JING Zailun (<i>Note (1) (i)</i>)	–	703	633	76	166	1,578
GUO Shaoquan (<i>Note (1) (i)</i>)	–	696	528	72	39	1,335
WANG Lin (<i>Note (1) (iii)</i>)	–	1,277	1,147	158	311	2,893
LU Lan (<i>Note (1) (ii)</i>)	–	578	605	–	111	1,294
LIU Peng	–	927	944	151	259	2,281
Non-executive directors						
ZHOU Yunjie	127	–	–	–	–	127
Rosario STRANO (<i>Note (2)</i>)	–	–	–	–	–	–
TAN Lixia	127	–	–	–	–	127
Marco MUSSITA (<i>Note (2)</i>)	–	–	–	–	–	–
DENG Youcheng	127	–	–	–	–	127
CHOI Chi Kin, Calvin (<i>Note (1) (ii)</i>)	66	–	–	–	–	66
Independent non-executive directors						
CHEUNG Simon (<i>Note (1) (iv)</i>)	191	–	–	–	–	191
FANG Qiaoling	197	–	–	–	–	197
Tingjie ZHANG (<i>Note (1) (iv)</i>)	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	<u>1,845</u>	<u>6,317</u>	<u>6,825</u>	<u>910</u>	<u>1,519</u>	<u>17,416</u>

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.

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	<u>–</u>	<u>4,603</u>

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
	<hr/>	<hr/>
Total	<u>4,014,079</u>	<u>4,288,828</u>

12 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

	<i>Note</i>	2023	2022
Current tax		897,350	688,411
Deferred tax	27(2)	<u>(635,373)</u>	<u>(719,977)</u>
Total		<u>261,977</u>	<u>(31,566)</u>

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

	2023	2022
Profit before taxation	<u>3,933,397</u>	<u>3,135,959</u>
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	<u>983,349</u>	<u>783,990</u>
Tax effect of non-deductible expenses for tax purpose		
– Entertainment expenses	2,994	2,883
– Annuity	7,497	9,176
– Others	<u>30,126</u>	<u>17,052</u>
Sub-total	<u>40,617</u>	<u>29,111</u>
Tax effect of non-taxable income for tax purpose (<i>Note (i)</i>)	(703,689)	(844,667)
Tax effect of perpetual bonds interest expense	<u>(58,300)</u>	<u>–</u>
Income tax	<u>261,977</u>	<u>(31,566)</u>

Note:

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

13 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share was computed by dividing the 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.

	<i>Note</i>	2023	2022
Weighted average number of ordinary shares (in thousands)	<i>13(1)</i>	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		<u>233,200</u>	<u>510,176</u>
Net profit attributable to ordinary shareholders of the Bank		<u>3,315,399</u>	<u>2,572,599</u>
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		<u>–</u>	<u>1,182,372</u>
Weighted average number of ordinary shares		<u>5,820,355</u>	<u>5,692,062</u>

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.

14 CASH AND DEPOSITS WITH THE CENTRAL BANK

	<i>Note</i>	31 December 2023	31 December 2022
Cash on hand		<u>532,013</u>	<u>349,481</u>
Deposits with the central bank			
– Statutory deposit reserves	<i>14(1)</i>	18,919,609	17,661,919
– Surplus deposit reserves	<i>14(2)</i>	11,505,177	9,769,018
– Other deposits with the central bank	<i>14(3)</i>	<u>76,964</u>	<u>35,394</u>
Sub-total		<u>30,501,750</u>	<u>27,466,331</u>
Accrued interest		<u>9,901</u>	<u>9,494</u>
Total		<u>31,043,664</u>	<u>27,825,306</u>

- (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	<u>19,839</u>	<u>13,130</u>
Sub-total	2,212,017	2,303,628
Less: Provision for impairment losses	<u>(1,649)</u>	<u>(2,591)</u>
Total	<u>2,210,368</u>	<u>2,301,037</u>

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	<u>265,602</u>	<u>209,377</u>
Sub-total	14,063,602	8,459,377
Less: Provision for impairment losses	<u>(42,377)</u>	<u>(27,355)</u>
Total	<u>14,021,225</u>	<u>8,432,022</u>

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.

