

BQD  青岛银行

BANK OF QINGDAO CO., LTD.

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

(H Shares Stock Code: 3866)



2022

**ANNUAL
REPORT**



Contents

SECTION I	IMPORTANT NOTICE, CONTENTS AND DEFINITIONS	2
SECTION II	CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS	5
SECTION III	CHAIRMAN'S STATEMENT	12
SECTION IV	PRESIDENT'S STATEMENT	14
SECTION V	MANAGEMENT DISCUSSION AND ANALYSIS	17
SECTION VI	CORPORATE GOVERNANCE	88
SECTION VII	ENVIRONMENTAL AND SOCIAL RESPONSIBILITY	130
SECTION VIII	SIGNIFICANT EVENTS	132
SECTION IX	CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS	148
SECTION X	PREFERENCE SHARES	158
SECTION XI	REPORT OF THE BOARD OF DIRECTORS	159
SECTION XII	REPORT OF THE BOARD OF SUPERVISORS	165
SECTION XIII	INDEPENDENT AUDITOR'S REPORT	166
SECTION XIV	NOTES TO THE FINANCIAL STATEMENTS	181
SECTION XV	UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION	298

Section I Important Notice, Contents and Definitions

1. The Board of Directors, Board of Supervisors, Directors, Supervisors and senior management of the Bank assure that the information in this annual report contains no false records, misleading statements or material omissions, and severally and jointly take full responsibility for the authenticity, accuracy and completeness of the information in this annual report.
2. The proposals on the 2022 Annual Report of Bank of Qingdao Co., Ltd., its summary and the results announcement were considered and approved at the 28th meeting of the eighth session of the Board of Directors of the Bank held on 31 March 2023. There were 13 Directors eligible for attending the meeting, and 13 Directors (among them, three Directors were entrusted to attend the meeting. Due to other work arrangement, Mr. ZHOU Yunjie entrusted Mr. Rosario STRANO to attend and vote on his behalf. Ms. TAN Lixia entrusted Mr. DENG Youcheng to attend and vote on her behalf. Mr. Simon CHEUNG entrusted Mr. Zhang XU to attend and vote on his behalf) actually attended the meeting.
3. The Bank's chairman Mr. JING Zailun, president Mr. WU Xianming, vice president Ms. CHEN Shuang in charge of finance function and chief financial officer Mr. MENG Dageng assure the authenticity, accuracy and completeness of the financial reports in this annual report.
4. The 2022 financial statements of the Company prepared in accordance with the PRC Accounting Standards for Business Enterprises have been audited by KPMG Huazhen LLP, with standard unqualified auditor's report issued; the 2022 financial statements of the Company prepared in accordance with the International Financial Reporting Standards have been audited by KPMG, with unqualified auditor's report issued.
5. Unless otherwise specified, the currency of the amounts referred to in this annual report is RMB.
6. The profit distribution proposal has been considered and approved by the Board of Directors of the Bank to distribute cash dividend of RMB1.60 (tax inclusive) for every 10 shares to all ordinary shareholders of the Bank based on the total number of shares on the record date of the equity distribution, instead of distributing bonus shares and increasing share capital with provident fund. The profit distribution proposal will be submitted to the general meeting of the Bank for consideration.
7. This report contains certain forward-looking statements about the financial conditions, operating results and business developments of the Company. The report uses the words "will", "may", "strive", "plan", "hope", "endeavor", "expect", "aim" and similar wordings to express forward-looking statements. These statements are made based on current plans, estimates and projections, and although the Company believes that the expectations reflected in these forward-looking statements are reasonable, the Company cannot assure that these expectations will be attained or confirmed to be correct and therefore they do not constitute substantive undertakings of the Company. Investors and relevant individuals should maintain sufficient risk awareness in this regard and understand the difference between plans, forecasts and commitments, should not unduly rely on such statements, and should be aware of investment risks. Please note that these forward-looking statements are related to future events or future financial, business or other performance of the Company, and are subject to certain uncertainties, which may cause the actual results to differ substantially.
8. The Company invites investors to read the full text of this annual report carefully. The Company has described in detail the major risks and countermeasures in this report. For details, please refer to the content related to risk management set out in the section of "Management Discussion and Analysis".
9. Documents Available for Inspection
 - (1) Financial statements bearing signatures and seals of Mr. JING Zailun (the chairman of the Bank), Mr. WU Xianming (the president of the Bank), Ms. CHEN Shuang (vice president in charge of finance function) and Mr. MENG Dageng (the chief financial officer of the Bank);
 - (2) Original copy of the audit report containing the seal of the accounting firm and the signatures and seal of the certified public accountants;
 - (3) Originals of all the Bank's documents and originals of announcements, which have been disclosed during the Reporting Period;
 - (4) The results announcement published on the website of the Hong Kong Stock Exchange.

Definitions

Term	Definition
Company	Bank of Qingdao Co., Ltd. and its subsidiaries
Bank, parent company	Bank of Qingdao Co., Ltd.
BQD Financial Leasing	BQD Financial Leasing Company Limited
BQD Wealth Management	BQD Wealth Management Company Limited
CBIRC	China Banking and Insurance Regulatory Commission
CSRC	China Securities Regulatory Commission
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
SZSE	the Shenzhen Stock Exchange
Qingdao Office of CBIRC	Qingdao office of the China Banking and Insurance Regulatory Commission
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Company Law	Company Law of the People's Republic of China
Articles of Association	Articles of Association of the Bank of Qingdao Co., Ltd.
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
Reporting Period	from 1 January 2022 to 31 December 2022 (both days inclusive)
RMB	the lawful currency of the PRC
Director(s)	director(s) of the Bank
Supervisor(s)	supervisor(s) of the Bank
Board of Directors or Board	the board of Directors of the Bank
Board of Supervisors	the board of Supervisors of the Bank
Hong Kong	The Hong Kong Special Administrative Region of the PRC

Definitions

Green Credit	the energy saving and environmental protection project and service loans commenced by the Bank as well as loans that comply with Catalog of Projects Backed by Green Bonds (2015 version) issued by the Green Finance Professional Committee of the China Society for Finance and Banking (中國金融學會綠色金融專業委員會). “Energy saving and environmental protection project and service loans” refers to the Notice on Submitting Statistical Table on Green Credit issued by General Office of the CBIRC (Yin Jian Ban Fa [2013] No. 185).
Small and Micro Enterprises	including small and micro enterprises, individual business owners, and the owners of small and micro enterprises.
IFRSs	the International Financial Reporting Standards issued by the International Accounting Standards Board; the International Financial Reporting Standards includes the International Accounting Standards.

Section II Corporate Information and Key Financial Highlights

I. CORPORATE INFORMATION

Stock abbreviation (A shares)	BQD	Stock code (A shares)	002948
Listing stock exchange of A shares	Shenzhen Stock Exchange		
Stock abbreviation (H shares)	BQD	Stock code (H shares)	3866
Listing stock exchange of H shares	The Stock Exchange of Hong Kong Limited		
Company name in Chinese	青島銀行股份有限公司		
Abbreviation in Chinese	青島銀行		
Company name in English	BANK OF QINGDAO CO., LTD.		
Abbreviation in English	BANK OF QINGDAO		
Legal representative	JING Zailun		
Authorized representatives	JING Zailun, ZHANG Qiaowen		
Joint Company secretaries	ZHANG Qiaowen, YU Wing Sze		
Registered address	Building 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC		
Historical change of registered address	The registered address of the Bank at the time of its establishment was No.17 Hubei Road, Shinan District, Qingdao; In December 2004, it was changed to No.68 Hong Kong Middle Road, Shinan District, Qingdao; In October 2017, it was changed to the current registered address.		
Postal code of registered address	266061		
Office address	No.6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC		
Postal code of office address	266061		
Registered office address in Hong Kong	31st Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong		
Company website	http://www.qdccb.com/		
Email	ir@qdbankchina.com		

II. CONTACT PERSONS AND CONTACT INFORMATION

Item	Secretary to the Board	Securities Affairs Representative
Name	JING Zailun (temporarily performing the duties of the secretary to the Board) ¹	LU Zhenzhen
Address	No.6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC	No.6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC
Tel	+86 40066 96588 ext. 6	+86 40066 96588 ext. 6
Fax	+86 (532) 85783866	+86 (532) 85783866
Email	ir@qdbankchina.com	ir@qdbankchina.com

¹ *Note:* The Bank held the 17th meeting of the eighth session of the Board on 8 August 2022, at which it has agreed to appoint Ms. ZHANG Qiaowen, assistant president of the Bank, as the secretary to the Board. Ms. ZHANG Qiaowen obtained the qualification certificate of secretary to the board from the SZSE and shall officially perform her duties from the date of approval of her qualification by the Qingdao Office of CBIRC. Mr. JING Zailun, the chairman of the Bank, shall temporarily perform the duties of the secretary to the Board before Ms. ZHANG Qiaowen officially takes office.

III. INFORMATION DISCLOSURE AND PLACE OF INSPECTION

The websites of the stock exchanges where the Bank discloses its annual reports

Domestic

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

Overseas

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

The media and website where the Bank discloses its annual reports

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

Place for inspection of annual reports of the Bank

office of the Board of Directors of the Bank

IV. CHANGE OF REGISTRATION

Unified social credit code

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

None

Successive changes in controlling shareholder (if any)

The Bank has no controlling shareholders

V. OTHER RELEVANT INFORMATION

(I) Accounting firms engaged by the Bank

Domestic accounting firm

KPMG Huazhen LLP

Office address of the domestic accounting firm

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

Signing accountants

HUANG Aizhou, MA Xin

Overseas accounting firm

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

Office address of overseas accounting firm

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

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

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

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

(IV) Legal advisors engaged by the Bank

Legal advisor as to PRC law

King & Wood Mallesons Beijing

Legal advisor as to Hong Kong law

DLA Piper Hong Kong

Section II Corporate Information and Key Financial Highlights

(V) Share registrars of the Bank

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

VI. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS

Item	2022	2021	Year-on-year	2020	2019	2018
Business performance (RMB'000)			Change (%)			
Net interest income	8,288,314	7,645,625	8.41	8,146,531	6,846,055	4,464,029
Net non-interest income	3,360,941	3,492,748	(3.77)	2,401,543	2,776,054	2,900,809
Operating income	11,649,255	11,138,373	4.59	10,548,074	9,622,109	7,364,838
Operating expenses	(4,218,441)	(3,915,738)	7.73	(3,676,022)	(3,166,762)	(2,505,650)
Credit losses	(4,288,828)	(3,966,971)	8.11	(4,143,756)	(3,626,792)	(2,383,172)
Profit before taxation	3,135,959	3,225,410	(2.77)	2,728,296	2,828,555	2,476,016
Net profit	3,167,525	2,993,213	5.82	2,453,298	2,335,522	2,043,389
Net profit attributable to shareholders of the Bank	3,082,775	2,922,664	5.48	2,394,072	2,284,815	2,023,352
Per share (RMB/share)			Change (%)			
Basic earnings per share ⁽¹⁾	0.45	0.51	(11.76)	0.40	0.37	0.36
Diluted earnings per share ⁽¹⁾	0.45	0.51	(11.76)	0.40	0.37	0.36
Dividend per share ⁽²⁾	0.16	0.16	–	0.18	0.20	0.20

Section II Corporate Information and Key Financial Highlights

Item	31 December 2022	31 December 2021	Year-on-year Change (%)	31 December 2020	31 December 2019	31 December 2018
Scale indicators (RMB'000)						
Total assets ⁽³⁾	529,613,992	522,249,610	1.41	459,827,605	373,622,150	317,658,502
Loans and advances to customers:						
Total loans to customers ⁽³⁾	269,029,452	244,205,480	10.17	206,747,221	172,795,443	126,386,870
Add: Accrued interest	598,681	829,555	(27.83)	899,064	772,480	521,250
Less: Provision for impairment on loans and advances to customers measured at amortised cost	(7,109,471)	(6,426,337)	10.63	(5,287,801)	(4,409,632)	(3,541,229)
Loans and advances to customers	262,518,662	238,608,698	10.02	202,358,484	169,158,291	123,366,891
Provision for loan impairment	(7,137,141)	(6,439,606)	10.83	(5,302,582)	(4,422,549)	(3,557,806)
Of which: Impairment provision for loans and advances to customers at fair value through other comprehensive income	(27,670)	(13,269)	108.53	(14,781)	(12,917)	(16,577)
Total liabilities ⁽³⁾	493,020,697	488,921,882	0.84	428,920,747	343,144,232	290,161,778
Deposits from customers:						
Total deposits from customers ⁽³⁾	341,347,176	313,524,923	8.87	272,231,484	212,790,909	175,675,849
Add: Accrued interest	6,696,131	4,440,884	50.78	3,519,226	2,634,494	2,235,398
Deposits from customers	348,043,307	317,965,807	9.46	275,750,710	215,425,403	177,911,247
Share capital	5,820,355	4,509,690	29.06	4,509,690	4,509,690	4,058,713
Equity attributable to equity shareholders of the Bank	35,816,312	32,635,495	9.75	30,285,174	29,915,460	26,984,973
Equity attributable to shareholders	36,593,295	33,327,728	9.80	30,906,858	30,477,918	27,496,724
Net capital base	45,212,218	47,075,226	(3.96)	37,806,580	39,252,505	36,021,656
Of which: Net core tier-one capital	29,169,606	24,910,985	17.10	22,384,998	22,224,697	19,268,600
Other tier-one capital	6,473,571	7,912,511	(18.19)	7,909,292	7,901,623	7,894,330
Tier-two capital	9,569,041	14,251,730	(32.86)	7,512,290	9,126,185	8,858,726
Total risk-weighted assets	333,440,925	297,412,693	12.11	267,941,143	265,908,365	229,776,495
Per share (RMB/share)						
Net assets per share attributable to shareholders of the Bank ⁽⁴⁾	5.05	5.20	(2.88)	4.71	4.63	4.47

Section II Corporate Information and Key Financial Highlights

Item	2022	2021	Year-on-year	2020	2019	2018
Profitability indicators (%)			Change			
Return on average total assets ⁽⁵⁾	0.60	0.61	(0.01)	0.59	0.68	0.66
Weighted average return on net assets ⁽¹⁾	8.95	10.40	(1.45)	8.56	8.27	8.36
Net interest spread ⁽⁶⁾	1.85	1.87	(0.02)	2.14	2.10	1.67
Net interest margin ⁽⁷⁾	1.76	1.79	(0.03)	2.13	2.13	1.63
Net fee and commission income to operating income	12.41	17.55	(5.14)	16.04	12.65	11.76
Cost-to-income ratio ⁽⁸⁾	34.95	33.90	1.05	33.59	31.86	33.01
Item	31 December 2022	31 December 2021	Year-on-year	31 December 2020	31 December 2019	31 December 2018
Asset quality indicators (%)			Change			
Non-performing loan ratio	1.21	1.34	(0.13)	1.51	1.65	1.68
Provision coverage ratio	219.77	197.42	22.35	169.62	155.09	168.04
Loan provision ratio	2.65	2.64	0.01	2.56	2.56	2.82
Indicators of capital adequacy ratio (%)			Change			
Core tier-one capital adequacy ratio ⁽⁹⁾	8.75	8.38	0.37	8.35	8.36	8.39
Tier-one capital adequacy ratio ⁽⁹⁾	10.69	11.04	(0.35)	11.31	11.33	11.82
Capital adequacy ratio ⁽⁹⁾	13.56	15.83	(2.27)	14.11	14.76	15.68
Total equity to total assets ratio	6.91	6.38	0.53	6.72	8.16	8.66
Other indicators (%)			Change			
Liquidity coverage ratio	122.83	179.54	(56.71)	152.42	142.27	125.95
Liquidity ratio	88.21	73.28	14.93	65.44	68.84	60.55

Section II Corporate Information and Key Financial Highlights

- Notes:* (1) Earnings per share and weighted average return on net assets were calculated in accordance with the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision) 《公開發行證券的公司信息披露編報規則第9號 – 淨資產收益率和每股收益的計算及披露》(2010年修訂). The Bank completed A share and H share rights issue in January and February 2022 respectively. In accordance with the Accounting Standards for Enterprises No. 34 – Earnings per Share and the relevant application guidelines, the earnings per share indicator for the comparative period was recalculated taking into account the bonus issue factors included in the rights issue. Before the recalculation, the basic earnings per share and diluted earnings per share for 2021 were both RMB0.54 per share, for 2020 were both RMB0.42 per share, for 2019 were both RMB0.39 per share, and for 2018 were both RMB0.37 per share. For details, please refer to “13. Basic and Diluted Earnings per Share under Notes to the Financial Statements” in this annual report. 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 issued in the current period has 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 2022 is subject to approval by the general meeting.
- (3) For details of the structure of total assets, total liabilities, total loans to customers and total deposits from customers, please refer to “7. Analysis of Major Items of the Statement of Financial Position” under “Section V Management Discussion and Analysis” of this annual report.
- (4) Net assets per share attributable to ordinary shareholders of the Bank = (equity attributable to shareholders of the Bank – other equity instruments)/the number of ordinary shares as at the end of the period. The net assets per share attributable to ordinary shareholders of the Bank from 2018 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 2018 is the balance after the adoption of International Financial Reporting Standard 9 – Financial Instruments (“IFRS 9”), and total assets at the beginning of 2019 is the balance after the adoption of International Financial Reporting Standard 16 – Leases (“IFRS 16”).
- (6) Net interest spread = average yield of interest-earning assets – average cost rate of interest-bearing liabilities.
- (7) Net interest margin = net interest income/average balance of interest-earning assets.
- (8) Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income.
- (9) The relevant indicators of capital adequacy ratio were calculated in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) 《商業銀行資本管理辦法(試行)》 and other relevant regulatory regulations.

VII. ACCOUNTING DATA DIFFERENCE UNDER DOMESTIC AND FOREIGN ACCOUNTING STANDARDS

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

VIII. SUPPLEMENTARY INDICATORS

Migration rate %	31 December 2022	31 December 2021	31 December 2020
Normal loan migration rate	1.01	1.07	0.88
Special mention loan migration rate	43.54	78.54	31.07
Substandard loan migration rate	22.43	19.28	74.64
Doubtful loan migration rate	3.19	2.45	21.91

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

Section III Chairman's Statement



JING Zailun
Chairman

Section III Chairman's Statement

The year of 2022 is an important year for China to embark on a new journey of building a socialist modern country in an all-round way and marching towards the second Centenary Goal. The Bank thoroughly studied and implemented the spirit of the 20th National Congress, adhered to the deep integration of Party building and business development, unified business thinking, and defined development goals. The Bank unwaveringly served the real economy, persisted in promoting business structure adjustment, insisted on improving management standardization, and kept promoting digital transformation, which significantly enhanced its sustainable development capacity, and continued to lay a solid foundation for high-quality development.