	<u>31 December 2023</u>			<u>31 December 2022</u>		
	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	<u>954,899</u>	<u>3,552</u>	<u>(1,546)</u>	–	–	–
Total	<u>79,125,365</u>	<u>149,377</u>	<u>(71,107)</u>	<u>55,095,380</u>	<u>108,376</u>	<u>(188,147)</u>

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	<u>2,782</u>	<u>–</u>
Sub-total	13,952,782	–
Less: Provision for impairment losses	<u>(8,130)</u>	<u>–</u>
Total	<u>13,944,652</u>	<u>–</u>

(2) Analysed by type of security held

	31 December 2023	31 December 2022
Debt securities	13,950,000	–
Accrued interest	<u>2,782</u>	<u>–</u>
Sub-total	13,952,782	–
Less: Provision for impairment losses	<u>(8,130)</u>	<u>–</u>
Total	<u>13,944,652</u>	<u>–</u>

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	<u>200,029,767</u>	<u>172,955,292</u>
Sub-total	<u>200,029,767</u>	<u>172,955,292</u>
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	<u>10,295,732</u>	<u>9,988,969</u>
Sub-total	<u>79,083,765</u>	<u>73,380,030</u>
Accrued interest	<u>758,512</u>	<u>598,681</u>
Sub-total	<u>279,872,044</u>	<u>246,934,003</u>
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	<u>(2,503,396)</u>	<u>(2,697,610)</u>
Sub-total	<u>(7,855,127)</u>	<u>(7,109,471)</u>
Measured at FVOCI:		
Corporate loans and advances		
– Discounted bills	19,441,303	22,501,207
– Corporate loans (Forfeiting)	<u>1,534,706</u>	<u>192,923</u>
Sub-total	<u>20,976,009</u>	<u>22,694,130</u>
Carrying amount of loans and advances to customers	<u><u>292,992,926</u></u>	<u><u>262,518,662</u></u>

(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
	<hr/>	<hr/>
Gross loans and advances to customers	<u>300,089,541</u>	<u>269,029,452</u>

(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
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>1,633,922</u>	<u>926,109</u>	<u>1,477,666</u>	<u>219,467</u>	<u>4,257,164</u>
As a percentage of gross loans and advances to customers	<u>0.54%</u>	<u>0.31%</u>	<u>0.50%</u>	<u>0.07%</u>	<u>1.42%</u>

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	<u>0.59%</u>	<u>0.66%</u>	<u>0.17%</u>	<u>0.13%</u>	<u>1.55%</u>

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

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

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

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

	31 December 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	<u>(5,000,788)</u>	<u>(350,943)</u>	<u>(2,503,396)</u>	<u>(7,855,127)</u>
Net carrying amount of loans and advances to customers measured at amortised cost	<u>269,695,433</u>	<u>1,281,984</u>	<u>1,039,500</u>	<u>272,016,917</u>

	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	<u>(3,901,150)</u>	<u>(510,711)</u>	<u>(2,697,610)</u>	<u>(7,109,471)</u>
Net carrying amount of loans and advances to customers measured at amortised cost	<u>237,558,649</u>	<u>1,699,716</u>	<u>566,167</u>	<u>239,824,532</u>

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

	31 December 2023			
	12-month ECL	Lifetime ECL-not credit- impaired	Lifetime ECL-credit- impaired (Note (i))	Total
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	<u>(142,370)</u>	<u>–</u>	<u>–</u>	<u>(142,370)</u>

	31 December 2022			
	12-month ECL	Lifetime ECL-not credit- impaired	Lifetime ECL-credit- impaired (Note (i))	Total
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	<u>(27,639)</u>	<u>(31)</u>	<u>–</u>	<u>(27,670)</u>

Note:

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

(5) **Movements of provision for impairment losses**

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

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

	2023			
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL-credit- impaired	Total
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	<u>5,000,788</u>	<u>350,943</u>	<u>2,503,396</u>	<u>7,855,127</u>
	2022			
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL-credit- impaired	Total
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	<u>3,901,150</u>	<u>510,711</u>	<u>2,697,610</u>	<u>7,109,471</u>

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

	2023			
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL-credit- impaired	Total
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	<u>142,370</u>	<u>–</u>	<u>–</u>	<u>142,370</u>
	2022			
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL-credit- impaired	Total
As at 1 January 2022	13,269	–	–	13,269
Charge for the year	14,370	31	–	14,401
As at 31 December 2022	<u>27,639</u>	<u>31</u>	<u>–</u>	<u>27,670</u>

For information about the asset-backed securitisation transactions conducted by the Group in its normal course of business, refer to Note 48(2).

20 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Note</i>	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	<i>20(1)</i>	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.

21 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>Note</i>	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

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

	2022			
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit-impaired	Total
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	<u>(100,150)</u>	<u>99,087</u>	<u>(277,408)</u>	<u>(278,471)</u>
As at 31 December 2022	<u>51,725</u>	<u>152,028</u>	<u>–</u>	<u>203,753</u>

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

	<i>Note</i>	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		<u>3,262,782</u>	<u>801,917</u>
Sub-total		<u>48,182,162</u>	<u>49,861,851</u>
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)	<u>(4,480,961)</u>	<u>(2,946,718)</u>
Total		<u>52,756,509</u>	<u>58,202,665</u>
Listed	22(2)	16,856,264	17,456,387
Of which: listed outside Hong Kong		16,856,264	17,456,387
Unlisted		<u>35,900,245</u>	<u>40,746,278</u>
Total		<u>52,756,509</u>	<u>58,202,665</u>

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

	2023			
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit-impaired	Total
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	<u>126,430</u>	<u>22,797</u>	<u>4,331,734</u>	<u>4,480,961</u>
	2022			
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit-impaired	Total
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	<u>191,705</u>	<u>27,839</u>	<u>2,727,174</u>	<u>2,946,718</u>

- (2) Only bonds traded on stock exchanges are included in listed bonds.

23 INVESTMENT IN SUBSIDIARIES

	31 December 2023	31 December 2022
BQD Financial Leasing Company Limited	510,000	510,000
BQD Wealth Management Company Limited	<u>1,000,000</u>	<u>1,000,000</u>
Total	<u><u>1,510,000</u></u>	<u><u>1,510,000</u></u>

The subsidiaries are as follows:

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

Notes:

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

24 LONG-TERM RECEIVABLES

	31 December 2023	31 December 2022
Minimum finance lease receivables	870,964	562,714
Less: Unearned finance lease income	<u>(91,333)</u>	<u>(53,981)</u>
Balance of direct lease receivables	779,631	508,733
Finance leaseback receivables	<u>16,421,930</u>	<u>14,989,671</u>
Sub-total	17,201,561	15,498,404
Accrued interest	<u>214,762</u>	<u>220,389</u>
Less: Provision for impairment losses		
– 12-month ECL	(446,463)	(265,041)
– Lifetime ECL		
– not credit-impaired	(174,694)	(65,109)
– credit-impaired	<u>(53,393)</u>	<u>(107,694)</u>
Carrying amount	<u><u>16,741,773</u></u>	<u><u>15,280,949</u></u>

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	<u>–</u>	<u>–</u>	<u>29,400</u>	<u>29,400</u>
As at 31 December 2023	<u><u>446,463</u></u>	<u><u>174,694</u></u>	<u><u>53,393</u></u>	<u><u>674,550</u></u>

2022

	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit-impaired	Total
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	<u>265,041</u>	<u>65,109</u>	<u>107,694</u>	<u>437,844</u>

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 (<i>Note (i)</i>)	–	–	–
Total	<u>870,964</u>	<u>(91,333)</u>	<u>779,631</u>

	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 (<i>Note (i)</i>)	–	–	–
Total	<u>562,714</u>	<u>(53,981)</u>	<u>508,733</u>

Note:

- (i) See Note 44 (3) for the definition of indefinite direct lease receivables.

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	<u>3,673,550</u>	<u>943,471</u>	<u>76,569</u>	<u>138,528</u>	<u>106,309</u>	<u>4,938,427</u>
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	<u>(657,070)</u>	<u>(588,660)</u>	<u>(56,833)</u>	<u>(94,875)</u>	<u>–</u>	<u>(1,397,438)</u>
Net book value						
As at 31 December 2023	<u>3,016,480</u>	<u>354,811</u>	<u>19,736</u>	<u>43,653</u>	<u>106,309</u>	<u>3,540,989</u>
As at 31 December 2022	<u>2,986,114</u>	<u>310,837</u>	<u>21,087</u>	<u>48,649</u>	<u>99,699</u>	<u>3,466,386</u>

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
	<hr/>	<hr/>
Total	3,016,480	2,986,114
	<hr/> <hr/>	<hr/> <hr/>