Adhered to serving the real economy and achieved preliminary results in the shortcoming making up and structure adjustment. In 2022, the Bank insisted on returning to its original inspiration, continuously expanded its support to the real economy and improved the quality and efficiency of its services, with the loan growth rate for the real economy exceeding that of total loans. The international business capacity has significantly improved, and the international business settlement amount and revenue have both increased substantially, showing the preliminary effectiveness of making up for the shortcomings. The Bank greatly reduced income assets and high-cost liabilities, kept the net interest margin stable, and optimized the asset-liability structure.

Adhered to strategic guidance and unified thinking and clarified the goal and direction. In 2022, the Bank actively adapted to the internal and external changes, studied and formulated the Strategic Planning of Bank of Qingdao Co., Ltd. for 2023-2025. The Bank will focus on "structure adjustment, customer base strengthening, synergy optimization and capability improvement", emphasize on improving the comprehensive operating capability, take elevating the risk management level as the breakthrough point, accelerate the digital transformation as the driving force, comprehensively promote high-quality development, and strive to build a value-leading bank with "leading quality and efficiency, outstanding features and flexible mechanisms".

Adhered to establishing rules and regulations, and significantly improved the level of management standardization. In 2022, the Bank continued to promote the system construction, fill the system gaps, improve the system quality, and promote the continuous improvement of the business management institutionalization and standardization. The Bank proceeded to improve the performance appraisal system, strengthen the construction of performance management system, reinforce the application of performance appraisal results, and realize the continuous improvement of the scientific and transparent evaluation and incentive system.

Adhered to the technology empowerment and accelerated the digital transformation pace. In 2022, the Bank established the Digital Transformation Committee to strengthen the top-level design, comprehensively enhance the digital capability and take the road of digital development. The Bank promoted the construction of digital business platform starting from key projects construction; accelerated the online product launch and promoted the products and services digitalization. The Bank closely combined with the business development needs, simultaneously promoted management digitalization, and enhanced management empowerment.

We are determined to move forward to a better bank. The year of 2023 is the year for the Bank to anchor its direction, work hard and bravely forge ahead. Under the guidance of the spirit of the 20th National Congress and the new strategic plan, the Bank will focus on the strategic core of "high-quality development, giving priority to quality and efficiency", emphasize hard work, deliver with actual achievements, and serve the real economy development. The Bank will help build a modern and powerful country in the new era, and strive to deliver satisfactory results for customers, investors and the society!



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

Section IV President's Statement



WU Xianming
President

Section IV President's Statement

Under the leadership of governments at all levels and the guidance of regulatory authorities, Bank of Qingdao made every effort in 2022 according to the deployment and requirements of the Party committee and the Board to seize high-quality assets, continuously strengthen debt marketing, and comprehensively strengthen risk management and control, so as to achieve a steady improvement in scale, efficiency and quality.

In 2022, the Bank made progress amid stability in general for its operation. As at the end of the year, our total assets amounted to RMB529.614 billion, representing an increase of RMB7.364 billion or 1.41% from the beginning of the year. Our total assets under management amounted to RMB740.909 billion, representing an increase of RMB36.914 billion or 5.24% from the beginning of the year. The balance of non-performing loans amounted to RMB3.247 billion, representing a decrease of RMB14 million from the beginning of the year, while the non-performing loan ratio was 1.21%, representing a decrease of 0.13 percentage point from the beginning of the year, which was the first time to achieve decrease in both of them since 2014. At the group level, we realized operating income of RMB11.649 billion in total, representing a year-on-year increase of RMB511 million or 4.59%, and realized net profit of RMB3.168 billion, representing a year-on-year increase of RMB174 million or 5.82%. Group operation has achieved remarkable results. In 2022, BQD Financial Leasing realized an operating income of RMB512 million, representing a year-on-year increase of 48.46%, and the growth rate ranked among the best in the industry in China. BQD Wealth Management strengthened its product operations while facing fluctuations and successfully maintained “zero case in share price falling below net asset value”, and the balance of wealth management products and wealth management assets both exceeded RMB200 billion.

In 2022, the Bank optimized its structure and tapped into the real economy entities. The growth rate of loans to the real economy entities exceeded that of total loans. The cumulative international settlement volume increased by 70.68% year-on-year, and the cumulative payment amount of supply chain finance increased by 209.82% year-on-year. The proportion of inclusive loans to total loans increased by 1.29 percentage points compared with the beginning of the year. The various bonds underwriting amount under investment banking business continued to lead in the province. The retail financial assets exceeded RMB300 billion for the first time, the community finance continued to deepen, the elderly service mode continued to be optimized, and the exclusive new citizen products were iteratively updated. The Bank was rated “Excellent” among banking institutions serving the real economy by the Bureau of Local Financial Regulation and Supervision in Shandong Province.

In 2022, the Bank made outstanding highlights in operation. The Bank completed the first A+H rights issue project as a city commercial bank in China, effectively alleviating the capital shortage pressure. The Bank successfully redeemed overseas preference shares, reduced financing costs and optimized capital structure. The Company made innovative development in green finance, and has successively completed the asset and equity pledge loan projects for ecological assets rights and interests, such as first emission rights project, first energy use rights project and first contractual energy management project. The Bank completed the first domestic blue syndicated loan with international development institutions headed by the International Finance Corporation. The Bank achieved initial results in digital transformation, and completed the first electronic factoring business in China, the first domestic freight payment facilitation business among Shandong banks, and the first digital RMB supply chain business in Qingdao.

The year of 2023 will surely be a year of development. Facing the new situation, new goals and new challenges, we have more imagination and development potential with all the accumulation in the past. In 2023, the Bank will follow the strong leadership of the Party committee and the Board, keep pace with the new three-year strategic plan, strengthen the strategy, change the work style, focus on implementation and improve efficiency to build a new chapter of high-quality transformation and development!



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

Chief Supervisor



YANG Fengjiang
Chief Supervisor

Section V Management Discussion and Analysis

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

In 2022, China's economy experienced significantly increased downward pressure under the impact of factors such as the complex external environment. In order to stabilize the general macroeconomy, China promptly unveiled a policy package for stabilizing the economy and follow-up policies, and rationally stepped up macro-policies implementation to provide important support for smooth economic operation. The policies facilitated China's economy to continuously develop despite the pressure, and the total economic output reached a new level. The economic structure was constantly optimized with new growth drivers which drove growth constantly enhanced and resilience continuously emerging in growth.

In 2022, the economic and social development of Shandong Province and Qingdao City showed a good trend of steady progress and quality improvement in general with good performance in consumption, investment and export. The overall consumer market remained stable operation. The investment growth fared well, and the growth in the investment in new growth drivers as represented by the "four new" economy and the high-tech manufacturing industry accelerated. Exports continued to grow rapidly, hitting a new record high. The replacement of old growth drivers with new ones in Shandong Province and Qingdao City had gathered momentum with rapid growth in new growth drivers, which would strongly support the stable social economic operation in the future.

Facing the complex and ever-changing economic and financial operating environment, the banking industry continued to improve its quality and efficiency of serving the real economy to fully support the stabilization of the general macroeconomy in China on the one hand, and further deepened its transformation in development to optimize its business layout, maintain stable operation in general, and continuously improve its risk resistance capability.

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. Having experienced several years of development, the Bank has constantly improved in terms of corporate governance, risk management and control and IT construction, and has developed distinctive features of "sound governance, attentive service, solid risk control and prominent technology". In December 2015, the Bank's H shares were listed on the Hong Kong Stock Exchange; in January 2019, the Bank's A shares were listed on 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 180. The Bank has two subsidiaries. In February 2017, the Bank initiated the establishment of BQD Financial Leasing, which was owned as to 51% by the Bank. In September 2020, the Bank initiated the establishment of BQD Wealth Management, which was wholly owned by the Bank. As at the end of the Reporting Period, the Bank had more than 4,700 employees.

As at the end of the Reporting Period, the Company's total assets amounted to RMB529.614 billion, total liabilities amounted to RMB493.021 billion, capital adequacy ratio was 13.56%, and the non-performing loan ratio was 1.21%, down by 0.13 percentage point as compared with that at the end of last year. During the Reporting Period, the accumulated net profit was RMB3.168 billion, representing an increase of 5.82% 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 continuously promote high-quality development. The Bank’s core competitiveness is mainly reflected in:

- (1) **Party leadership and corporate governance are deeply integrated.** The Bank adheres to the alignment of strengthening Party leadership and improving corporate governance, which enables the Party Committee to play a core role fully in guiding the direction, managing the overall situation and promoting the implementation. The standardized and efficient corporate governance operation mechanism is constantly improved. The standardization and effectiveness of corporate governance are continuously enhanced to ensure the institutionalization, standardization and transparency of operation and management, and lays a solid governance foundation for the Bank’s high-quality development.
- (2) **High quality development is driven by the new strategic plan.** The Bank actively responds to the challenges and opportunities arising from the changes of the external economic circumstances. It formulates its new strategic plan based on its own circumstances. It adheres to the core corporate culture of “compliance, performance, accountability, service, care and integrity” and focuses on four strategic themes, namely “adjusting the structure, strengthening customer service, optimizing synergies and enhancing capabilities”. The Bank aims at enhancing its comprehensive operation capabilities, and making breakthroughs in risk management enhancement. Driven by accelerated digital transformation, the Bank is committed to becoming a value-leading bank with “leading quality and efficiency, outstanding features and flexible mechanisms” and proceeds with its more refined, professional and distinct development.
- (3) **Customer service experience creates new advantages.** The Bank’s “BQD services” has always focused on customer experience, expressing sincerity and respect, conveying kindness and warmth, promoting development with services, creating value with services, constantly unifying service concepts and service standards, further expanding the connotation and extension of “BQD services” with the keynote of improving quality in stability, and gradually realizing a new leap from good to great, great to brand, and brand to value, so as to better satisfy customers’ expectations of convenient, smooth and satisfactory services.
- (4) **Risk control and compliance facilitate high-quality development.** The Bank has further improved its comprehensive risk management system, and optimized its comprehensive risk management structure. Its refined and dynamic management of asset quality is continuously improved. The Bank has strengthened the establishment of the Group’s risk compliance culture, taken centralization, digitalization and standardization as the guidance, and corporate culture, credit model and technology empowerment as key points, to create a risk control “combination measures”, continuously consolidate an internal control compliance governance system with everything covered, and push credit risk management into a healthy development stage under control in general.
- (5) **The Bank is effectively bursting with energy by digital transformation.** The Bank actively adapts to new ideas and technologies. The implementation and promotion of the digital transformation strategy accelerate. The implementation of key projects of the Bank speeds up. Network security and operation management are continuously strengthened, and the management level of the information technology team is continuously enhanced. The Bank accelerates data asset revitalization, and effectively enhances its data governance level and data application ability by improving the data standard system, optimizing data quality management, enhancing data application value, ensuring data security management, and promoting data project construction.
- (6) **The Bank enriches license resources to boost new growth.** The Bank has the license of BQD Financial Leasing and the license of BQD Wealth Management, which promotes the far-reaching and stable coordinated development of the Group. As the only legal person financial institution rated as Class B lead underwriter with independent lead underwriting qualifications in Shandong Province, the Bank adhere to following market dynamics, constantly innovates market tools to better provide comprehensive financing solutions for enterprises in Shandong Province. In 2022, the Bank was qualified for fund custody and successfully opened up the asset management business chain.

4. HONORS AND AWARDS

In April 2022, the Bank won the “Excellent” rating for its financial guidance work in 2021 by the Shandong Provincial Local Financial Supervision Bureau.

In July 2022, the Bank was selected into the list of 2022 high-end brand enterprises in Shandong Province in the activity of 2022 “China Brand Day” in Shandong Province jointly hosted by the Shandong Provincial Market Supervision Bureau, the Development and Reform Commission, and the Propaganda Department of the Shandong provincial party committee, with its brand value ranking first among service industry enterprises in Qingdao.

In July 2022, the list of 2022 “China’s 500 Most Valuable Brands” was announced in Beijing. With a brand value of RMB21.872 billion, the Bank was selected and ranked 346th.

In July 2022, the Bank was awarded the highest rating of A again in the information disclosure assessment of the SZSE.

In September 2022, the Bank entered the list of Top 500 Chinese Service Enterprises in 2022, ranking 268th.

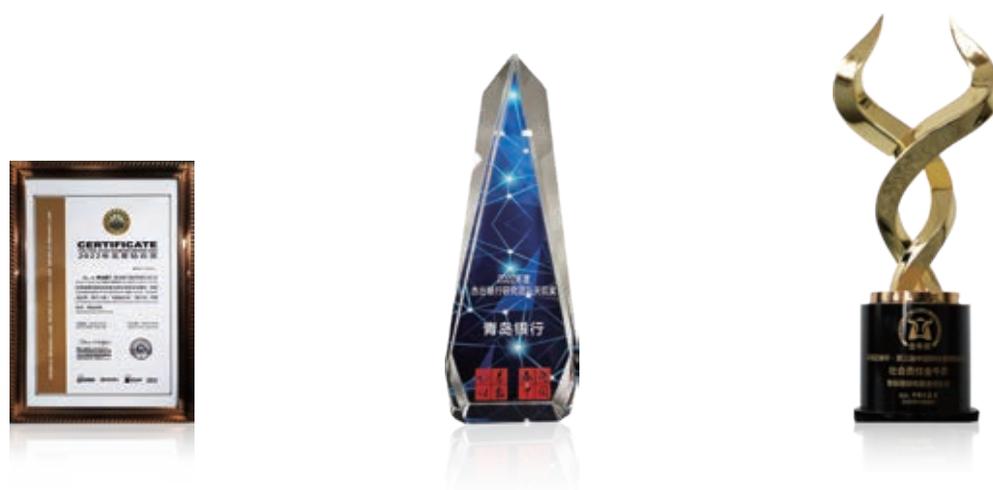
In September 2022, the Bank entered the list of the Asia’s Top 500 Brands for six consecutive years, ranking 430th.

In November 2022, the China Banking Association released the 2022 “GYROSCOPE” evaluation result of steady development ability of commercial banks, in which the Bank ranked 10th of city commercial banks in terms of total score, and ranked first in the corporate governance ability of city commercial banks for two consecutive years.

In December 2022, the Bank won the “2022 Tianji Award for Outstanding Banking Research Team” organized by the Securities Times under the People’s Daily, with only three banks winning this honor nationwide.

In December 2022, the Bank was granted the “Five-Star Diamond Award”, the highest award in the global service field. It was the only city commercial bank in China that had been granted such award for seven consecutive years.

In December 2022, the China Securities Journal Listed Company Golden Bull Award was announced, and the Bank was granted the award of “2021 Golden Bull Investor Relations Management Award”.



5. MAJOR OPERATIONAL MANAGEMENT

5.1 Status of Key Operational Indicators Achievements

- (1) Total assets amounted to RMB529.614 billion, representing an increase of RMB7.364 billion or 1.41% as compared with that at the end of last year;
- (2) Total loans to customers amounted to RMB269.029 billion, representing an increase of RMB24.824 billion or 10.17% as compared with that at the end of last year;
- (3) Total deposits from customers amounted to RMB341.347 billion, representing an increase of RMB27.822 billion or 8.87% as compared with that at the end of last year;
- (4) Operating income amounted to RMB11.649 billion, representing a year-on-year increase of RMB0.511 billion or 4.59%; net profit amounted to RMB3.168 billion, representing a year-on-year increase of RMB0.174 billion or 5.82%; net profit attributable to shareholders of the Bank amounted to RMB3.083 billion, representing a year-on-year increase of RMB0.16 billion or 5.48%;
- (5) Non-performing loan ratio was 1.21%, representing a decrease of 0.13 percentage point as compared with that at the end of last year; provision coverage ratio was 219.77%, representing an increase of 22.35 percentage points as compared with that at the end of last year; capital adequacy ratio was 13.56%, and core tier-one capital adequacy ratio was 8.75%, representing an increase of 0.37 percentage point as compared with that at the end of last year;
- (6) Return on average total assets was 0.60%, representing a decrease of 0.01 percentage point as compared with that in last year;
- (7) Basic earnings per share were RMB0.45, representing a year-on-year decrease of RMB0.06 or 11.76%; weighted average return on net assets was 8.95%, representing a decrease of 1.45 percentage points as compared with that in last year.



In July 2022, Mr. JING Zailun (first right), the secretary to the party committee and chairman of the Bank, attended the Bank's ceremony celebrating the "July 1 Party Day (七·一)", recognizing "Outstanding Party Workers and Members and Advanced Party Organizations (两优一先)", and naming and awarding the nameplate of "Qing Yin Rong Wan Jia (青銀融萬家)", a grassroots brand.

5.2 Major Tasks of Operational Management

In 2022, the Bank organically combined party building with business management, adhered to high-quality development as the main line, promoted business transformation and increased efficiency, and successfully completed the orderly handover and smooth transition of key management personnel in active response to various challenges such as economic fluctuations. With unified ideology, firm confidence and consistent pace across the Bank, it adhered to its responsibilities and positioning as a bank corporation, continuously improved the level of ability to serve the real economy, and achieved steady development in various operations and management.