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)
	<hr/>	<hr/>	<hr/>
As at 31 December 2022	1,305,999	4,114	1,310,113
Additions	168,646	–	168,646
Decrease	(102,493)	–	(102,493)
	<hr/>	<hr/>	<hr/>
As at 31 December 2023	1,372,152	4,114	1,376,266
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Accumulated amortisation			
As at 1 January 2022	(395,936)	(1,953)	(397,889)
Additions	(157,367)	(651)	(158,018)
Decrease	72,752	–	72,752
	<hr/>	<hr/>	<hr/>
As at 31 December 2022	(480,551)	(2,604)	(483,155)
Additions	(156,801)	(651)	(157,452)
Decrease	102,480	–	102,480
	<hr/>	<hr/>	<hr/>
As at 31 December 2023	(534,872)	(3,255)	(538,127)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net value			
As at 31 December 2023	837,280	859	838,139
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As at 31 December 2022	825,448	1,510	826,958
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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	<u>15,175,547</u>	<u>3,793,887</u>	<u>13,785,373</u>	<u>3,446,343</u>

(2) Analysed by movement

	Provision for impairment losses	Deferred interest income from discounted bills <i>Note (i)</i>	Change in fair value	Others <i>Note (ii)</i>	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	<u>3,542,792</u>	<u>21,165</u>	<u>(8,975)</u>	<u>238,905</u>	<u>3,793,887</u>

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.

28 OTHER ASSETS

	<i>Note</i>	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 (<i>Note (i)</i>)	28(2)	38,929	39,810
Deferred expense		8,896	5,759
Repossessed assets (<i>Note (ii)</i>)		6,056	–
Others (<i>Note (iii)</i>)		777,250	1,306,712
		<hr/>	<hr/>
Sub-total		2,737,756	3,305,409
Less: Provision for impairment losses		(40,550)	(38,584)
		<hr/>	<hr/>
Total		<u>2,697,206</u>	<u>3,266,825</u>

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.

(1) **Intangible assets**

	2023	2022
Cost		
As at 1 January	967,286	799,866
Additions	199,902	167,420
Decrease	—	—
As at 31 December	<u>1,167,188</u>	<u>967,286</u>
Accumulated amortisation		
As at 1 January	(614,210)	(503,254)
Additions	(132,893)	(110,956)
Decrease	—	—
As at 31 December	<u>(747,103)</u>	<u>(614,210)</u>
Net value		
As at 31 December	<u>420,085</u>	<u>353,076</u>
As at 1 January	<u>353,076</u>	<u>296,612</u>

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	<u>38,929</u>	<u>39,810</u>
Total	<u>38,929</u>	<u>39,810</u>

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	<u>18,235,088</u>	<u>13,256,605</u>

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	<u>2,242,331</u>	<u>6,439,660</u>

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) (<i>Note (i)</i>)		
In Chinese Mainland		
– Banks	959,180	–
Accrued interest	168,821	184,054
Total	<u>21,090,364</u>	<u>17,808,095</u>

Note:

- (i) Gold leasing business is recognised in placements from banks and other financial institutions by the Group in 2023.

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	<u>36,880,567</u>	<u>25,634,354</u>

(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	<u>36,880,567</u>	<u>25,634,354</u>

33 DEPOSITS FROM CUSTOMERS

	31 December 2023	31 December 2022
Demand deposits		
– Corporate customers	89,927,435	91,660,860
– Personal customers	<u>29,854,416</u>	<u>29,571,148</u>
Sub-total	<u>119,781,851</u>	<u>121,232,008</u>
Time deposits		
– Corporate customers	107,301,003	101,968,834
– Personal customers	<u>158,589,578</u>	<u>117,757,021</u>
Sub-total	<u>265,890,581</u>	<u>219,725,855</u>
Other deposits	389,827	389,313
Accrued interest	<u>9,405,100</u>	<u>6,696,131</u>
Total	<u>395,467,359</u>	<u>348,043,307</u>
Including:		
Pledged deposits	<u>16,852,955</u>	<u>17,495,516</u>

34 DEBT SECURITIES ISSUED

	31 December 2023	31 December 2022
Debt securities issued (<i>Note (i)</i>)	17,993,005	9,993,574
Certificates of interbank deposit issued (<i>Note (ii)</i>)	71,008,248	64,620,293
Accrued interest	<u>268,532</u>	<u>253,084</u>
Total	<u>89,269,785</u>	<u>74,866,951</u>

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.