1. The operation of the Bank made progress amid stability in general. As at the end of the Reporting Period, the Company's total assets amounted to RMB529.614 billion, representing an increase of RMB7.364 billion or 1.41% as compared with that at the end of last year. Total loans to customers amounted to RMB269.029 billion, representing an increase of RMB24.824 billion or 10.17% as compared with that at the end of last year, including the amount of corporate loans (including discounted bills and excluding accrued interest) which increased by 16.83%. Total customer deposits amounted to RMB341.347 billion, representing an increase of RMB27.822 billion or 8.87% as compared with that at the end of last year, including retail deposits which increased by 33.41%. In 2022, the Bank realized net profit of RMB3.168 billion, representing an increase of RMB174 million or 5.82% year on year.
2. Capital replenishment was orderly and sufficient. The Bank reviewed the situation to promote the process of external capital replenishment. During the Reporting Period, it successfully completed the A+H rights issue, raising net proceeds of RMB4.155 billion to replenish core tier-one capital, which was the only A+H rights issue of a listed bank in the past eight years and also the first A+H rights issue of a city commercial bank. At the same time, the Bank advanced the optimization of capital structure, completed the redemption of offshore preference shares during the Reporting Period, and issued two tranches of undated capital bonds with a total principal amount of RMB6.4 billion, further reducing financing costs. As at the end of the Reporting Period, the Bank's capital adequacy ratio was 13.56%, and the core tier-one capital adequacy ratio was 8.75%, representing an increase of 0.37 percentage point as compared with that at the end of last year.
3. The Bank continued to optimize its structure. The growth rate of loans to the real economy exceeded the growth rate of total loans. During the Reporting Period, the cumulative international settlement volume of the Bank amounted to US\$10.570 billion, representing a year-on-year increase of 70.68%; the cumulative supply chain finance loans amounted to RMB7.002 billion, representing a year-on-year increase of 209.8%; and inclusive loans accounted for 11.00% of the total balance of various loans (excluding discounted bills), representing an increase of 1.29 percentage points as compared with that at the end of last year. As at the end of the Reporting Period, the total loans to customers of the Bank accounted for 52.19% of the total assets of the Bank, representing an increase of 4.38 percentage points as compared with that at the end of last year; cash and deposits with central banks were drastically reduced by RMB25.416 billion, and the asset structure was significantly improved. Under the circumstances that the net interest spread and net interest margin of the banking industry were generally narrower, the net interest spread and net interest margin were kept stable through the optimization of the structure of assets and liabilities.



In September 2022, Mr. JING Zailun (first left), the secretary to the party committee and chairman of the Bank, visited and had exchanges with a local key customer in Yantai.

Section V Management Discussion and Analysis

4. The Bank continued to improve its asset quality. As at the end of the Reporting Period, the balance of non-performing loans of the Bank amounted to RMB3.247 billion, representing a decrease of RMB14 million as compared with that at the end of last year; the non-performing loan ratio was 1.21%, representing a decrease of 0.13 percentage point as compared with that at the end of last year, and it was the first time to record a decrease in both the balance of non-performing loans and the non-performing loan ratio since 2014. The aggregate proportion of special mention loans and non-performing loans in total loans was 2.03%, representing a decrease of 0.34 percentage point as compared with that at the end of last year. As at the end of the Reporting Period, the provision coverage ratio of the Bank was 219.77%, representing an increase of 22.35 percentage points as compared with that at the end of last year, and the provision rate of loans was 2.65%, representing an increase of 0.01 percentage point as compared with that at the end of last year.
5. The digital transformation of the Bank moved on in an orderly manner. During the Reporting Period, the Bank established the digital strategic transformation committee, with 50 new projects launched and 54 projects put into operation throughout the year. On corporate finance, the Bank completed the information migration of 200 thousand customers, and initially formed an online and offline integrated operating system. On retail finance, the Bank continued to promote the construction of smart outlets, an intelligent marketing platform, channel collaboration and mobile banking. The Bank upgraded the big data platform, and realized access to 9 sets of applications and more than 100 sets of data sources, thus revitalizing data assets.
6. The development highlights of the group were prominent. The leasing asset scale of BQD Financial Leasing amounted to RMB15.498 billion, representing a year-on-year increase of 30.55%; the operating income was RMB512 million, representing a year-on-year increase of 48.46%, with a leading growth rate of operating income among its domestic peers; the net profit was RMB173 million, representing a year-on-year increase of 20.13%. The balance of wealth management products of BQD Wealth Management amounted to RMB200.815 billion, representing an increase of RMB33.011 billion or a year-on-year increase of 19.67% from the end of last year; the balance of wealth management assets of the Company amounted to RMB211.295 billion, representing an increase of RMB29.550 billion or a year-on-year increase of 16.26% from the end of last year, with the scale of wealth management products and the investment assets from wealth management products exceeding RMB200 billion at the same time.

2023 is the first year of full implementation of the spirit of the 20th National Congress of the Communist Party of China. The Bank actively adapts to internal and external changes and formulates the Strategic Planning of Bank of Qingdao Co., Ltd. for 2023-2025. In the next three years, the Bank will focus on “structure adjustment, customer base strengthening, synergy optimization and capability improvement”, comprehensively promote high-quality development, and strive to build a value-leading bank with “leading quality and efficiency, outstanding features and flexible mechanisms”.



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

6.1 Financial Performance Summary

In 2022, the Company's net profit amounted to RMB3.168 billion, representing a year-on-year increase of RMB174 million or 5.82%; net profit attributable to equity shareholders of the Bank amounted to RMB3.083 billion, representing a year-on-year increase of RMB160 million or 5.48%. During the Reporting Period, the Company conscientiously implemented the policy orientation of support for the real economy, actively responded to various operational challenges such as economic fluctuations, achieved growth in operating income, and steadily improved its operating performance. The following table sets forth the changes in the Company's major profit items during the periods indicated.

Unit: RMB'000

Item	2022	2021	Change in amount	Change (%)
Net interest income	8,288,314	7,645,625	642,689	8.41
Net fee and commission income	1,445,130	1,955,126	(509,996)	(26.09)
Other net non-interest income	1,915,811	1,537,622	378,189	24.60
Operating expenses	(4,218,441)	(3,915,738)	(302,703)	7.73
Credit losses	(4,288,828)	(3,966,971)	(321,857)	8.11
Impairment losses on other assets	(6,027)	(30,254)	24,227	(80.08)
Profit before taxation	3,135,959	3,225,410	(89,451)	(2.77)
Income tax expense	31,566	(232,197)	263,763	(113.59)
Net profit	3,167,525	2,993,213	174,312	5.82
Of which: Net profit attributable to equity shareholders of the Bank	3,082,775	2,922,664	160,111	5.48
Net profit attributable to non-controlling interests	84,750	70,549	14,201	20.13



In August 2022, Mr. YANG Fengjiang, the Chief Supervisor of the Bank, attended the 2022 new staff seminar and had interaction and exchanges with new staff members.

6.2 Operating Income

In 2022, the Company's operating income amounted to RMB11.649 billion, representing a year-on-year increase of RMB511 million or 4.59%. During the Reporting Period, while strengthening its efforts to serve the real economy, the Company strove to optimize its business structure, resulting in an increase in net interest income and an increase in operating income. Among the operating income, net interest income accounted for 71.15%, representing a year-on-year increase of 2.51 percentage points. The following table sets forth the principal components of the Company's operating income and the changes during the periods indicated.

Unit: RMB'000

Item	2022		2021		Percentage changes (percentage point)
	Amount	Percentage (%)	Amount	Percentage (%)	
Net interest income	8,288,314	71.15	7,645,625	68.64	2.51
Interest income	19,830,162	170.23	18,208,935	163.48	6.75
Among which: Loans and advances to customers	12,731,942	109.29	11,556,834	103.76	5.53
Financial investments	5,210,430	44.73	5,264,161	47.26	(2.53)
Deposits with banks and other financial institutions	32,124	0.28	25,529	0.23	0.05
Placements with banks and other financial institutions	269,147	2.31	8,194	0.07	2.24
Financial assets held under resale agreements	304,872	2.62	347,966	3.12	(0.50)
Deposits with central banks	312,506	2.68	385,253	3.46	(0.78)
Long-term receivables	969,141	8.32	620,998	5.58	2.74
Interest expense	(11,541,848)	(99.08)	(10,563,310)	(94.84)	(4.24)
Net non-interest income	3,360,941	28.85	3,492,748	31.36	(2.51)
Including: Net fee and commission income	1,445,130	12.41	1,955,126	17.55	(5.14)
Other net non-interest income	1,915,811	16.44	1,537,622	13.81	2.63
Operating income	11,649,255	100.00	11,138,373	100.00	—

6.3 Net Interest Income

In 2022, the Company's net interest income amounted to RMB8.288 billion, representing a year-on-year increase of RMB643 million or 8.41%, mainly due to the growth in net interest income as the Company expanded the scale of interest-earning assets and enhanced the proportion of loans in active response to the downward trend of net interest margin. The following table sets forth the average balance of interest-earning assets and interest-bearing liabilities items, interest income/expense and average yield/cost rate of the Company for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities represent the daily average balances.

Unit: RMB'000

Item	2022			2021		
	Average balance	Interest income/expense	Average yield/cost rate	Average balance	Interest income/expense	Average yield/cost rate
Interest-earning assets						
Loans and advances to customers	255,836,423	12,731,942	4.98%	227,377,059	11,556,834	5.08%
Financial investments	143,312,290	5,210,430	3.64%	136,807,646	5,264,161	3.85%
Deposits and placements with banks and other financial institutions ⁽¹⁾	31,628,745	606,143	1.92%	23,150,856	381,689	1.65%
Deposits with central banks	23,899,510	312,506	1.31%	30,102,244	385,253	1.28%
Long-term receivables	14,948,519	969,141	6.48%	10,761,896	620,998	5.77%
Total	469,625,487	19,830,162	4.22%	428,199,701	18,208,935	4.25%
Interest-bearing liabilities						
Deposits from customers	318,841,550	7,046,209	2.21%	286,986,218	5,986,659	2.09%
Deposits and placements from banks and other financial institutions ⁽²⁾	53,283,577	1,242,608	2.33%	49,895,666	1,249,457	2.50%
Debt securities issued	91,954,964	2,709,725	2.95%	89,279,171	2,927,687	3.28%
Others	21,984,330	543,306	2.47%	17,127,859	399,507	2.33%
Total	486,064,421	11,541,848	2.37%	443,288,914	10,563,310	2.38%
Net interest income	/	8,288,314	/	/	7,645,625	/
Net interest spread	/	/	1.85%	/	/	1.87%
Net interest margin	/	/	1.76%	/	/	1.79%

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

(2) Deposits and placements from banks and other financial institutions include financial assets sold under repurchase agreements.

In 2022, the average balance of interest-earning assets was RMB469.625 billion, representing a year-on-year increase of RMB41.426 billion or 9.67%. Net interest spread was 1.85%, representing a year-on-year decrease of 0.02 percentage point. Net interest margin was 1.76%, representing a year-on-year decrease of 0.03 percentage point. The decline in market interest rates, combined with factors such as serving the real economy and reducing customer financing costs, led to a decline in the yields of loans and investments, while the cost rate of deposits increased, resulting in a decrease in net interest margin compared to last year. However, with the continuous advancement of structural adjustment, the net interest margin had gradually stabilized since the second quarter.

Section V Management Discussion and Analysis

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

Unit: RMB'000

Item	2022 vs. 2021		Net increase (decrease)
	Due to volume	Due to rate	
Interest-earning assets			
Loans and advances to customers	1,402,485	(227,377)	1,175,108
Financial investments	233,565	(287,296)	(53,731)
Deposits and placements with banks and other financial institutions	161,947	62,507	224,454
Deposits with central banks	(81,778)	9,031	(72,747)
Long-term receivables	271,734	76,409	348,143
Interest income changes	1,987,953	(366,726)	1,621,227
Interest-bearing liabilities			
Deposits from customers	715,167	344,383	1,059,550
Deposits and placements from banks and other financial institutions	77,974	(84,823)	(6,849)
Debt securities issued	76,659	(294,621)	(217,962)
Others	119,820	23,979	143,799
Interest expense changes	989,620	(11,082)	978,538
Net interest income changes	998,333	(355,644)	642,689

6.4 Interest Income

In 2022, the Company's interest income was RMB19.830 billion, representing a year-on-year increase of RMB1.621 billion or 8.90%, mainly due to the increase in the Company's size of loans and the growth in loan interest income. The interest income from loans and advances to customers and from financial investments constituted major components of the interest income of the Company.

Interest income from loans and advances

In 2022, the Company's interest income from loans and advances to customers amounted to RMB12.732 billion, representing a year-on-year increase of RMB1.175 billion or 10.17%, mainly due to the Company's increased credit support for the real economy and continuous expansion in size of loans issued. Although the rate of return of loans had declined due to factors including the decline of market interest rates and the reduction of customer financing costs, the interest income of loans had stable growth in general. The following table sets forth the average balance, interest income and average yield of each component of the Company's loans and advances to customers for the periods indicated.

Unit: RMB'000

Item	2022			2021		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	166,742,442	8,396,220	5.04%	147,578,018	7,489,738	5.08%
Personal loans	69,992,516	3,957,348	5.65%	64,774,609	3,630,074	5.60%
Discounted bills	19,101,465	378,374	1.98%	15,024,432	437,022	2.91%
Total	255,836,423	12,731,942	4.98%	227,377,059	11,556,834	5.08%

Interest income from financial investments

In 2022, the Company's interest income from financial investments amounted to RMB5.210 billion, representing a year-on-year decrease of RMB54 million or 1.02%, mainly due to the overall decline in bond market interest rates and the corresponding decrease in bond investment interest rates, resulting in a decline in interest income from investments.

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

In 2022, the Company's interest income from deposits and placements with banks and other financial institutions amounted to RMB606 million, representing a year-on-year increase of RMB224 million or 58.81%, mainly attributable to the Company's timely adjustment of capital allocation and expansion in placements with banks in line with the interbank market conditions.

6.5 Interest Expense

In 2022, the Company's interest expense amounted to RMB11.542 billion, representing a year-on-year increase of RMB979 million or 9.26%, mainly due to the Company's expansion in deposits from customers and the increased interest expense on deposits. Interest expense on deposits from customers and bond interest payable were major components of the interest expense of the Company.

Interest expense on deposits from customers

In 2022, the Company's interest expense on deposits from customers amounted to RMB7.046 billion, representing a year-on-year increase of RMB1.060 billion or 17.70%, mainly due to the Company's expansion of the scale of deposits from customers, and the increase in the proportion of time deposits, cost of deposits and interest expense on deposits. The following table sets forth the average balance, interest expense and average cost rate of each component of the Company's deposits from customers for the periods indicated.

Unit: RMB'000

Item	2022			2021		
	Average balance	Interest expense	Average cost ratio	Average balance	Interest expense	Average cost ratio
Corporate deposits						
Demand	95,028,534	871,078	0.92%	104,086,236	956,260	0.92%
Time	97,864,297	2,752,902	2.81%	85,356,079	2,360,319	2.77%
Sub-total	192,892,831	3,623,980	1.88%	189,442,315	3,316,579	1.75%
Personal deposits						
Demand	26,815,983	77,613	0.29%	24,019,742	72,768	0.30%
Time	99,132,736	3,344,616	3.37%	73,524,161	2,597,312	3.53%
Sub-total	125,948,719	3,422,229	2.72%	97,543,903	2,670,080	2.74%
Total	318,841,550	7,046,209	2.21%	286,986,218	5,986,659	2.09%

Section V Management Discussion and Analysis

Interest expense on deposits from banks and other financial institutions

In 2022, the Company's interest expense on deposits and placements from banks and other financial institutions amounted to RMB1.243 billion, representing a year-on-year decrease of RMB7 million or 0.55%, which remained stable in general.

Interest expense on debt securities issued

In 2022, the Company's interest expense on debt securities issued amounted to RMB2.710 billion, representing a year-on-year decrease of RMB218 million or 7.44%, mainly due to the decrease in the scale of the Company's financial bonds and tier-two capital bonds issued, resulting in a decrease in interest expense on bonds payable.

6.6 Net Non-interest Income

In 2022, the Company's net non-interest income was RMB3.361 billion, representing a year-on-year decrease of RMB132 million or 3.77%, mainly due to the decrease in the Company's net fee and commission income, while other net non-interest income maintained growth. The following table sets forth the components of the Company's net non-interest income for the periods indicated.

Unit: RMB'000

Item	2022	2021
Fee and commission income	1,791,282	2,175,357
Less: Fee and commission expense	(346,152)	(220,231)
Net fee and commission income	1,445,130	1,955,126
Other net non-interest income	1,915,811	1,537,622
Net non-interest income	3,360,941	3,492,748

Section V Management Discussion and Analysis

6.7 Net Fee and Commission Income

In 2022, the Company's net fee and commission income amounted to RMB1.445 billion, representing a year-on-year decrease of RMB510 million or 26.09%, mainly due to the decrease in wealth management service fees resulting from the impact of market factors. The following table sets forth the components of the Company's net fee and commission income for the periods indicated.

Unit: RMB'000

Item	2022	2021
Fee and commission income	1,791,282	2,175,357
Of which: Wealth management service fees	859,349	1,264,544
Agency service fees	458,418	506,887
Custody and bank card service fees	319,653	228,180
Settlement fees	84,663	65,142
Financial leasing service fees	26,864	86,800
Others	42,335	23,804
Less: Fee and commission expense	(346,152)	(220,231)
Net fee and commission income	1,445,130	1,955,126

In 2022, the Company's wealth management service fees amounted to RMB859 million, representing a year-on-year decrease of RMB405 million or 32.04%, mainly due to the downturn in the market. Although the fixed management service fees increased in line with the size, staged opportunities for transaction were weaker than last year, which affected the excess performance compensation, and the overall wealth management service fees had decreased; agency service fees amounted to RMB458 million, representing a year-on-year decrease of RMB48 million or 9.56%, mainly due to decreased service fees from agency business for funds, trusts, etc.; custody and bank card service fees amounted to RMB320 million, representing a year-on-year increase of RMB91 million or 40.09%, mainly due to increased credit card service fees; settlement fees amounted to RMB85 million, representing a year-on-year increase of RMB20 million or 29.97%, mainly due to increased letters of credit fees; financial leasing service fees amounted to RMB27 million, representing a year-on-year decrease of RMB60 million or 69.05%, mainly due to leasing subsidiaries' adjustment to the charging mode of leased assets; others amounted to RMB42 million, representing a year-on-year increase of RMB19 million or 77.85%, mainly due to the increase in service fees from bond lending. Fee and commission expense amounted to RMB346 million, representing a year-on-year increase of RMB126 million, mainly due to increased service fees arising from wealth management, agricultural support and credit card business.