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
	<hr/>	<hr/>
Total undiscounted lease liabilities	615,678	575,618
	<hr/> <hr/>	<hr/> <hr/>
Lease liabilities on statement of financial position	555,035	515,043
	<hr/> <hr/>	<hr/> <hr/>

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

	<i>Note</i>	31 December 2023	31 December 2022
Continuously involved liabilities		922,695	922,695
Employee benefits payable	<i>36(1)</i>	758,284	652,469
ECL on credit commitments	<i>36(2)</i>	565,767	252,642
Risk guarantee deposits for leasing business		381,633	677,270
Taxes payable	<i>36(3)</i>	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 (<i>Note (i)</i>)		–	1,830,079
Others		638,460	790,452
		<hr/>	<hr/>
Total		<u>3,756,512</u>	<u>5,564,659</u>

Note:

- (i) Gold leasing business is recognised in placements from banks and other financial institutions by the Group in 2023.

(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 (<i>Note (i)</i>)	–	133
Early retirement and supplementary retirement plans (<i>Note (ii)</i>)	84,310	80,730
	<hr/>	<hr/>
Total	<u>758,284</u>	<u>652,469</u>

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.

(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	<u>564,930</u>	<u>837</u>	<u>–</u>	<u>565,767</u>
	2022			
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit-impaired	Total
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	<u>249,614</u>	<u>3,028</u>	<u>–</u>	<u>252,642</u>

(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	<u>219,512</u>	<u>195,142</u>

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)	<u>5,820,355</u>	<u>5,820,355</u>
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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	<u>2,400,000</u>	None	None
Total						6,400,000		
Less: Issue costs						<u>(4,217)</u>		
Book value						<u>6,395,783</u>		

(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.

(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.

(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	Balance at the beginning of the year	2023					Net-of-tax amount	Balance at the end 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			
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	<u>83,726</u>	<u>1,712,809</u>	<u>(561,495)</u>	<u>-</u>	<u>(287,829)</u>	<u>863,485</u>	<u>947,211</u>	

2022

Item	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to retained 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	<u>371,620</u>	<u>63,659</u>	<u>(327,729)</u>	<u>-</u>	<u>66,017</u>	<u>(198,053)</u>	<u>173,567</u>
Total	<u>746,499</u>	<u>(77,597)</u>	<u>(806,100)</u>	<u>-</u>	<u>220,924</u>	<u>(662,773)</u>	<u>83,726</u>

(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 Perpetual bonds	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
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		<u>5,820,355</u>	<u>6,395,783</u>	<u>10,687,634</u>	<u>2,718,114</u>	<u>7,072,403</u>	<u>947,211</u>	<u>4,312,263</u>	<u>37,953,763</u>

	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		<u>5,820,355</u>	<u>-</u>	<u>6,395,783</u>	<u>10,687,634</u>	<u>2,388,248</u>	<u>6,316,926</u>	<u>83,726</u>	<u>3,263,408</u>	<u>34,956,080</u>

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).

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	–
	<u>15,596,772</u>	<u>11,508,997</u>
Total	<u>15,596,772</u>	<u>11,508,997</u>

(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	<u>74,866,951</u>	<u>19,258</u>	<u>515,043</u>	<u>75,401,252</u>
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	<u>12,328,810</u>	<u>(1,188,128)</u>	<u>(148,387)</u>	<u>10,992,295</u>
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	<u>89,269,785</u>	<u>20,087</u>	<u>555,035</u>	<u>89,844,907</u>

	Debt securities issued	Dividend payable	Lease liabilities	Total
Balance at 1 January 2022	<u>92,218,300</u>	<u>18,469</u>	<u>505,895</u>	<u>92,742,664</u>
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	<u>(20,061,074)</u>	<u>(1,440,645)</u>	<u>(146,863)</u>	<u>(21,648,582)</u>
Other changes:				
– Dividends declared	–	1,441,434	–	1,441,434
– Increase in lease liabilities	–	–	137,159	137,159
– Interest expense	<u>2,709,725</u>	–	<u>18,852</u>	<u>2,728,577</u>
Balance at 31 December 2022	<u><u>74,866,951</u></u>	<u><u>19,258</u></u>	<u><u>515,043</u></u>	<u><u>75,401,252</u></u>

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

	<u>ISP</u>		<u>Qingdao Conson</u>		<u>Haier Industrial Development</u>	
	Number <i>(in thousands of shares)</i>	<i>Percentage</i>	Number <i>(in thousands of shares)</i>	<i>Percentage</i>	Number <i>(in thousands of shares)</i>	<i>Percentage</i>
As at 1 January 2022	624,754	13.85%	503,556	11.17%	409,693	9.08%
Increase	<u>393,808</u>	<u>3.65%</u>	<u>151,067</u>	<u>0.08%</u>	<u>122,908</u>	<u>0.07%</u>
As at 31 December 2022	1,018,562	17.50%	654,623	11.25%	532,601	9.15%
Increase	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
As at 31 December 2023	<u>1,018,562</u>	<u>17.50%</u>	<u>654,623</u>	<u>11.25%</u>	<u>532,601</u>	<u>9.15%</u>

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.