6.8 Other Net Non-interest Income

In 2022, the Company's other net non-interest income amounted to RMB1.916 billion, representing a year-on-year increase of RMB378 million or 24.60%, mainly due to the increase in net trading gains resulting from the increase in exchange gains and losses when the market saw exchange rate fluctuations. While the trend of the bond market was weaker than last year, leading to a lower valuation of financial investments and a drop in net gains arising from investments, which partially offset the above-mentioned impact. The following table sets forth the composition of the Company's other net non-interest income for the periods indicated.

Unit: RMB'000

Item	2022	2021
Net trading gains/(losses)	741,182	(171,489)
Net gains arising from investments	1,057,175	1,680,445
Other net operating income	117,454	28,666
Other net non-interest income	1,915,811	1,537,622

6.9 Operating Expenses

In 2022, the Company's operating expenses amounted to RMB4.218 billion, representing a year-on-year increase of RMB303 million or 7.73%, mainly because the Company strove to expand its operation and strictly controlled its expenses, and various expenses increased steadily in line with business and staff expansion. The following table sets forth the components of the Company's operating expenses for the periods indicated.

Unit: RMB'000

Item	2022	2021
Staff costs	1,958,817	1,891,637
Property and equipment expenses	819,713	741,613
Tax and surcharges	146,885	139,602
Other general and administrative expenses	1,293,026	1,142,886
Operating expenses	4,218,441	3,915,738

6.10 Credit Losses

In 2022, the Company's credit losses amounted to RMB4.289 billion, representing a year-on-year increase of RMB322 million or 8.11%. Credit losses from loans and advances to customers constituted the largest component of the credit losses. During the Reporting Period, credit losses from loans and advances to customers amounted to RMB2.636 billion, representing a year-on-year decrease of RMB474 million or 15.23%, mainly due to the fact that the Company deepened risk management and control and improved loan quality while increasing the scale of loans, resulting in a decrease in provision for impairment. In addition, the total credit loss of financial investments amounted to RMB1.32 billion, representing a year-on-year increase of RMB622 million. The credit loss of long-term receivables amounted to RMB183 million, representing a year-on-year increase of RMB97 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 credit losses for the periods indicated.

Unit: RMB'000

Item	2022	2021
Loans and advances to customers	2,636,284	3,110,029
Financial investments measured at amortised cost	1,598,896	351,302
Financial investments at fair value through other comprehensive income	(278,471)	347,477
Long-term receivables	183,238	86,472
Deposits with banks and other financial institutions	1,117	565
Placements with banks and other financial institutions	22,445	4,910
Financial assets held under resale agreements	(21,110)	12,470
Credit commitment	115,201	35,178
Others	31,228	18,568
Credit losses	4,288,828	3,966,971

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

7.1 Assets

As at the end of 2022, the Company's total assets amounted to RMB529.614 billion, representing an increase of RMB7.364 billion or 1.41% as compared with that at the end of last year. During the Reporting Period, the Company strove to improve the quality and efficiency of operations, stabilize its asset scale, optimize its asset structure, increase the proportion of high-yield assets such as loans, and reduced the proportion of low-yield assets such as deposits with central banks. The following table sets forth the components of the Company's total assets as at the dates indicated.

Unit: RMB'000

Item	31 December 2022		31 December 2021		Compared with the end of last year		31 December 2020	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Loans and advances to customers	262,518,662	49.57	238,608,698	45.69	10.02	3.88	202,358,484	44.01
Financial investments measured at fair value through profit or loss	47,259,762	8.92	55,947,254	10.71	(15.53)	(1.79)	37,250,405	8.10
Financial investments measured at fair value through other comprehensive income	96,678,701	18.25	72,613,395	13.90	33.14	4.35	66,828,002	14.53
Financial investments measured at amortised cost	58,202,665	10.99	61,422,152	11.76	(5.24)	(0.77)	74,157,602	16.13
Cash and deposits with central banks	27,825,306	5.25	53,241,394	10.19	(47.74)	(4.94)	47,219,397	10.27
Deposits with banks and other financial institutions	2,301,037	0.43	2,126,922	0.41	8.19	0.02	2,568,919	0.56
Placements with banks and other financial institutions	8,432,022	1.59	5,108,646	0.98	65.05	0.61	-	-
Financial assets held under resale agreements	-	-	12,288,925	2.35	(100.00)	(2.35)	9,726,476	2.12
Derivative financial assets	108,376	0.02	146,617	0.03	(26.08)	(0.01)	286,400	0.06
Long-term receivables	15,280,949	2.89	11,688,253	2.24	30.74	0.65	11,001,178	2.39
Property and equipment	3,466,386	0.65	3,390,193	0.65	2.25	-	3,247,768	0.71
Right-of-use assets	826,958	0.16	845,889	0.16	(2.24)	-	826,821	0.18
Deferred tax assets	3,446,343	0.65	2,505,442	0.48	37.55	0.17	2,468,017	0.54
Other assets	3,266,825	0.63	2,315,830	0.45	41.06	0.18	1,888,136	0.40
Total assets	529,613,992	100.00	522,249,610	100.00	1.41	-	459,827,605	100.00

Section V Management Discussion and Analysis

7.1.1 Loans and Advances to Customers

As at the end of 2022, the Company's loans and advances to customers amounted to RMB262.519 billion, representing an increase of RMB23.910 billion or 10.02% as compared with that at the end of last year, and accounting for 49.57% of the total assets of the Company, up by 3.88 percentage points as compared with that at the end of last year. Total loans to customers (excluding accrued interest, the same below) amounted to RMB269.029 billion, representing an increase of RMB24.824 billion or 10.17% as compared with that at the end of last year, and accounting for 50.80% of the total assets of the Company, up by 4.04 percentage points 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 and continued to improve the ability to serve the real economy. Thus, the Company recorded continuous growth in the loan scale, with an increasing proportion of the total assets. 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 2022		31 December 2021		Compared with the end of last year		31 December 2020	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Corporate loans	173,148,215	64.36	149,822,068	61.35	15.57	3.01	138,776,966	67.12
Personal loans	73,380,030	27.28	76,743,188	31.43	(4.38)	(4.15)	60,755,096	29.39
Discounted bills	22,501,207	8.36	17,640,224	7.22	27.56	1.14	7,215,159	3.49
Total loans to customers	269,029,452	100.00	244,205,480	100.00	10.17	-	206,747,221	100.00
Add: Accrued interest	598,681	/	829,555	/	(27.83)	/	899,064	/
Less: Provision for impairment on loans and advances to customers measured at amortised cost	(7,109,471)	/	(6,426,337)	/	10.63	/	(5,287,801)	/
Loans and advances to customers	262,518,662	/	238,608,698	/	10.02	/	202,358,484	/

Corporate loans

As at the end of 2022, the Company's corporate loans amounted to RMB173.148 billion, representing an increase of RMB23.326 billion or 15.57% as compared with that at the end of last year and accounting for 64.36% of the total loans to customers, representing an increase of 3.01 percentage points as compared with that at the end of last year. During the Reporting Period, the Company strove to develop its green and blue loan business, continued to strengthen its credit support for inclusive small and micro enterprises, people's livelihood support and other fields, and increased loans to commercial and trading enterprises.

Section V Management Discussion and Analysis

Personal loans

As at the end of 2022, the Company's personal loans amounted to RMB73.380 billion, representing a decrease of RMB3.363 billion or 4.38% as compared with that at the end of last year, and accounting for 27.28% of the total loans to customers, representing a decrease of 4.15 percentage points as compared with that at the end of last year. During the Reporting Period, the Company reduced Internet loans outside the province in accordance with the regulatory requirements, while personal housing loans and the credit card business grew.

Discounted bills

As at the end of 2022, the Company's discounted bills amounted to RMB22.501 billion, representing an increase of RMB4.861 billion or 27.56% as compared with that at the end of last year, and accounting for 8.36% of the total loans to customers, representing an increase of 1.14 percentage points as compared with that at the end of last year. During the Reporting Period, the Company moderately increased discounted bills with less capital consumption and low financing cost, thus achieving rapid growth in discounted bills.

7.1.2 Financial Investments

As at the end of 2022, the Company's carrying value of financial investments amounted to RMB202.141 billion, representing an increase of RMB12.158 billion or 6.40% as compared with that at the end of last year. The following table sets forth the components of the Company's financial investment portfolios as of the dates indicated.

Unit: RMB'000

Item	31 December 2022		31 December 2021	
	Amount	% of total	Amount	% of total
Financial investments measured at fair value through profit or loss	47,259,762	23.38	55,947,254	29.45
Financial investments measured at fair value through other comprehensive income	96,678,701	47.83	72,613,395	38.22
Financial investments measured at amortised cost	58,202,665	28.79	61,422,152	32.33
Total financial investments	202,141,128	100.00	189,982,801	100.00

Section V Management Discussion and Analysis

Financial investments measured at fair value through profit or loss

As at the end of 2022, the Company's carrying value of financial investments measured at fair value through profit or loss amounted to RMB47.260 billion in book value, representing a decrease of RMB8.687 billion or 15.53% as compared with that at the end of last year, mainly due to the Company's adjustment to the investment structure and reduction in the scale of public funds and asset management plans in order to increase the stability of income. The following table sets forth the components of the Company's financial investments measured at fair value through profit or loss as at the dates indicated.

Unit: RMB'000

Item	31 December 2022	31 December 2021
Debt securities issued by government and central banks	24,637	–
Debt securities issued by banks and other financial institutions	2,684,943	877,656
Debt securities issued by corporate entities	1,017,848	106,924
Investment funds	34,950,084	39,973,092
Asset management plans	7,787,802	13,488,145
Trust fund plans	791,832	1,501,437
Other investments	2,616	–
Financial investments measured at fair value through profit or loss	47,259,762	55,947,254

Financial investments measured at fair value through other comprehensive income

As at the end of 2022, the Company's carrying value of financial investments measured at fair value through other comprehensive income amounted to RMB96.679 billion, representing an increase of RMB24.065 billion or 33.14% as compared with that at the end of last year, mainly because the Company strengthened the management of the liquidity of its investments while paying attention to the operating performance by increasing the scale of debt securities issued by banks and corporate entities of relatively high yields. 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.

Section V Management Discussion and Analysis

Unit: RMB'000

Item	31 December 2022	31 December 2021
Debt securities issued by government and central banks	34,298,700	31,766,923
Debt securities issued by policy banks	7,179,615	1,075,384
Debt securities issued by banks and other financial institutions	19,761,408	11,447,917
Debt securities issued by corporate entities	33,292,034	22,697,107
Asset management plans	712,934	3,755,953
Equity investments	23,250	23,250
Other investments	–	701,504
Add: Accrued interest	1,410,760	1,145,357
Financial investments measured at fair value through other comprehensive income	96,678,701	72,613,395

Financial investments measured at amortised cost

As at the end of 2022, the Company's carrying value of financial investments measured at amortised cost amounted to RMB58.203 billion, representing a decrease of RMB3.219 billion or 5.24% as compared with that at the end of last year, mainly because the Company strengthened the management of the liquidity of its investments, and reduced the scale of asset management plans in order to increase the stability of income. The following table sets forth the components of the Company's financial investments measured at amortised cost as at the dates indicated.

Unit: RMB'000

Item	31 December 2022	31 December 2021
Debt securities issued by government and central banks	29,382,700	27,859,492
Debt securities issued by policy banks	10,720,004	9,989,948
Debt securities issued by banks and other financial institutions	8,957,230	10,543,252
Debt securities issued by corporate entities	801,917	1,073,845
Asset management plans	2,609,200	4,340,630
Trust fund plans	1,738,700	1,768,700
Other investments	6,070,640	6,080,000
Total financial investments measured at amortised cost	60,280,391	61,655,867
Add: Accrued interest	868,992	1,014,107
Less: Provision for impairment losses	(2,946,718)	(1,247,822)
Carrying value of financial investments measured at amortised cost	58,202,665	61,422,152

Section V Management Discussion and Analysis

7.2 Liabilities

As at the end of 2022, the Company's total liabilities amounted to RMB493.021 billion, representing an increase of RMB4.099 billion or 0.84% as compared with that at the end of last year. The following table sets forth the components of the Company's total liabilities as of the dates indicated.

Unit: RMB'000

Item	31 December 2022		31 December 2021		Compared with the end of last year		31 December 2020	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Deposits from customers	348,043,307	70.59	317,965,807	65.03	9.46	5.56	275,750,710	64.29
Deposits from banks and other financial institutions	6,439,660	1.31	6,341,814	1.30	1.54	0.01	17,024,732	3.97
Placements from banks and other financial institutions	17,808,095	3.61	16,904,500	3.46	5.35	0.15	12,947,575	3.02
Financial assets sold under repurchase agreements	25,634,354	5.20	25,305,596	5.18	1.30	0.02	33,099,349	7.72
Derivative financial liabilities	188,147	0.04	144,689	0.03	30.04	0.01	288,347	0.07
Borrowings from central banks	13,256,605	2.69	25,494,116	5.21	(48.00)	(2.52)	11,207,069	2.61
Income tax payable	703,876	0.14	124,032	0.03	467.50	0.11	431,921	0.10
Debt securities issued	74,866,951	15.19	92,218,300	18.86	(18.82)	(3.67)	72,834,508	16.98
Lease liabilities	515,043	0.10	505,895	0.10	1.81	–	453,671	0.11
Other liabilities	5,564,659	1.13	3,917,133	0.80	42.06	0.33	4,882,865	1.13
Total liabilities	493,020,697	100.00	488,921,882	100.00	0.84	–	428,920,747	100.00

Section V Management Discussion and Analysis

7.2.1 Deposits from Customers

As at the end of 2022, the Company's deposits from customers amounted to RMB348.043 billion, representing an increase of RMB30.078 billion or 9.46% as compared with that at the end of last year, and accounting for 70.59% of the Company's total liabilities, representing an increase of 5.56 percentage points as compared with that at the end of last year; total deposits from customers (excluding accrued interest, the same below) amounted to RMB341.347 billion, representing an increase of RMB27.822 billion or 8.87% as compared with that at the end of last year, and accounting for 69.24% of the Company's total liabilities, representing an increase of 5.11 percentage points as compared with that at the end of last year. During the Reporting Period, the Company continued to strengthen its market expansion, and, therefore, deposits from customers grew and their fundamental position in the source of operating funds was further consolidated. 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 2022		31 December 2021		Compared with the end of last year		31 December 2020	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Corporate deposits	193,629,694	56.73	202,889,723	64.71	(4.56)	(7.98)	183,447,242	67.38
Demand deposits	91,660,860	26.86	118,280,119	37.73	(22.51)	(10.87)	111,491,369	40.95
Time deposits	101,968,834	29.87	84,609,604	26.98	20.52	2.89	71,955,873	26.43
Personal deposits	147,328,169	43.16	110,430,522	35.22	33.41	7.94	88,339,315	32.45
Demand deposits	29,571,148	8.66	29,923,260	9.54	(1.18)	(0.88)	22,899,499	8.41
Time deposits	117,757,021	34.50	80,507,262	25.68	46.27	8.82	65,439,816	24.04
Outward remittance and remittance payables	389,102	0.11	80,246	0.03	384.89	0.08	428,585	0.16
Fiscal deposits to be transferred	211	-	124,432	0.04	(99.83)	(0.04)	16,342	0.01
Total customer deposits	341,347,176	100.00	313,524,923	100.00	8.87	-	272,231,484	100.00
Add: Accrued interests	6,696,131	/	4,440,884	/	50.78	/	3,519,226	/
Deposits from customers	348,043,307	/	317,965,807	/	9.46	/	275,750,710	/

As at the end of 2022, personal deposits accounted for 43.16% of the total customer deposits, representing an increase of 7.94 percentage points as compared with that at the end of last year; corporate deposits accounted for 56.73% of total customer deposits, representing a decrease of 7.98 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 2022, the Company's deposits from banks and other financial institutions amounted to RMB6.440 billion, representing an increase of RMB98 million or 1.54% as compared with that at the end of last year, mainly because the Company strengthened its interbank liability management, with the proportion of the scale of deposits from banks and other financial institutions in total liabilities remaining basically stable.

Section V Management Discussion and Analysis

7.2.3 Financial Assets Sold under Repurchase Agreements

As at the end of 2022, the Company's financial assets sold under repurchase agreements amounted to RMB25.634 billion, representing an increase of RMB329 million or 1.30% as compared with that at the end of last year, mainly because the Company strengthened its interbank liability management, with the proportion of the scale of financial assets sold under repurchase agreements in total liabilities remaining basically stable.

7.2.4 Borrowings from Central Banks

As at the end of 2022, the Company's borrowings from central banks amounted to RMB13.257 billion, representing a decrease of RMB12.238 billion or 48.00% as compared with that at the end of last year, mainly due to the maturity of part of re-lending or rediscounting to small and micro enterprises as well as medium-term lending facilities.

7.2.5 Debt Securities Issued

As at the end of 2022, the Company's debt securities issued amounted to RMB74.867 billion, representing a decrease of RMB17.351 billion or 18.82% as compared with that at the end of last year, mainly due to the maturity of part of financial bonds issued by the Company in previous periods and the redemption of tier-two capital bonds. For details of the bonds, please refer to "34. Debt Securities Issued under Notes to the Financial Statements" of this annual report.

7.3 Equity Attributable to Shareholders

As at the end of 2022, the shareholders' equity of the Company amounted to RMB36.593 billion, representing an increase of RMB3.266 billion or 9.80% as compared with that at the end of last year; equity attributable to equity shareholders of the Bank amounted to RMB35.816 billion, representing an increase of RMB3.181 billion or 9.75% as compared with that at the end of last year, mainly due to the replenishment of capital by the Company through capital operations, such as A share and H share rights issue, redemption of preference shares and issuance of perpetual bonds, and due to the increase in retained earnings and reserves. During the Reporting Period, the Company distributed RMB931 million dividends to ordinary shareholders and RMB510 million to preference shareholders. The following table sets forth the components of the Company's shareholders' equity as of the dates indicated.