(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%

	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%

(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	<u>17,842</u>	<u>22,019</u>

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.

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.

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				
	Corporate banking	Retail banking	Financial market business	Unallocated items and others	Total
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	<u>2,203,021</u>	<u>500,026</u>	<u>893,625</u>	<u>336,725</u>	<u>3,933,397</u>
Other segment information					
– Depreciation and amortisation	<u>(257,711)</u>	<u>(226,384)</u>	<u>(78,665)</u>	<u>(2,408)</u>	<u>(565,168)</u>
– Capital expenditure	<u>184,362</u>	<u>161,952</u>	<u>56,266</u>	<u>1,337</u>	<u>403,917</u>

31 December 2023

	Corporate banking	Retail banking	Financial market business	Unallocated items and others	Total
Segment assets	234,423,008	95,339,912	257,396,759	17,031,806	604,191,485
Deferred tax assets					<u>3,793,887</u>
Total assets					<u><u>607,985,372</u></u>
Segment liabilities/Total liabilities	<u>235,963,324</u>	<u>197,512,142</u>	<u>119,307,535</u>	<u>15,263,128</u>	<u>568,046,129</u>
Credit commitments	<u>53,460,793</u>	<u>23,106,489</u>	<u>–</u>	<u>–</u>	<u>76,567,282</u>
	2022				
	Corporate banking	Retail banking	Financial market business	Unallocated items and others	Total
External net interest income	4,937,009	671,076	2,212,047	468,182	8,288,314
Internal net interest income/ (expense)	<u>775,606</u>	<u>940,589</u>	<u>(1,716,195)</u>	<u>–</u>	<u>–</u>
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	<u>51,707</u>	<u>26,054</u>	<u>10,300</u>	<u>29,393</u>	<u>117,454</u>
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	<u>(6,027)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(6,027)</u>
Profit before taxation	<u>1,460,230</u>	<u>527,519</u>	<u>904,424</u>	<u>243,786</u>	<u>3,135,959</u>
Other segment information					
– Depreciation and amortisation	<u>(229,778)</u>	<u>(277,830)</u>	<u>(32,469)</u>	<u>(7,396)</u>	<u>(547,473)</u>
– Capital expenditure	<u>206,014</u>	<u>249,096</u>	<u>36,785</u>	<u>2,065</u>	<u>493,960</u>

31 December 2022

	Corporate banking	Retail banking	Financial market business	Unallocated items and others	Total
Segment assets	209,943,060	88,215,513	212,537,502	15,471,574	526,167,649
Deferred tax assets					<u>3,446,343</u>
Total assets					<u><u>529,613,992</u></u>
Segment liabilities/Total liabilities	<u>223,436,198</u>	<u>153,209,549</u>	<u>103,132,597</u>	<u>13,242,353</u>	<u>493,020,697</u>
Credit commitments	<u>49,637,911</u>	<u>18,441,375</u>	<u>–</u>	<u>–</u>	<u>68,079,286</u>

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.

(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.

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.

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.

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

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

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

Forward-looking information 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.

(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.

(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
	<hr/>	<hr/>
Subtotal	553,536,912	484,589,987
	<hr/>	<hr/>
Credit commitments	76,567,282	68,079,286
	<hr/>	<hr/>
Total	630,104,194	552,669,273
	<hr/>	<hr/>

(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%

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

(g) *Analysis on the credit quality of financial instruments*

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

The Group

	31 December 2023							
	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	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	<u>404,876,403</u>	<u>2,860,476</u>	<u>8,061,023</u>	<u>415,797,902</u>	<u>(5,625,837)</u>	<u>(548,434)</u>	<u>(6,888,523)</u>	<u>(13,062,794)</u>

	31 December 2023							
	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	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	<u>135,823,604</u>	<u>109,556</u>	<u>4,733</u>	<u>135,937,893</u>	<u>(217,442)</u>	<u>(1,051)</u>	<u>(53,749)</u>	<u>(272,242)</u>
Credit commitments	<u>76,556,283</u>	<u>10,899</u>	<u>100</u>	<u>76,567,282</u>	<u>(564,930)</u>	<u>(837)</u>	<u>-</u>	<u>(565,767)</u>

31 December 2022								
Financial assets measured at amortised cost	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and balances with 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								
Financial assets measured at FVOCI	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	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)

(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.