Unit: RMB'000

Item	31 December 2022	31 December 2021
Share capital	5,820,355	4,509,690
Other equity instruments		
Of which: Preference shares	–	7,853,964
Perpetual bonds	6,395,783	–
Capital reserve	10,687,634	8,337,869
Other comprehensive income	83,726	746,499
Surplus reserve	2,388,248	2,103,883
General reserve	6,618,047	5,576,461
Retained earnings	3,822,519	3,507,129
Total equity attributable to equity shareholders of the Bank	35,816,312	32,635,495
Non-controlling interests	776,983	692,233
Total equity	36,593,295	33,327,728

8. ANALYSIS OF THE CASH FLOW STATEMENT

In 2022, the net cash flows generated from operating activities amounted to RMB-1.675 billion, representing a decrease of RMB4.680 billion from last year, mainly due to the reduction in net cash flows of RMB26.351 billion resulting from borrowings from central banks and the increase in net cash flows of RMB22.752 billion resulting from financial assets held under resale agreements and sold under repurchase agreements. Among them, cash outflows generated from operating assets decreased by RMB15.287 billion and cash inflows generated from operating liabilities decreased by RMB20.368 billion.

The net cash flows generated from investing activities amounted to RMB-10.267 billion, representing a year-on-year decrease of RMB5.817 billion, mainly due to an increase in payments on acquisition of investments of RMB11.674 billion, and an increase in proceeds from disposal and redemption of investments of RMB5.201 billion.

The net cash flows generated from financing activities amounted to RMB-19.449 billion, representing a year-on-year decrease of RMB34.481 billion, mainly due to an increase in the cash paid for debt repayment of RMB23.993 billion and a decrease in net proceeds from debt securities issued of RMB11.878 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	2022		2021	
	Segment operating income	Ratio (%)	Segment operating income	Ratio (%)
Corporate banking	5,894,085	50.60	5,995,169	53.82
Retail banking	2,301,218	19.75	2,235,658	20.07
Financial markets	2,933,302	25.18	2,542,273	22.82
Un-allocated items and others	520,650	4.47	365,273	3.29
Total	11,649,255	100.00	11,138,373	100.00

Unit: RMB'000

Item	2022		2021	
	Segment profit before taxation	Ratio (%)	Segment profit before taxation	Ratio (%)
Corporate banking	1,460,230	46.56	1,028,559	31.89
Retail banking	527,519	16.83	657,239	20.38
Financial markets	904,424	28.84	1,325,693	41.10
Un-allocated items and others	243,786	7.77	213,919	6.63
Total	3,135,959	100.00	3,225,410	100.00

10. ANALYSIS OF ASSETS AND LIABILITIES

10.1 Significant Changes in Major Assets

10.1.1 Significant Changes in Major Assets

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

10.1.2 Major Overseas Assets

Not applicable.

10.2 Assets and Liabilities Measured at Fair Value

Unit: RMB'000

Major item	31 December 2021	Changes in fair value included in profit or loss for the current period	Cumulative changes in fair value recognised in equity	Impairment provided during the current period	31 December 2022
Financial investments measured at fair value through profit or loss	55,947,254	(1,327,559)	N/A	N/A	47,259,762
Loans and advances measured at fair value through other comprehensive income	17,640,224	N/A	(36,436)	14,401	22,694,130
Financial investments measured at fair value through other comprehensive income	72,613,395	N/A	(60,881)	(278,471)	96,678,701
Derivative financial assets	146,617	(38,241)	N/A	N/A	108,376
Derivative financial liabilities	(144,689)	(43,458)	N/A	N/A	(188,147)

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

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

11. ANALYSIS OF QUALITY OF LOANS

During the Reporting Period, the Company continued to strengthen the 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) was RMB269.029 billion; total non-performing loans amounted to RMB3.247 billion; and the non-performing loan ratio was 1.21%. 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 2022		31 December 2021	
	Amount	% of total	Amount	% of total
Normal loan	263,563,488	97.97	238,428,347	97.63
Special mention loan	2,218,483	0.82	2,515,230	1.03
Substandard loan	1,252,410	0.46	1,563,381	0.64
Doubtful loan	822,032	0.31	1,429,220	0.59
Loss loan	1,173,039	0.44	269,302	0.11
Total loans to customers	269,029,452	100.00	244,205,480	100.00
Total non-performing loans	3,247,481	1.21	3,261,903	1.34

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 0.13 percentage point as compared with that at the end of last year to 1.21%, where substandard loans fell by 0.18 percentage point to 0.46% from the end of last year, doubtful loans fell by 0.28 percentage point to 0.31% from the end of last year, and loss loans increased by 0.33 percentage point to 0.44% from the end of last year.

11.2 Distribution of Loans by Product Type

Unit: RMB'000

Item	31 December 2022		31 December 2021	
	Amount	% of total	Amount	% of total
Corporate loans	195,649,422	72.72	167,462,292	68.57
Working capital loans	116,039,075	43.13	90,853,050	37.20
Fixed asset loans	56,731,865	21.09	54,827,929	22.45
Import and export bills transactions	184,352	0.07	4,141,089	1.70
Discounted bills	22,501,207	8.36	17,640,224	7.22
Forfeiting	192,923	0.07	–	–
Retail loans	73,380,030	27.28	76,743,188	31.43
Personal housing loans	46,459,431	17.28	45,937,206	18.81
Personal consumption loans	16,931,630	6.29	19,015,201	7.79
Personal business loans	9,988,969	3.71	11,790,781	4.83
Total loans to customers	269,029,452	100.00	244,205,480	100.00

11.3 Distribution of Loans by Industry

Unit: RMB'000

Item	31 December 2022		31 December 2021	
	Amount	% of total	Amount	% of total
Corporate loans	195,649,422	72.72	167,462,292	68.57
Construction	36,870,337	13.70	28,960,161	11.86
Manufacturing	30,836,317	11.46	33,331,662	13.65
Wholesale and retail trade	27,177,633	10.10	20,430,787	8.37
Water conservancy, environment and public utility management	24,242,353	9.01	20,997,541	8.60
Renting and business services	22,197,699	8.25	20,453,934	8.38
Real estate	21,744,001	8.08	21,257,028	8.70
Financial services	13,558,837	5.04	7,721,467	3.16
Transportation, storage and postal services	5,031,283	1.87	3,859,235	1.58
Production and supply of electric, heating power, gas and water	4,837,379	1.80	3,783,905	1.55
Scientific research and technical services	2,788,039	1.04	2,218,078	0.91
Others	6,365,544	2.37	4,448,494	1.81
Retail loans	73,380,030	27.28	76,743,188	31.43
Total loans to customers	269,029,452	100.00	244,205,480	100.00

11.4 Distribution of Loans by Region

Unit: RMB'000

Region	31 December 2022		31 December 2021	
	Amount	% of total	Amount	% of total
Shandong Province	269,029,452	100.00	244,205,480	100.00
Of which: Qingdao City	149,899,130	55.72	139,440,339	57.10

11.5 Distribution of Loans by Type of Collateral

Unit: RMB'000

Item	31 December 2022		31 December 2021	
	Amount	% of total	Amount	% of total
Unsecured loans	52,463,310	19.50	54,080,566	22.15
Guaranteed loans	56,725,873	21.09	49,142,728	20.12
Mortgage loans	104,787,862	38.95	94,014,190	38.50
Pledge loans	55,052,407	20.46	46,967,996	19.23
Total loans to customers	269,029,452	100.00	244,205,480	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	Renting and business services	2,159,000	0.80
B	Renting and business services	2,030,000	0.75
C	Renting and business services	1,900,000	0.71
D	Culture, sports and entertainment	1,775,000	0.66
E	Renting and business services	1,700,000	0.63
F	Renting and business services	1,653,900	0.61
G	Manufacturing	1,647,452	0.61
H	Renting and business services	1,622,315	0.60
I	Construction	1,598,000	0.59
J	Renting and business services	1,497,076	0.58
Total		17,582,743	6.54

11.7 Distribution of Loans by Overdue Period

Unit: RMB'000

Overdue period	31 December 2022		31 December 2021	
	Amount	% of total	Amount	% of total
Not yet overdue	264,863,448	98.45	241,449,166	98.87
Overdue for 3 months (inclusive) or less	1,572,648	0.59	990,946	0.41
Overdue for over 3 months to 1 year (inclusive)	1,779,981	0.66	557,398	0.23
Overdue for over 1 year to 3 years (inclusive)	453,854	0.17	907,074	0.37
Overdue for over 3 years	359,521	0.13	300,896	0.12
Total loans to customers	269,029,452	100.00	244,205,480	100.00

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

11.8 Repossessed Assets and Provision for Impairment

As at the end of the Reporting Period, the Company had no repossessed assets.

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.

Section V Management Discussion and Analysis

The Company re-measures expected credit losses at the end of each reporting period. In addition, the Company regularly reviews a number of key parameters and assumptions involved in the process of determining impairment provision based on the expected credit loss model, including probability of default, loss rate of default and other parameter estimations, as well as forward-looking adjustment and other adjustment factors. The changes in the Company's provision for impairment of loans are detailed in the following table.

Unit: RMB'000

Item	2022	2021
Balance at the beginning of the year	6,439,606	5,302,582
Provision for the year	2,636,284	3,110,029
Write-offs for the year	(2,046,387)	(2,496,161)
Recovery of write-offs for the year	122,818	539,709
Other changes	(15,180)	(16,553)
Balance at the end of the year	7,137,141	6,439,606

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 RMB7.137 billion, representing an increase of RMB698 million or 10.83% as compared with that at the end of last year. The provision coverage ratio reached 219.77%, representing an increase of 22.35 percentage points as compared with that at the end of last year; the provision rate of loans stood at 2.65%, representing an increase of 0.01 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 its high-quality development, implemented the refined dynamic management of various asset quality indicators, effectively combined real-time dynamic management with the routine management mechanism, strengthened dynamic management and classified and hierarchical management, continuously improved risk management and control efficiency, and strictly controlled new non-performing assets. The Bank constantly strengthened its capability to operate non-performing assets, focused on quality and efficiency improvement, optimized its disposal strategy for non-performing assets, and promoted the orderly management of non-performing assets. The Company strengthened the disposal of existing non-performing assets by carrying forward its work comprehensively, making breakthroughs in key areas, broadening disposal channels and methods, and taking various measures simultaneously, which enhanced the income contribution and achieved good results. As at the end of the Reporting Period, the Company achieved a double decline of the non-performing loan amount and the non-performing loan ratio, and the asset quality continued to improve steadily.

11.11 Credit Extension to Group Customers and Risk Management

The Company established a management system and credit management information system in line with characteristics of the risk management for the credit granting business to group customers. The Company stipulated risk management system for the credit granting business to group customers according to its operation and management needs, including organizational construction of risk management for the credit granting business to group customers, specific measures for risk management and prevention, the standard for ensuring scope of an individual group customer, the standard of credit limit to an individual group customer, internal reporting procedures, allocation of internal responsibilities, etc.

The Company adhered to the principles of “unified credit granting, appropriate limits, classified management, real-time monitoring, and lead bank system” in extending credit to group customers, and continuously enhanced the control of the entire process of credit extension to group customers. Firstly, it implemented unified management for credit extension to group customers, standardized the unified identification of group customers and related information exchange management by 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, according to the level of risks of group customers and its own risks commitment capacity, it properly determined the general credit limit to group customers to prevent the concentration of credit risks. Fourthly, based on the requirements of risk control, it conducted centralized control over credit limit to group customers. Fifthly, it adopted a leading bank system for credit extension to group customers, with the leading 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 management and control. Sixthly, it implemented unified risk statistics and risk monitoring for group customers, standardized the internal risk information sharing mechanism, continuously improved the risk warning mechanism, and timely prevented and resolved credit risks of group customers.

11.12 Rescheduled Loans

Unit: RMB'000

Item	31 December 2022		31 December 2021	
	Amount	% of total	Amount	% of total
Rescheduled loans	133,287	0.05	275,588	0.11
Total loans and advances to customers	269,029,452	100.00	244,205,480	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 0.05%, which decreased by 0.06 percentage point as compared to the end of last year.

12. LIABILITY QUALITY ANALYSIS

The Company places emphasis on the liability quality management, and has formulated, based on the Measures for Liability Quality Management of Commercial Banks issued by the CBIRC, the Measures for Liability Quality Management of Bank of Qingdao, which has established a more scientific and reasonable liability quality management system, and defined the responsibilities of liability quality management of the Board of Directors, senior management and relevant departments.

The Company has strengthened the management on the sources, structure and costs of liabilities. First, the Company adheres to the volume and price balanced development of the general deposit business, promotes the steady growth of the deposit size to consolidate the liability base. Second, the Company keeps a reasonable and sufficient liquidity level across the Bank to reduce the liability costs across the Bank. Third, the Company adheres to the principle of initiative and foresight, and dynamically adjusts the total amount, structure and pricing of the liability business across the Bank in combination with regulatory policies, the market environment and its asset-liability allocation strategies.

In 2022, the liability quality of the Company remained sound with all indicators within a reasonable range. As at the end of 2022, the Company's net stable funding ratio was 108.27% and the Company's liquidity coverage ratio was 122.83%. Both of them complied with the requirements of the CBIRC. In 2022, the Company's net interest margin was 1.76%, representing a year-on-year decrease of 0.03 percentage point; the cost rate of interest-bearing liabilities was 2.37%, representing a year-on-year decrease of 0.01 percentage point; and the average cost ratio of deposits from customers was 2.21%, representing a year-on-year increase of 0.12 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 carry out more capital-saving transactions and transactions with 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)》) issued by the CBIRC and other relevant regulatory provisions. The on-balance sheet risk-weighted assets are calculated with different risk weights determined in accordance with each asset, credit of the counterparty, market and other relevant risks and by considering the effects of qualified pledge and guarantee. The same method is also applied to the calculation of off-balance sheet exposure. Market risk-weighted assets are calculated with the standard approach, and the operational risk-weighted assets are calculated with the basic indicator approach. During the Reporting Period, the Company's capital adequacy indicators complied with the capital requirements prescribed by the regulators.

As at the end of the Reporting Period, the Company's capital adequacy ratio was 13.56%, representing a decrease of 2.27 percentage points as compared with that at the end of last year, mainly due to the exercise of redemption option for tier-two capital bonds of RMB5 billion; the core tier-one capital adequacy ratio stood at 8.75%, representing an increase of 0.37 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. In terms of capital replenishment, the Company raised net proceeds of RMB4.155 billion through A share and H share rights issue to replenish its core tier-one capital, issued RMB6.4 billion perpetual bonds to replenish other tier-one capital, and further improve its capacities on risk resistance and supporting the development of the real economy.

Section V Management Discussion and Analysis

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

Unit: RMB'000

The Company	31 December 2022	31 December 2021
Total core tier-one capital	30,003,939	25,220,636
Of which: Share capital	5,820,355	4,509,690
Qualifying portion of capital reserve	10,687,634	8,337,869
Other comprehensive income	83,726	746,499
Surplus reserve	2,388,248	2,103,883
General reserve	6,618,047	5,576,461
Retained earnings	3,822,519	3,507,129
Qualifying portion of non-controlling interests	583,410	439,105
Core tier-one capital deductions	(834,333)	(309,651)
Net core tier-one capital	29,169,606	24,910,985
Other tier-one capital	6,473,571	7,912,511
Net tier-one capital	35,643,177	32,823,496
Tier-two capital	9,569,041	14,251,730
Net capital base	45,212,218	47,075,226
Total risk-weighted assets	333,440,925	297,412,693
Of which: Total credit risk-weighted assets	276,517,007	253,908,512
Total market risk-weighted assets	36,098,490	23,947,036
Total operational risk-weighted assets	20,825,428	19,557,145
Core tier-one capital adequacy ratio (%)	8.75	8.38
Tier-one capital adequacy ratio (%)	10.69	11.04
Capital adequacy ratio (%)	13.56	15.83

As at the end of the Reporting Period, the capital adequacy ratio at the parent company level of the Bank was 13.12%, down by 2.35 percentage points from the end of last year; the core tier-one capital adequacy ratio was 8.20%, representing an increase of 0.41 percentage point as compared with that at the end of last year.

Section V Management Discussion and Analysis

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

Unit: RMB'000

The Bank	31 December 2022	31 December 2021
Total core tier-one capital	28,560,297	24,160,420
Of which: Share capital	5,820,355	4,509,690
Qualifying portion of capital reserve	10,687,634	8,337,869
Other comprehensive income	83,726	746,499
Surplus reserve	2,388,248	2,103,883
General reserve	6,316,926	5,409,946
Retained earnings	3,263,408	3,052,533
Core tier-one capital deductions	(2,524,326)	(1,976,884)
Net core tier-one capital	26,035,971	22,183,536
Other tier-one capital	6,395,783	7,853,964
Net tier-one capital	32,431,754	30,037,500
Tier-two capital	9,235,093	13,989,996
Net capital base	41,666,847	44,027,496
Total risk-weighted assets	317,558,522	284,616,189
Of which: Total credit risk-weighted assets	262,068,871	242,192,736
Total market risk-weighted assets	36,098,490	23,947,036
Total operational risk-weighted assets	19,391,161	18,476,417
Core tier-one capital adequacy ratio (%)	8.20	7.79
Tier-one capital adequacy ratio (%)	10.21	10.55
Capital adequacy ratio (%)	13.12	15.47

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)》 by the CBIRC, the leverage ratio of a commercial bank shall not be lower than 4%. As at the end of 2022, the Company’s leverage ratio calculated according to the “Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)” was 6.07%, higher than required by the CBIRC, up by 0.20 percentage point from the end of last year, mainly due to increased net tier-one capital from the completion of the rights issue of A shares and H shares by the Company.

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

Unit: RMB’000

No.	Item	31 December 2022	31 December 2021
1	Total consolidated assets	529,613,992	522,249,610
2	Consolidated adjustments	-	-
3	Customer assets adjustments	-	-
4	Derivative adjustments	2,280,000	2,371,999
5	Securities financing transactions adjustments	-	-
6	Off-balance sheet items adjustments	56,120,991	34,991,307
7	Other adjustments	(834,333)	(309,651)
8	The balance of assets on- and off-balance sheet after adjustments	587,180,650	559,303,265

Section V Management Discussion and Analysis

The following table sets out information of the Company's leverage ratio level, net tier-one capital, assets on- and off-balance sheet after adjustments and relevant details.

Unit: RMB'000

No.	Item	31 December 2022	31 December 2021
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	529,505,616	509,814,068
2	Less: Tier-one capital deductions	(834,333)	(309,651)
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	528,671,283	509,504,417
4	Replacement cost of various types of derivatives (net of qualified margins)	108,376	146,617
5	Potential risk exposure in various types of derivatives	2,280,000	2,371,999
6	The sum of collaterals deducted from the statement of financial position	-	-
7	Less: Assets receivables formed due to qualified margins provided	-	-
8	Less: The balance of derivative assets formed due to transactions with central counterparties for providing clearing service for the customers	-	-
9	Notional principal for sold credit derivatives	-	-
10	Less: The balance of sold credit derivatives assets which can be deducted	-	-
11	The balance of derivatives assets	2,388,376	2,518,616
12	The balance of accounting assets for securities financing transactions	-	12,288,925
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	-	12,288,925
17	The balance of items off balance sheet	56,120,991	34,991,307
18	Less: The balance of items off balance sheet reduced due to credit conversion	-	-
19	The balance of items off balance sheet after adjustments	56,120,991	34,991,307
20	Net tier-one capital	35,643,177	32,823,496
21	The balance of assets on and off-balance sheet after adjustments	587,180,650	559,303,265
22	Leverage ratio (%)	6.07	5.87

Section V Management Discussion and Analysis

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

Unit: RMB'000

Item	31 December 2022	30 September 2022	30 June 2022	31 March 2022
Leverage ratio (%)	6.07	6.24	6.45	6.63
Net tier-one capital	35,643,177	36,557,766	38,149,428	37,833,279
The balance of assets on- and off- balance sheet after adjustments	587,180,650	586,234,446	591,744,221	570,494,146

According to the "Regulatory Requirements on the Information Disclosure Regarding the Capital Composition of the Commercial Banks" (《關於商業銀行資本構成信息披露的監管要求》) issued by the CBIRC, the information concerning the capital composition, explanation on development of relevant items and the main characteristics of the capital instruments of the Company will be further disclosed in the "Investor Relations" on the website of the Bank (<http://www.qdccb.com/>).

14. INVESTMENT ANALYSIS

14.1 Overview

Unit: RMB'000

Investees	31 December 2022	31 December 2021	Percentage of shareholding in investees (%)	Cash dividend for the current year
China Unionpay Co., Ltd.	13,000	13,000	0.34	8,000
Shandong City Commercial Banks Alliance Co., Ltd.	10,000	10,000	1.14	–
Clearing Center for City Commercial Banks	250	250	0.81	–
Total	23,250	23,250	N/A	8,000

Note: The said investments were included under financial investments measured at fair value through other comprehensive income in the statement of financial position.

As at the end of 2022, for details of other information concerning the Company's investments, please refer to "7.1.2 Financial Investments" and "17. Analysis of Main Shares Holding Companies and Joint Stock Companies" under "Section V Management Discussion and Analysis" of this annual report.

14.2 Significant Equity Investments Acquired during the Reporting Period

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

14.3 Significant Ongoing Non-equity Investments during the Reporting Period

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

14.4 Financial asset investment

1. Investments in Securities

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

Unit: RMB'000

Type of Security	Investment amount	% of total investment
Government bonds	63,706,037	43.01
Debt securities issued by policy banks	17,899,619	12.09
Debt securities issued by banks and other financial institutions	31,403,581	21.20
Debt securities issued by corporate entities	35,111,799	23.70
Total	148,121,036	100.00

Section V Management Discussion and Analysis

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

Unit: RMB'000

Name of security	Nominal value	Annual interest rates (%)	Maturity date	Impairment provision
Bond 1	5,170,000.00	3.39	2050-03	152.92
Bond 2	2,840,000.00	2.69	2027-06	246.08
Bond 3	2,740,000.00	3.18	2026-09	219.38
Bond 4	2,400,000.00	2.88	2029-06	636.51
Bond 5	2,250,000.00	3.55	2040-05	589.70
Bond 6	2,130,000.00	3.12	2026-12	65.51
Bond 7	2,000,000.00	3.23	2030-03	161.45
Bond 8	2,000,000.00	2.76	2024-11	165.62
Bond 9	1,950,000.00	3.13	2029-11	60.59
Bond 10	1,700,000.00	3.07	2030-03	26.66

2. Derivative Investments

Unit: RMB'000

Item	31 December 2022			31 December 2021		
	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	55,095,380	108,376	(188,147)	50,646,662	146,617	(144,689)

- Notes:*
- 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 2022, the derivative financial instruments held by the Company included interest rate swap contracts and others.
 - 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

During the Reporting Period, the Bank completed the A share rights issue and H share rights issue. The net proceeds from the A share rights issue and H share rights issue by the Bank, less issuance expenses, had been fully used as planned to replenish the core tier-one capital of the Bank, so as to increase the capital adequacy ratio of the Bank, support the sustainable and healthy business development in the future, and enhance the capital strength and competitiveness of the Bank.

Unit: RMB0'000

Raising year	Raising method	Total proceeds	Total proceeds used during the current period	Total cumulative proceeds used	Total proceeds involved in change of use during the Reporting Period	Total cumulative proceeds involved in change of use	Proportion of total cumulative proceeds involved in change of use	Total unused proceeds	Uses and whereabouts of unused proceeds	Amount of proceeds idle for more than two years
2022	A share rights issue and H share rights issue	419,483.92	419,483.92	419,483.92	0.00	0.00	0.00%	0.00	N/A	0.00
Total	-	419,483.92	419,483.92	419,483.92	0.00	0.00	0.00%	0.00	-	0.00

Note: "Total proceeds" in the table above includes the related expenses of the share rights issues.

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 sales of substantial assets and equity.

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 RMB68.079 billion.

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 central banks, deposits from customers and securities lending. For details, please refer to "46(6) Pledged Assets under Notes to the Financial Statements" of this annual report.

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

Unit: RMB'000

Item	2022	2021	Change (%)	Main Reason
Fee and commission expense	(346,152)	(220,231)	57.18	Increase in the wealth management, agricultural aid and credit cards businesses fees
Net trading gains/(losses)	741,182	(171,489)	532.20	Increase in the exchange gains or losses from market exchange rate fluctuations
Net gains arising from investments	1,057,175	1,680,445	(37.09)	Decrease in net gains on financial investments measured at fair value through profit or loss
Other operating income	117,454	28,666	309.73	Increase in the incentives for inclusive small and micro loans
Impairment losses on other assets	(6,027)	(30,254)	(80.08)	Decrease in impairment losses on repossessed assets
Income tax expense	31,566	(232,197)	(113.59)	Increase in tax-free income from local government bonds, funds, etc., and the current income tax expense lower than the deductible deferred income tax expense
Other comprehensive income, net of tax	(662,773)	713,782	(192.85)	Decrease in change of fair value of financial assets measured at fair value through other comprehensive income

Section V Management Discussion and Analysis

Unit: RMB'000

Item	31 December 2022	31 December 2021	Change (%)	Main Reason
Cash and deposits with central banks	27,825,306	53,241,394	(47.74)	Decrease in surplus reserve deposits with central banks
Placements with banks and other financial institutions	8,432,022	5,108,646	65.05	Increase in the placements with non-inter-banks and other financial institutions
Financial assets held under resale agreements	–	12,288,925	(100.00)	Decrease in scale of bonds purchased under resale agreements
Financial investments measured at fair value through other comprehensive income	96,678,701	72,613,395	33.14	Strengthened the management of the liquidity of its investments while paying attention to the operating performance by increasing the scale of debt securities issued by banks and corporate entities of relatively high yields
Long-term receivables	15,280,949	11,688,253	30.74	Increase in the finance lease receivables of subsidiaries
Deferred tax assets	3,446,343	2,505,442	37.55	Increase in deferred tax assets arising from fair value changes and provision for asset impairment
Other assets	3,266,825	2,315,830	41.06	Increase in settlement receivable
Borrowings from central banks	13,256,605	25,494,116	(48.00)	Maturity of part of re-lending or rediscounting to small and micro enterprises as well as medium-term lending facilities
Derivative financial liabilities	188,147	144,689	30.04	Increase in fair value revaluation of liabilities for exchange rate contracts
Income tax payable	703,876	124,032	467.50	The Bank's income tax provision greater than the payable amount
Other liabilities	5,564,659	3,917,133	42.06	Increase in financial liabilities related to gold
Other equity instruments: Preference shares	–	7,853,964	(100.00)	Redemption of preference shares
Other equity instruments: Perpetual bonds	6,395,783	–	N/A	Issuance of perpetual bonds and classification as other equity instruments
Other comprehensive income	83,726	746,499	(88.78)	Decrease in change of fair value of financial assets measured at fair value through other comprehensive income

16.5 Changes in Interest Receivables

Unit: RMB'000

Item	31 December 2021	Increase during the period	Recovery during the period	31 December 2022
Loans and advances to customers	28,754	603,222	(592,166)	39,810
Long-term receivables	–	6,884	(6,884)	–
Total	28,754	610,106	(599,050)	39,810

Note: In accordance with the requirement of the “Format of the Financial Statements of Financial Enterprises for 2018” released by the Ministry of Finance, the “interest receivables” item shall only reflect the interest that has been due and can be collected but has not been received 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

Unit: RMB'000

Item	31 December 2022	31 December 2021	Change
Other receivables	199,180	138,315	60,865
Interest receivables	39,810	28,754	11,056
Less: Bad debt provision	(38,584)	(19,895)	(18,689)

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	161.41	15.86	5.12	2.33	1.73
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 CBIRC	10.00	16.37	15.55	5.78	4.62	3.45

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 has always adhered to the original mission of financial development. It has established a business model centered on “financing with goods + capital” with the economic characteristics of Qingdao City and Shandong Province, adhered to the positioning of serving entities, manufacturing, small and medium-sized enterprises, and serving “agriculture, rural areas and farmers”, as well as the concept of “based on the local, serving the local and deeply cultivating the local”. BQD Financial Leasing finds business starting points in strategic emerging industries such as advanced manufacturing, green and low carbon, and blue finance, so as to meet individual requirements of tenants in terms of purchasing equipment, promoting sales, revitalizing assets, balancing tax burdens, and improving financial structure and provide new financial leasing services such as financing, asset management, and economic consulting.

BQD Wealth Management was established on 16 September 2020, with a registered capital of RMB1.00 billion. It was registered in Qingdao, and was wholly initiated and established by the Bank. 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, and the business scope of which is public offering of wealth management products to the general public, private placement of wealth management products to eligible investors, investment and management of properties entrusted by investors, and provision of wealth management advisory and consulting services. Guided by new asset management regulations and supporting policies, 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, the retail business of the Bank relied on digital transformation, and focused on the channels of payroll credit and payment services, community finance, credit cards, etc. The Bank carried out online precise operation to promote the quality upgrade of mass customers, and pushed the offline hierarchical and group-based refined management forward, to realize the deep potential of value customers, and grow customer size and quality continuously. During the Reporting Period, the retail banking business of the Company realized operating income of RMB2.301 billion, accounting for 19.75% of the Company's operating income.

1. Retail customers and customer asset management

The Bank effectively seized market opportunities to improve the quality and efficiency of retail deposits. During the Reporting Period, the Bank seized the favorable market opportunity when customers were more willing to deposit, and continued to carry out deposit marketing activities, leading to rapid growth in retail deposits. As at the end of the Reporting Period, the balance of the Bank's retail deposits amounted to RMB147.328 billion, representing an increase of RMB36.898 billion or 33.41% as compared with that at the end of last year, and representing an increase of RMB14.806 billion as compared with the growth for last year. The proportion of retail deposits continued to increase. As at the end of the Reporting Period, the Bank's retail deposits accounted for 43.16% of the total deposits, representing an increase of 7.94 percentage points as compared with that at the end of last year, with a compound growth rate of retail deposits for the past three years reaching 31.50%.

The Bank effectively improved customer assets, and made a breakthrough in the payroll credit business. As at the end of the Reporting Period, the financial assets of retail customers held by the Bank exceeded RMB300 billion for the first time. The Bank held RMB257.410 billion monthly average daily financial assets of mid-to-high-end customers^{Note}, accounting for 86.91% of assets of retail customers. The number of mid-to-high-end customers reached 353.1 thousand, representing an increase of 53.4 thousand or 17.82% as compared with that at the end of last year, setting a historic high, which effectively stimulated the growth of financial assets. During the Reporting Period, in reliance on the public-private linkage and sector linkage, the Bank achieved a historic breakthrough in the growth of customer companies for payroll credit business, with an addition of 7,179 new customer companies for payroll credit business during the year, representing an increase of 77.48% over the same period of last year. The payroll credit business drove an increase of 160.8 thousand new customers, accounting for 29.49% of the total number of new individual customers during the year, injecting new vitality into the Bank's scale of retail business and overall development of customer base. As at the end of the Reporting Period, the Bank had 1,027 integrated agriculture-aided financial service stations opened for business, representing an increase of 519 or 102.17% as compared with that at the end of the last year; 242.0 thousand agriculture-benefit customers, representing an increase of 84.1 thousand or 53.26% as compared with that at the end of the last year; community banking served 26.126 thousand customers, representing an increase of 15.961 thousand or 157.02% as compared with that at the end of the last year.

Note: Mid-to-high-end customers refer to retail customers with monthly average daily financial assets of more than RMB200,000.

Section V Management Discussion and Analysis

Digital transformation boosts development. During the Reporting Period, the Bank adopted a digital, automated and intelligent retail intelligent marketing system to enable multi-channel access, multi-job linkage and multi-product combination, thus further promoting the Bank's retail business digital transformation and development. The Bank continued to deepen the "Qingyin YingXiaoTong (青銀營銷通)" APP scenario application, and provided the hall marketing-related performance dashboard to provide retail managers with process supervision and management tools. The Bank actively built up a "Data Lab", continued to promote the standardized retail data management, and gradually implemented omni-channel precision marketing. During the Reporting Period, the Bank formulated a total of 155 standardized indicators for retail customer groups and scales, and the data analysis and application provided data support for business development. During the Reporting Period, the Bank added 27 business functions, such as WeChat Banking and mobile phone real-name authentication, which effectively improved the business handling efficiency and further enhanced customers' financial service experience.

2. Retail loans

During the Reporting Period, the Bank innovated and developed inclusive finance, built a brand of self-operated Internet loans, and steadily developed individual housing loans, resulting in a continuous increase in loan income. As at the end of the Reporting Period, the balance of the Bank's retail loans (including credit card) was RMB73.380 billion, representing a decrease of RMB3.363 billion or 4.38% compared with the end of last year. During the Reporting Period, the Bank realized retail loan interest income of RMB3.957 billion, representing an increase of RMB327 million or 9.02% year on year, and the retail loan average yield increased by 0.05 percentage point year on year.

Innovated and developed inclusive finance. 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", promoted process and product innovation, and launched the "non-principal repayment loans (無還本續貸)" function for personal inclusive loans to reduce the financing costs of borrowers. The Bank handled non-principal repayment loans for more than RMB460 million throughout the year. The Bank expanded and promoted the online inclusive loan product of "Hairong Breeding Loan", with a total of RMB228 million issued during the Reporting Period and a credit balance of RMB108 million as at the end of the Reporting Period. As at the end of the Reporting Period, the balance of personal inclusive loans was RMB10.029 billion.

Created a self-operated Internet loan brand. During the Reporting Period, the Bank vigorously developed the self-operated Internet loan "Hairong Yidai", launched "Hairong Yidai – Convenient Loans" for residents in the province, and continuously optimized products such as "Rural Revitalization Loan" and "Easy Loans for Stores", thereby forming a relatively complete self-operated Internet loan product series. During the Reporting Period, Hairong Yidai issued nearly 6,000 loans with a total amount of RMB531 million. As at the end of the Reporting Period, the Hairong Yidai balance was RMB247 million, while the balance of Internet loans was RMB10.432 billion, of which 85.63% was granted in the province, and the proportion represented an increase of 25.29 percentage points as compared with that at the end of last year.

Personal housing loans developed steadily. Due to the lack of market demand during the Reporting Period, the growth of personal housing loans slowed down as compared to previous years. As at the end of the Reporting Period, the balance of the Bank's personal housing loans was RMB46.459 billion, representing an increase of RMB522 million or 1.14% as compared with that at the end of last year.



In April 2023, the Bank was invited to send a staff choir to participate in a performance during the award ceremony for 2022 Qingdao Financial Industry Serving the High-quality Development of the Real Economy – Credit Business Competition and the 2023 Year of Consolidation and Improvement event.

3. Credit card business

The Bank's credit card business strengthened the customer-acquiring capacity building through its own channels, optimized the customer base structure, continuously promoted product and service upgrades, and effectively enhanced customer experience. As at the end of the Reporting Period, the Bank issued 650.8 thousand new credit cards, and the cumulative number of credit cards issued reached 3.6524 million, representing a year-on-year increase of 21.68%. The credit card overdraft amounted to RMB11.951 billion, representing a year-on-year increase of 34.57%. During the Reporting Period, the Bank realized the credit card transaction amount of RMB78.507 billion, representing a year-on-year increase of 42.70%. The operating income of the credit card business was RMB936 million, representing a year-on-year increase of 49.28%.

Continuously enhanced the customer-acquiring ability and optimized the customer base structure. While consolidating the existing cooperation channels, the Bank strengthened its own customer acquisition capacity building. During the Reporting Period, the Bank issued a total of 339.9 thousand cards through its own channels, accounting for 52.23% of all new cards issued during the year. Focusing on key nodes such as activation after card issuance, the Bank continuously improved key indicators such as the activation rate. During the Reporting Period, the overall activation rate reached 51.27%, representing a year-on-year increase of 3.35 percentage points, and the direct sales channel activation rate reached 82.36%, representing a year-on-year increase of 8.07 percentage points. The number of active customers increased significantly.

Promoted product and service upgrades, and effectively improved customer experience. The Bank continued to promote product innovation and enrich credit card types. During the Reporting Period, the Bank launched its first platinum credit card "Car Owner's Card", effectively expanding the high-end customer base. The Bank continuously enriched its products and services, and connected customers with local high-frequency online consumption scenarios to achieve precise customer management. The Bank realized the seamless connection between online ordering and scenario payment, effectively enhancing customer experience, increasing customer stickiness and consolidating the customer base.