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 (<i>Note (i)</i>)	292,992,926	741,732	78,759,912	167,515,322	39,666,710	6,309,250
Financial investments (<i>Note (ii)</i>)	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	<u>607,985,372</u>	<u>64,923,778</u>	<u>144,297,181</u>	<u>197,119,739</u>	<u>134,386,124</u>	<u>67,258,550</u>
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	<u>568,046,129</u>	<u>14,720,652</u>	<u>253,057,096</u>	<u>149,696,428</u>	<u>150,482,425</u>	<u>89,528</u>
Asset-liability gap	<u>39,939,243</u>	<u>50,203,126</u>	<u>(108,759,915)</u>	<u>47,423,311</u>	<u>(16,096,301)</u>	<u>67,169,022</u>

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 (<i>Note (i)</i>)	262,518,662	563,118	68,781,574	152,363,980	35,395,663	5,414,327
Financial investments (<i>Note (ii)</i>)	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	<u>529,613,992</u>	<u>56,219,872</u>	<u>117,494,941</u>	<u>172,756,808</u>	<u>107,962,754</u>	<u>75,179,617</u>
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	<u>493,020,697</u>	<u>12,287,254</u>	<u>228,206,092</u>	<u>135,986,813</u>	<u>116,429,762</u>	<u>110,776</u>
Asset-liability gap	<u>36,593,295</u>	<u>43,932,618</u>	<u>(110,711,151)</u>	<u>36,769,995</u>	<u>(8,467,008)</u>	<u>75,068,841</u>

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.

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.

Changes in annualised net interest income	31 December 2023	31 December 2022
	<i>(Decrease)/ Increase</i>	<i>(Decrease)/ Increase</i>
Interest rates increase by 100 bps	(731,924)	(831,337)
Interest rates decrease by 100 bps	731,924	831,337

Changes in annualised equity	31 December 2023	31 December 2022
	<i>(Decrease)/ Increase</i>	<i>(Decrease)/ Increase</i>
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.

(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 (RMB equivalent)	Others (RMB equivalent)	Total (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

	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 (<i>Note (i)</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.

Changes in annualised net profit and equity	31 December 2023	31 December 2022
	Increase/ (Decrease)	(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.

(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.

(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	<u>28,887,400</u>	<u>14,183,356</u>	<u>71,287,904</u>	<u>38,769,553</u>	<u>121,219,142</u>	<u>195,537,488</u>	<u>138,100,529</u>	<u>607,985,372</u>
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	<u>580,348</u>	<u>122,895,125</u>	<u>74,424,792</u>	<u>57,765,816</u>	<u>153,298,952</u>	<u>151,978,983</u>	<u>7,102,113</u>	<u>568,046,129</u>
Net position	<u>28,307,052</u>	<u>(108,711,769)</u>	<u>(3,136,888)</u>	<u>(18,996,263)</u>	<u>(32,079,810)</u>	<u>43,558,505</u>	<u>130,998,416</u>	<u>39,939,243</u>

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”.

(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								Carrying Amount
	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	
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								Carrying Amount
	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	
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.

(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								
	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
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)

(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:

	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%

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.

(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			
	Level 1	Level 2	Level 3 <i>Note (i)</i>	Total
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

	31 December 2022			
	Level 1	Level 2	Level 3 <i>Note (i)</i>	Total
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

(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	<u>22,694,130</u>	<u>-</u>	<u>-</u>	<u>599,273</u>	<u>29,447</u>	<u>90,014,037</u>	<u>-</u>	<u>(92,360,878)</u>	<u>20,976,009</u>
Total financial assets	<u>31,297,014</u>	<u>-</u>	<u>-</u>	<u>503,224</u>	<u>29,447</u>	<u>91,090,857</u>	<u>-</u>	<u>(94,581,302)</u>	<u>28,339,240</u>
Derivative financial liabilities	<u>1,071</u>	<u>-</u>	<u>-</u>	<u>683</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,754</u>
Total financial liabilities	<u>1,071</u>	<u>-</u>	<u>-</u>	<u>683</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,754</u>