4. Wealth management and private banking business

The wealth management and private banking business of the Bank adhered to the "customer-centered, market-oriented" business service concept, strengthened the advantages of the wealth management business, and improved the wealth management operation system. The Bank focused on strengthening its service capability building for high-end customers, devoted in-depth efforts on target customers, continuously built professional service teams, drove a steady increase in the number of customers and asset size, and optimized its business revenue structure. As at the end of the Reporting Period, there were 57,336 retail customers with assets under management of over RMB1 million, representing an increase of 7,871 or 15.91% as compared with that at the end of last year. The assets managed by the Bank totaled RMB132.624 billion, representing an increase of RMB18.664 billion or 16.38% as compared with that at the end of last year. During the Reporting Period, the Bank realized wealth management service fees and commission income of RMB274 million, including the income from agency for insurance of RMB102 million, representing an increase of 59.96%.

5. Customer service management

The Bank promoted service management and user experience around the concept of "good service is good marketing". First, the Bank conscientiously implemented the "customer group strategy" to deepen its services continuously for making profit, effectively give play to its service marketing capability, and help the retail business acquire customers. Second, the Bank focused on AI-empowered user experience, built a new forum for online service digital experience, and fully realized the online 7*24 intelligent text robot service on its official website, and in online banking, mobile banking and WeChat Banking, thus further improving its digital operation capability. The Bank actively innovated and applied RPA (robot process automation) to consumer rights protection management, and explored a new digital consumer rights protection mode. Third, the Bank improved its service management capability as the core of service level improvement, promoted "decentralization" of service management, focused on user's preferences, and created a new form of "cordial and natural" and "flexible and polite" service experience. In 2022, the Bank's net promoter score (NPS) continued to grow, maintaining a high user reputation. Fourth, the Bank took the implementation of consumer rights protection supervision policy as the service management lifeline, actively responded to customers' "urgency, difficulties, worries and expectations", and promoted the effective customer experience traceability improvement. In 2022, the Bank was granted the "Five-Star Diamond Award", the highest award in the global service field for seven consecutive years.

18.2 Corporate Banking

During the Reporting Period, the Bank focused on technology empowerment, product innovation, customer base expansion and structural optimization, and strengthened process management, and the coordinated collaboration among the head office, branches and sub-branches, seized assets, adjusted the structure, launched products, and focused on customers. The corporate banking made precise efforts and focused on both quantity and quality, thus achieving remarkable results. During the Reporting Period, corporate banking realized operating income of RMB5.894 billion, accounting for 50.60% of the Company's operating income.

1. Corporate deposits

Adhering to the positioning as a bank corporation and strengthening the advantages of livelihood financial business. The Bank consolidated its deposit base through customer base building. As at the end of the Reporting Period, the balance of corporate deposits (excluding accrued interest) was RMB193.630 billion, accounting for 56.73% of the balance of various deposits (excluding accrued interest). Specifically, the corporate demand deposits amounted to RMB91.661 billion, accounting for 47.34% of the balance of corporate deposits, and corporate time deposits amounted to RMB101.969 billion, accounting for 52.66% of the balance of corporate deposits. The average cost ratio of corporate deposits was 1.88%. During the Reporting period, the average daily deposits from corporate customers of the Bank was RMB192.893 billion, representing an increase of RMB3.451 billion or 1.82% as compared with that at the end of last year; the average daily deposits from strategic customers at headquarters level was RMB82.820 billion, representing an increase of RMB11.551 billion or 16.21% as compared with that at the end of last year; the average daily deposits from listed and to-be-listed customers were RMB12.942 billion, representing an increase of RMB2.533 billion or 24.33% as compared with that at the end of last year.

2. Corporate loans

Striving against the odds and seizing high-quality assets. During the Reporting Period, the Bank strengthened marketing promotion in key industries and key areas, and increased its credit support. The balance of corporate loans (including discounted bills and excluding accrued interest) was RMB195.649 billion, representing an increase of RMB28.187 billion or 16.83% compared with that at the end of last year, and accounting for 72.72% of the total loans (excluding accrued interest). The Bank fully implemented the new development concept, accelerated the cultivation of green and low-carbon financial products, and focused on building a blue-finance brand. The Bank increased its support for the construction of new infrastructure such as livelihood projects, key projects and information technology, strengthened credit investment in high-end advanced manufacturing industries such as rail transportation, effectively met the credit needs of private enterprises and small, medium and micro inclusive enterprises. The Bank continued to support strategic emerging industries, increased its support for foreign trade import and export enterprises and supply chain finance, and continuously improved the financial service capability to support the real economy. Meanwhile, the Bank promoted the agricultural supply side structural reform, fully served the rural revitalization, and coordinated the development scale, asset quality, economic benefits and social responsibilities, thus continuing to promote asset structure optimization and high-quality business development.

With the spirit of undertaking responsibilities, the Bank fully supported the development of the real economy. The Bank effectively implemented two policy tools, and extended the repayment time whenever possible for relevant inclusive small and micro customers in accordance with the market-oriented principles. The Bank continued to carry out special actions to cultivate the "first loan" for small and micro enterprises, and increased the proportion of small and micro enterprises in first-time borrowers. As at the end of the Reporting Period, the number of small and micro enterprises which were granted inclusive loans to small and micro enterprises¹ amounted to 50.4 thousand, representing an increase of 7.2 thousand from the end of last year. The balance of inclusive loans to small and micro enterprises was RMB27.125 billion, representing an increase of RMB5.119 billion or 23.26% as compared with that at the end of last year. The non-performing ratio of inclusive loans to small and micro enterprises was 1.04%, and the weighted average interest rate was 4.55%. The Bank completed the assessment of the "dual increase and dual control" of the CBIRC. The balance of agriculture-related loans was RMB48.476 billion, representing an increase of RMB1.534 billion or 3.27% as compared with that at the end of last year.

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

3. Corporate customers

Resolutely promoting the “the basic management and grass-roots management strategy”, and achieving remarkable results in customer base building. The Bank clarified the business positioning of “serving all kinds of customer groups”. As at the end of the Reporting Period, the total number of corporate customers which had opened accounts with the Bank amounted to 206.9 thousand, representing an increase of 27.2 thousand or 15.14% as compared with that at the end of last year; effective customers with annual average daily deposits of more than RMB10,000 amounted to 74.2 thousand, representing an increase of 12.3 thousand or 19.87% as compared with that at the end of last year; valuable customers with annual average daily deposits of more than RMB500,000 amounted to 11.6 thousand, representing an increase of 1,344 or 13.07% as compared with that at the end of last year; institutional customers amounted to 3,403, representing an increase of 256 or 8.13% as compared with that at the end of last year; listed or to-be-listed customers amounted to 408, representing an increase of 21 or 5.43% as compared with that at the end of last year; and hygiene and health customers amounted to 3,313, representing an increase of 633 or 23.62% as compared with that at the end of last year.

Continuously deepening the expansion of transaction banking customers, and significant improving its international business capability. The Bank strengthened the construction of basic customer groups for the international business. As at the end of the Reporting Period, there were 2,212 international business customers, representing an increase of 709 or 47.17% as compared with that at the end of last year. During the Reporting Period, the international settlement volume of the Bank amounted to US\$10.570 billion, which exceeded the US\$10 billion mark and represented an increase of 70.68%. The international business capability improved significantly. As at the end of the Reporting Period, the Bank had 1,983 supply chain finance customers, representing an increase of 972 or 96.14% as compared with that at the end of last year, and 4,626 effective cash management customers, representing an increase of 1,865 or 67.55% as compared with that at the end of last year.

4. Corporate products

Strengthened innovation-driven growth and technology empowerment, and digital transformation took effect. The Bank actively advanced product innovation and promoted loan products such as “Shi Yi Loan (食宜贷)”. The Bank launched the first digital RMB supply chain business in Qingdao, and issued the first pledge loan for new energy project CCER future income rights in Shandong Province. The project of “creating the world’s first blue asset classification standard” won the first place in Qingdao Financial Innovation Award, the “Digital Supply Chain Financial Service Platform” was awarded “China Digital Inclusive Finance Innovation Award in 2021”, and the case was selected into the “Science Innovation China” list of financial technology and digital transformation innovation achievements in 2022. The Bank’s intelligent marketing management platform for corporates won the “2022 Outstanding Contribution Award for Financial Industry Digital Transformation” at the China Financial Technology Annual Conference.



18.3 Financial Markets

During the Reporting Period, as for the financial markets, the Bank optimized investment and liability structure, improved investment quality and efficiency, and effectively reduced financing costs. With business innovation and risk control as guarantees, the Bank continued to improve organizational structure and internal control management, constantly strengthened the system, mechanism and team building work, gave full play to the advantages of its qualifications as a bank corporation, and continuously expanded the depth and breadth of the national inter-bank market and investment banking business. The scale of wealth management products of the Bank developed steadily, with stable net value of products as well as fruitful channel development and brand building. During the Reporting Period, the Company's financial market business achieved operating income of RMB2.933 billion, accounting for 25.18% of the Company's operating income.

1. Proprietary investment

During the Reporting Period, the Bank's financial investment maintained steady growth. As at the end of the Reporting Period, the balance of proprietary investment (excluding accrued interest) increased by RMB16.612 billion or 9.05% year on year to RMB200.175 billion, of which bond investment (excluding accrued interest) was RMB145.490 billion, representing a year-on-year increase of RMB33.560 billion or 29.98%; RMB34.950 billion investments in public fund products, representing a year-on-year decrease of RMB5.023 billion or 12.57%; RMB13.640 billion non-underlying investment assets, representing a year-on-year decrease of RMB11.215 billion or 45.12%; and RMB6.071 billion other debt financing products, representing a year-on-year decrease of RMB711 million or 10.48%.

During the Reporting Period, the Bank responded to regulatory orientation, focused on market changes, continued to optimize the investment structure, actively participated in market transactions, adhered to the principle of light-capitalization development, increased total assets while controlling the capital consumption ratio, strengthened the swing trading of standardized assets, and improved comprehensive profitability. First, the Bank implemented regulatory policies, maintained a stable growth in total financial investments, and controlled incremental indirect investments and non-standard investments, where asset investment transitioned from entrusted management to independent management. Second, the Bank saw active market transactions and steady growth in the underwriting of policy financial bonds and local bonds, with the volume of closed spot bond transactions ranking high among city commercial banks. Third, it reduced capital occupation. While steadily raising the total investments, the Bank maintained the proportion of risk-weighted assets in financial investments at a low level. Fourth, the Bank strengthened government finance to enhance support for the real economy and continuously improve the stability of profitability. During the Reporting Period, investments in local government bonds and mid-to-high-grade corporate credit bonds were the major incremental segments. While maintaining the risk level, it achieved growth in bond yields and an increase in the proportion of fixed-income assets, and the ability to resist market risks was significantly enhanced. Fifth, the Bank strengthened financial innovation. While improving investment and transaction levels, the Bank continuously promoted product and service innovation, provided products and innovative services for various business lines, further advanced the development of customer-driven forward settlement and sale of foreign exchange business to meet the needs of corporate customers for hedging exchange rates, and performed well in providing quotations to customers and flat-plate market transactions.

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 five consecutive years and is a member of the local government bond underwriting syndicate in Shandong Province and Qingdao City. In July 2022, the Bank obtained the qualification for securities investment fund custody issued by the China Securities Regulatory Commission.

2. Interbank business

The interbank liabilities of the Bank are reasonably matched. During the Reporting Period, the balance of its issued negotiable certificates of deposit was RMB64.620 billion, accounting for 62.75% of interbank liabilities and 13.11% of total liabilities. The balance of RMB interbank deposits was RMB4.785 billion, accounting for 4.64% of interbank liabilities and 0.97% of total liabilities. Specifically, the balance of interbank time deposits was RMB2.805 billion, accounting for 58.62%, and the balance of interbank demand deposits was RMB1.980 billion, accounting for 41.38%.

During the Reporting Period, the Bank completed the issuance of RMB6.4 billion of undated capital bonds, and the issuance interest rate set a new benchmark for similar products of city commercial banks. The Bank was among the primary dealers in the open market of the People's Bank of China for five consecutive years and was the only local bank corporation in the province that had obtained such qualification. The Bank was re-elected as the Core Dealer in the Local Currency Market, and awarded the Excellent NCD Issuer and the X-Repo Annual Innovation Award. The Bank was awarded one of Top 100 Self-operated Settlement Banks by China Central Depository & Clearing Co., Ltd., and was honored with the 2022 EIBC Award for Excellent Underwriter of Domestic RMB Financial Bonds.

3. Asset management

In 2022, the Company's wealth management business achieved steady development. The net value of the wealth management products was stable, and the wealth management size reached a new high again. The balance of wealth management products and the balance investment assets from wealth management products both exceeded RMB200 billion. The Bank's product innovation kept pace with the times with effective channel development and brand building, and a higher market position than before.

The product operation was stable and the profitability was steady. As at the end of the Reporting Period, the Bank had 679 wealth management products with a balance of RMB200.815 billion, up by 19.67% as compared with that at the end of last year. During the Reporting Period, the Company issued 508 wealth management products which were all net-worth non-capital guaranteed wealth management products, for a total of RMB678.085 billion; and the Company earned RMB859 million fee and commission income from wealth management products.

As at the end of the Reporting Period, the balance of the Company's investment assets from wealth management products was RMB211.295 billion. The assets mainly were directly and indirectly invested in fixed income, non-standardized debt, public fund products, and capital market assets. This included RMB174.512 billion fixed income assets, accounting for 82.59%, RMB11.436 billion non-standardized debt assets, accounting for 5.41%, RMB10.683 billion public fund products, accounting for 5.06% and RMB14.664 billion capital market assets, accounting for 6.94%.

Continuously enriching the product portfolios and improving the brand image. The Company issued new wealth management products of various types such as "fixed income+", hybrid, equity, private equity and other types, and the product portfolios were continuously enriched and improved. Compared with the end of last year, the number of cooperation agencies doubled, the proportion of wealth management funds from off-bank channels continued to increase, and the professional and characteristic brand image of BQD Wealth Management was further consolidated. During the Reporting Period, BQD Wealth Management, a wholly-owned subsidiary of the Bank, won the Golden Bull Award for Social Responsibility in the Selection of the 3rd China Banking Wealth Management Golden Bull Award, which was sponsored by China Securities Journal, and the "Brilliant Life Series RMB Personal Wealth Management Plan Open Net Worth (Odd-weekly opened C)" product under its management won the "Golden Bull Award for Banking Wealth Management Products". In the "Financial Management Capability Ranking of 276 China Banks" issued in the fourth quarter of 2022 by PY Standard, BQD Wealth Management's comprehensive financial management ability ranked fifth among city commercial wealth management institutions, and its overall ranking and individual rankings had topped in Shandong Province for a long time.

4. Investment banking

The Bank has continuously consolidated its comprehensive business capabilities in the investment banking field, with its brand influence increasing year by year. During the Reporting Period, the Bank's issued products covered three major product lines, i.e. debt financing instruments, wealth management direct financing instruments and debts financing plans, involving a total issuance amount of RMB42.793 billion; and RMB30.751 billion was underwritten by the Bank, achieving steady development. Among which, 49 debt financing instruments with an issuance amount of RMB33.874 billion and RMB21.832 billion were underwritten by the Bank. There were 37 non-standard products issued with an issuance amount of RMB8.919 billion.

During the Reporting Period, the Bank ranked first in underwriting medium-and long-term debt financing instruments (excluding short-term financings and ultra-short term financings) in Shandong Province, and several projects obtained the best prices against comparable projects, which fully reflected the Bank's competitive edge in the market-oriented bond business. During the Reporting Period, the Bank successfully issued 2 bills for sci-tech innovation enterprises, 4 project income bills and 1 green debt financing instrument. The Bank actively used innovative bond varieties to give full play to the investment business advantages, and successfully used less capital consumption to meet the low-cost and personalized financing needs of high-quality large enterprises, which increased customer stickiness.

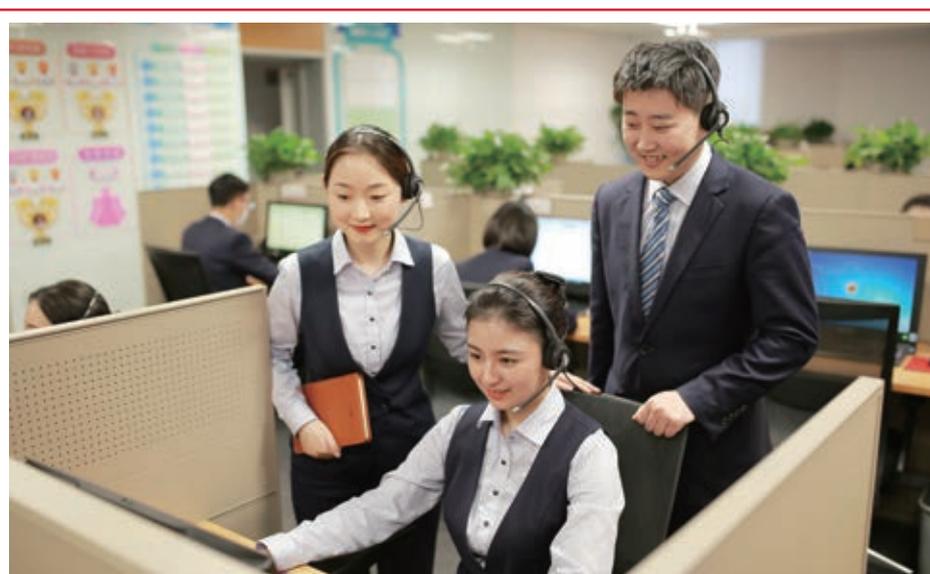
18.4 Distribution Channels

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 180 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 102 sub-branches. The Bank's controlling subsidiary BQD Financial Leasing and wholly-owned subsidiary BQD Wealth Management are headquartered in Qingdao.

2. Self-service banking channels

As at the end of the Reporting Period, the Bank had 104 in-bank self-service banks and 419 self-service machines, including 18 automated teller machines (ATM), 276 self-service cash deposit and teller machines (CTM) and 125 self-service terminals providing services including withdrawal, deposit, transfer, account inquiry, and payment. As at the end of the Reporting Period, the Bank completed 5,886.3 thousand self-service banking transactions for a total amount of RMB19.304 billion.



The Rainbow in the Air Commando Team (空中彩虹突擊隊) of the customer service center of the Bank was awarded the title of "Qingdao Youth Commando Team (青島市青年突擊隊)".