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	<u>17,640,224</u>	<u>-</u>	<u>-</u>	<u>266,049</u>	<u>(29,912)</u>	<u>71,488,373</u>	<u>-</u>	<u>(66,670,604)</u>	<u>22,694,130</u>
Total financial assets	<u>33,381,973</u>	<u>-</u>	<u>(2,453,369)</u>	<u>(307,863)</u>	<u>(61,524)</u>	<u>75,878,373</u>	<u>-</u>	<u>(75,140,576)</u>	<u>31,297,014</u>
Derivative financial liabilities	<u>2,447</u>	<u>-</u>	<u>-</u>	<u>(1,376)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,071</u>
Total financial liabilities	<u>2,447</u>	<u>-</u>	<u>-</u>	<u>(1,376)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,071</u>

(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.

(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.

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	–

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
	<u>76,567,282</u>	<u>68,079,286</u>
Total		

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.

(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	<u>56,049</u>	<u>82,606</u>

(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	<u>3,822,379</u>	<u>3,536,451</u>

(6) Pledged assets

	31 December 2023	31 December 2022
Investment securities	59,141,534	26,190,712
Discounted bills	<u>10,072,938</u>	<u>17,999,779</u>
Total	<u>69,214,472</u>	<u>44,190,491</u>

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.

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.

(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.

(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).

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
	<hr/>	<hr/>
Total assets	591,746,920	515,482,890
	<hr/> <hr/>	<hr/> <hr/>
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
	<hr/>	<hr/>
Total liabilities	553,793,157	480,526,810
	<hr/> <hr/>	<hr/> <hr/>

	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
	<u>37,953,763</u>	<u>34,956,080</u>
Total equity	<u>37,953,763</u>	<u>34,956,080</u>
Total liabilities and equity	<u>591,746,920</u>	<u>515,482,890</u>

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 (Company Stamp)
*General Manager of the Planning &
Finance Department*

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)	<u>158.11%</u>	<u>122.83%</u>

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	<u>5.83%</u>	<u>6.07%</u>

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	<u>116.82%</u>	<u>116.88%</u>

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

2 CURRENCY CONCENTRATIONS

	31 December 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	<u>(7,668)</u>	<u>6,941</u>	<u>4,272</u>	<u>3,545</u>
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	<u>39,480</u>	<u>6,882</u>	<u>6,123</u>	<u>52,485</u>
Structural exposure	(139,292)	–	–	(139,292)

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			
	Public sector entities	Banks and other financial institutions	Non-bank private sector institutions	Total
– 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
	<u>163,649</u>	<u>5,315,283</u>	<u>2,662,833</u>	<u>8,141,765</u>
	31 December 2022			
	Public sector entities	Banks and other financial institutions	Non-bank private sector institutions	Total
– 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
	<u>129,114</u>	<u>6,039,736</u>	<u>3,967,781</u>	<u>10,136,631</u>

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	<u>1,697,133</u>	<u>813,375</u>
Total	<u><u>2,623,242</u></u>	<u><u>2,593,356</u></u>
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	<u>0.57%</u>	<u>0.30%</u>
Total	<u><u>0.88%</u></u>	<u><u>0.96%</u></u>

SECTION 6 RELEASE OF 2023 ANNUAL RESULTS ANNOUNCEMENT AND 2023 ANNUAL REPORT ON THE WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE BANK

This results announcement will be published on the HKEXnews website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Bank (www.qdccb.com). The 2023 annual report containing all the information required by the Listing Rules will be available on the HKEXnews website of the Hong Kong Stock Exchange and the website of the Bank in due course.

This results announcement was prepared in both Chinese and English versions, where there is a discrepancy between the Chinese and English versions, the Chinese version shall prevail.

By order of the Board
Bank of Qingdao Co., Ltd.*
Jing Zailun
Chairman

Qingdao, Shandong, the PRC
28 March 2024

As at the date of this announcement, the Board comprises Mr. Jing Zailun, Mr. Wu Xianming, Ms. Chen Shuang and Mr. Liu Peng as executive directors; Mr. Zhou Yunjie, Mr. Rosario Strano, Ms. Tan Lixia, Mr. Marco Mussita and Mr. Deng Youcheng as non-executive directors; Ms. Fang Qiaoling, Mr. Xing Lecheng, Mr. Zhang Xu, Mr. Cheung Man Chor, Elton and Mr. Du Ning as independent non-executive directors.

* *Bank of Qingdao Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking and/or deposit-taking business in Hong Kong.*