3. 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, and strove to create smooth and convenient transaction processes for users. During the Reporting Period, the Bank implemented the five service scenarios of mobile banking for five customer groups (elders, students, small and micro business owners and private banking customers) through the application of digital capabilities, reshaped the “My” module from the differential demands of customers, and gradually realized the transition from “customers looking for transaction services” to “proactively providing services to customers” through functions such as the “Green Payroll (青薪通)” payroll credit system.

During the Reporting Period, with the increase in the number of retail customers, the number of users of the Bank’s mobile banking service was in constant and rapid growth. The number of existing mobile banking users reached 4.5787 million, representing an increase of 711.3 thousand or 18.39% as compared with that at the beginning of the year. The transaction amount totaled RMB402.544 billion, representing a decrease of 5.51% as compared with that in the same period of last year.

As at the end of the Reporting Period, the total sales of wealth management products on the mobile banking channel were RMB434.968 billion. The proportion of sales of wealth management products on the mobile banking channel to that in the whole channel reached 92.69%, representing an increase of 2.69 percentage points as compared with that in the same period of last year.

(2) Internet banking

As at the end of the Reporting Period, the number of personal online banking customers totaled 742.9 thousand, representing an increase of 0.03% as compared with that at the end of last year, and accumulated a total of 28,696.2 thousand transactions, representing a decrease of 11.43% as compared with that in the same period of last year. Total transaction amounted to RMB187.557 billion, representing a decrease of 18.85% as compared with that in the same period of last year. During the Reporting Period, mobile finance continued to develop steadily, customers relied more on mobile banking, and personal online banking transactions continued to decrease.

As at the end of 2022, the number of online retail banking customers totaled 202.1 thousand, representing an increase of 21.09% as compared to the end of last year. During the Reporting Period, the Bank accumulated a total of 21,396.4 thousand transactions, representing a year-on-year increase of 9.16%. Total transaction amounted to RMB2,133.229 billion, representing a year-on-year increase of 8.80%. As the number of corporate Internet banking customers increased, the amount of transfers and the number of transactions also increased.

(3) Internet loan business

As at the end of the Reporting Period, the balance of Internet loans of the Bank was RMB10.432 billion, including consumer loans of RMB4.002 billion and business loans of RMB6.430 billion. In 2022, the Bank vigorously developed the self-operated Internet loan “Hairong Yidai”, launched “Hairong Yidai – Convenient Loans” for residents in the province, and continuously optimized products such as “Rural Revitalization Loan” and “Easy Loans for Stores”. During the Reporting Period, the number of the Internet loans issued by the Bank was 970.1 thousand, totaling RMB13.174 billion, and the number of customers was 763.0 thousand.

18.5 Information technology

During the Reporting Period, the Bank continued to promote its technological innovation strategy, continuously increased investment in Fintech resources, strengthened top-level design, established the Digital Strategy Transformation Committee, actively explored the practical application of new concepts and new technologies, and strove to build a complete financial technology support and innovation system, which contributed to the continuous enhancement of digital operation, digital management and digital risk control capabilities, and advanced the digital transformation.

1. Two-way integration of technology and business created a new stage of integration

During the Reporting Period, the Bank launched 50 IT projects. It successfully completed the implementation of 54 projects such as the “corporate intelligent marketing management platform project”, “Mobile Banking 6.0”, and “intelligent monitoring platform”. Driven by technological innovation, the Bank intensified research on new technologies and independent research and development, and strengthened the independent controllability of key technologies, so as to comprehensively enhance the business value of Fintech in channel expansion, scenario services, product innovation, process optimization, and risk identification.

The Bank successively implemented two corporate digital projects, namely “intelligent corporate marketing management platform” and “corporate online business hall”. Data-driven decisions were made with the provision of one-stop online services, initially forming an online and offline integrated operation system. The Bank continued to upgrade the construction of mobile financial channels and the digital marketing system, promoted the multiple channel collaborative construction to quickly introduce products such as platinum credit cards for car owners, Nanyin wealth management, private equity wealth management, Lexin installment (樂信分期樂), and FinVolution Paipaidai (信也拍拍貸), which further enriched the retail business product system and comprehensively accelerated the digital retail transformation. The Bank officially launched the “Qingyin Tax E Loan” business, continuously improved online international business products and services, and introduced online supply chain products such as Qingyin E Chain. The Bank improved the product system of the self-operated Internet business “Hairong Yidai”. A number of projects such as the “retail intelligent marketing platform” and the “corporate online business hall” won industry awards.

2. The Bank continuously improved and established a comprehensive digital risk control system

The “Unified Credit Granting and Credit Risk Consolidated Management System at Group Level” was successfully launched, realizing the overall network management and integrated operation of the credit business, marking a milestone leap in comprehensive risk management. The Bank focused on the construction of “Smart Credit Phase II” and the “Group Intelligent Warning Project” to embed risk decision-making and risk warning into the whole process of the credit business. The Bank completed the upgrade of “big data cluster products”, comprehensively upgraded the big data cluster base, realized the access of 9 sets of applications and more than 100 sets of data sources, and revitalized data assets. The “Eagle Eye 360 Intelligent Risk Monitoring Platform” won the First Class Prize of “2022 Excellent Financial Technology Project in Qingdao”.



3. The Bank consolidated the foundation to ensure the continuous safe and stable operation of the business system

During the Reporting Period, the Bank successfully completed the network security protection during major events such as the “Beijing Winter Olympics” and “20th National Congress Meeting”. It established and improved the information technology system, strengthened the self-examination of information technology risks, as well as identified and promptly dealt with various hidden risks, so as to form a closed-loop risk management. It strengthened outsourcing risk management to improve the quality of information technology outsourcing services continuously. By establishing a normalized monitoring mechanism, it strengthened network security monitoring, early warning and handling to consolidate the foundation of information technology risk management comprehensively, so as to ensure the reliable, stable, continuous and efficient operation of the information system.

19. STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

The structured entities controlled by the Company are mainly certain asset-backed securities initiated by the Company and certain asset management plans invested by the Company. Please refer to “47(4) Consolidated Structured Entities under Notes to the Financial Statements” of this annual report.

20. RISK MANAGEMENT

20.1 Credit Risk Management

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. By taking the following measures, the Company achieved continuous optimization of various asset quality indicators and continuous improvement of its credit risk management capability, thus ensuring the Bank’s high-quality development.

1. Continuously improved the risk management structure and coordinated the promotion of comprehensive risk management. The Company set up a risk management department to coordinate the promotion of comprehensive risk management, continuously optimize the comprehensive credit risk management system covering the Bank and consolidated institutions, and strengthen the risk management guidance and supervision of branches and subsidiaries, thus striving for a unified risk culture in the group. The Company strengthened the unified credit management and consolidation management, continuously optimized the group’s management and control plan and measures for the credit concentration, and ensured that the group’s overall credit concentration risk was safe and controllable. The Company consolidated the implementation foundation of the expected credit losses method, optimized the implementation efficiency and the management level, and continuously improved the comprehensive risk management and control ability at the group level.
2. Strengthened the refined management of quality indicators and continuously optimized credit asset quality. The Company implemented the refined dynamic management of various asset quality indicators, strengthened the pre-assessment and analysis of the trends of risk migrations and changes, and enhanced pre-processing capabilities for risk signals. The Company strengthened the management of maturing loans and overdue loans, increased the cash recovery ratio of non-performing assets, and continued to include loans overdue for more than 60 days in the non-performing loan management, so as to achieve a double decline of the non-performing loan amount and the non-performing loan ratio, and realize the management and control target.
3. Conducted graded supervision to consolidate the basic work of pre-loan investigation, loan review and post-loan inspection and continuously strengthened risk management and control in key areas. The Company constantly consolidated the foundation of “pre-loan investigation, loan review and post-loan inspection”, strictly implemented the “post-credit granting inspection” mechanism, and implemented differentiated post-loan management measures to improve the post-loan management accuracy and effectiveness. The Company established a long-term mechanism for risk investigation, and strengthened risk monitoring in key areas and key customers to track and correct any problems identified in time. The Company optimized the credit business operation process, centrally managed the granting part of high-risk credit business, and improved the credit management quality and efficiency.

Section V Management Discussion and Analysis

4. Implemented monetary policy to promote green finance and continuously optimized credit resources allocation. The Company vigorously supported the work of ensuring six priorities and stability in six areas, and continued to focus on key areas such as advanced manufacturing finance, private inclusive finance, green finance, marine finance and fin-tech, to maintain stable and orderly real estate financing and steady total credit growth. The Bank gave priority to green credit projects, strictly controlled the credit granted to “industries of high pollution and high energy consumption and industries with overcapacity”, and actively provided financing support to enterprises that meet the standard of China Green List. The Company actively carried out mortgage financing business for pollution emission rights and carbon emission rights, and ensured the financial support for grain production and storage, provided financial services for secure energy supply. The Company issued a series of green financial service plan, such as “Implementation Plan on Promoting Green Finance and Increasing Financial Support for Carbon Emission Reduction”, and constantly improved the green credit risk management and control mechanism.
5. Promoted the intelligent risk management and control system construction and continuously improved the digital credit management. The Company completed the “intelligent, comprehensive and unified credit risk management and control project”, took unified credit granting as the core, and built a unified credit limit management and control system covering all institutions, customers, assets and the full process life cycle. The Company actively built the group’s digital credit risk warning platform based on big data, 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, further improved the risk warning technological level and accelerated the digital transformation process of risk management.

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 is the risk that the Company is unable to obtain sufficient funds on a timely basis at a reasonable cost in order to sustain its asset growth or pay debts due or other payment obligations. The Company’s liquidity risk management adheres to the principles of comprehensiveness, prudence and forward-looking, which better adapts to the existing development stage of the Company. Currently, the Company’s liquidity risk management policies and systems meet 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. Based on its development strategy, the Company continuously improved its level of liquidity risk management and measures, strengthened its capability of identifying, monitoring, measuring and refining the management and control of liquidity risks, and maintained a reasonable balance between liquidity and profitability.

The Company has established a liquidity risk management governance structure according to the principle of the segregation of the formulation, implementation and supervision of its liquidity risk management policies, specifying the roles, responsibilities and reporting lines of the Board, the Board of Supervisors, senior management, special committees and the relevant departments of the Bank in liquidity risk management in order to enhance the effectiveness thereof. The Company has established a prudent risk appetite in respect of liquidity risks, which better suits the current development stage of the Company. The current liquidity risk management policy and system meet the regulation requirements and its own management needs.

The Company measures, monitors, and identifies liquidity risks from the perspectives of short-term provision and term structure of assets and liabilities, closely monitors every indicator of the quota according to fixed frequency and conducts regular stress tests to evaluate its ability to meet liquidity requirements under extreme conditions. In addition, the Company has enacted a liquidity emergency plan and would conduct tests and evaluations thereon on a regular basis.

Section V Management Discussion and Analysis

The Company holds a sufficient amount of liquid assets to ensure the satisfaction of its liquidity needs and at the same time has sufficient capital to meet the unexpected payment needs that may arise from daily operation. Furthermore, the Company's internal control system for liquidity risk management is sound and compliant. The Company conducts internal special audits on liquidity risks annually and prepares and submits an independent audit report to the Board.

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

1. Moderately increased investment in qualified high-quality bonds and maintained sufficient liquidity reserves;
2. Actively promoted the steady growth of deposits with the proportion of deposits steadily increasing and the stability of liabilities further 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, made capital arrangements in advance, 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 on a quarterly or ad hoc basis in light of changes in the external operating environment, regulatory requirements, the Company's business characteristics and complexity;
6. Comprehensively revised the relevant administrative measures for liquidity risk management to further standardize the functional division of relevant business departments; adjusted and improved the liquidity risk limit system and warning system; and enhanced the operability of contingency measures.

Section V Management Discussion and Analysis

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

Unit: RMB'000

Item of liquidity coverage ratio	31 December 2022	31 December 2021
Qualified and high-quality current assets	90,470,924	99,172,073
Net cash outflows in next 30 days	73,656,093	55,237,499
Liquidity coverage ratio (%)	122.83	179.54

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

Unit: RMB'000

Item of net stable funding ratio	31 December 2022		30 September 2022	
	The Company	The Bank	The Company	The Bank
Available stable funding	304,721,619	300,069,741	299,881,081	295,823,722
Required stable funding	281,453,132	262,224,044	283,094,294	264,013,293
Net stable funding ratio (%)	108.27	114.43	105.93	112.05

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

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

20.3 Market Risk Management

Market risk is a risk that any change in the value of financial instruments due to any change in interest rates, exchange rates and other market factors may result in potential losses to future earnings or future cash flows. 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 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. At the same time, the Company established management targets for the economic value change index, and continuously monitored the operation of the index to ensure that the interest rate risk level of the banking book was constantly optimized.

Section V Management Discussion and Analysis

20.3.2 Analysis of interest rate sensitivity

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

Unit: RMB'000

Item	31 December 2022 (Decrease)/ Increase	31 December 2021 (Decrease)/ Increase
Change in annualized net interest income		
Interest rate increase by 100 bps	(831,337)	(801,362)
Interest rate decrease by 100 bps	831,337	801,362

Unit: RMB'000

Item	31 December 2022 (Decrease)/ Increase	31 December 2021 (Decrease)/ Increase
Change in annualized equity		
Interest rate increase by 100 bps	(2,782,794)	(1,699,289)
Interest rate decrease by 100 bps	3,051,735	1,861,377

Section V Management Discussion and Analysis

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

1. Regardless of subsequent changes after the reporting date, the analysis is based on the static gap at the end of the Reporting Period;
2. In measuring the effect of changes in interest rates on the group's net interest income, all assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature in the beginning of the respective periods;
3. Interest rates on deposits with central banks and on demand deposits deposited and absorbed 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; and
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 held in the Company's banking books. The Company controls the exchange rate risks of bank accounts 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 decreased significantly, and the exchange rate risk level was controllable.

Section V Management Discussion and Analysis

20.3.4 Analysis of exchange rate sensitivity

The following table sets forth the results of the analysis of exchange rate sensitivity based on the current assets and liabilities on 31 December 2022 and 31 December 2021.

Unit: RMB'000

Item	31 December 2022 (Decrease)/ Increase	31 December 2021 Increase/ (Decrease)
Change in annualized net profit and equity		
Foreign exchange rate increase by 100 bps	(10)	9,313
Foreign exchange rate decrease by 100 bps	10	(9,313)

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 point 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 end of the Reporting Period is based on the assumption of exchange rates movement over the next 12 months since the end of the Reporting Period;
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 increases or decreases 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 inadequate or problematic internal procedures, employees, information technology systems, and external events. The Company's operational risk mainly arises from four types of risk factors, including personnel risk, process risk, information system risk and external event risk.

The Company focuses on preventing systematic operational risks and heavy losses from operational risks. The Board explicitly sets an acceptable operational risk level and supervises the senior management's monitoring of and evaluation on the adequacy and effectiveness of the internal control system; the senior management works out systematic systems, processes and methods and adopts corresponding risk control measures according to the acceptable risk level determined by the Board, so as to prevent and control operational risks in a comprehensive manner.

During the Reporting Period, the Company actively implemented the internal and external requirements for operational risk management by improving the operational risk management system, effectively identifying, assessing, monitoring and 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. Assessment and monitoring of operational risks. The Bank upgraded operational risk management tools, monitored operational risks in an all-round way with the comprehensive use of system monitoring, risk investigation, internal inspection and line supervision, regularly conducted operational risk and control self-assessment for key processes, and collected, analyzed and warned against key indicators and loss of data, so as to block all operational risks comprehensively.
2. Prevention against external fraud risks. The Bank continued to optimize the anti-fraud system for services, and strengthened the control of counter and credit fraud risks, so as to continuously improve the accuracy and real-time performance of fraud risk control. The Bank also promoted the digital transformation of risk control and improved the quality and efficiency of risk monitoring.
3. Further construction of the information system. The Bank increased the application of information innovation technology, improved the level of automatic operation and maintenance, and identified multiple automatic operation and maintenance scenarios by sorting out the daily operation and maintenance work tasks, so as to comprehensively reduce the labor and system operation risks of the data center.
4. Improved services continuity management. The Bank continued to promote service continuity management by enhancing the construction of the emergency response system and establishing risk management plans, organized service continuity drills, and improved the ability of relevant personnel to respond to emergencies and work collaboratively.
5. Further prevention against outsourcing risks. The Bank improved the outsourcing risk management system by strictly reviewing the access of outsourcing projects and service providers, increasing the control of outsourcing personnel, strictly controlling the daily 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 2023, China's various policies will continue to take effect and the economy is expected to see a moderate recovery. Consumption recovery will become a vital power supporting the economic growth, and infrastructure investment and manufacturing investment are also expected to experience rapid growth. Shandong Province and Qingdao City will maintain steady and promising economic growth with improved quality development. In the coming year, the fiscal policies will be proactive and help improve efficiency and stabilize the growth; the monetary policies will be precise and powerful, and the money supply and the monetary structure will matter a great deal. The trend of stricter regulation will remain unchanged, financial support in key areas will be strengthened, and the overall operation of the banking industry is stable.

21.2 Development Guiding Ideology for the New Year

In 2023, the Bank will focus on the high-quality economic and social development of Shandong Province and Qingdao City with "consolidating the strength and making up for the weakness, serving the real economy, governing the risks and standardizing the management" as its basic operating guiding ideology. It will persist in strengthening the advantages and making up for the shortcomings, fully improve its ability to serve the real economy, insist on strengthening risk management and control, and standardizing the management. Constantly giving priority to quality and efficiency, and continuously building up the headquarters, Bank of Qingdao will start a new chapter of the high-quality development.

Consolidating the strength and making up for the weakness: The Bank will adhere to the business development strategy of strengthening the advantages, making up for the shortcomings, filling in the gaps and adjusting the structure. While strengthening the people's livelihood finance and other advantageous businesses, and comprehensively strengthen its ability to serve the real economy and complement the international business capability. While deepening the development of core customers, the Bank will fully explore the micro, small and medium-sized customers. While maintaining the steady growth of its mortgage business, the Bank will fully expand consumer loans and business loans.

Serving the real economy: The Bank will resolutely implement the guiding spirit of the 20th National Congress on "focusing on the real economy" by adhering to the principle of serving the real economy and the market positioning of serving the local economy, closely focusing on the replacement of old growth drivers with new growth drivers in Shandong Province, the strengthening of the provincial manufacturing industry and the revitalization strategy of Qingdao's real economy, and increasing the supporting services for real economy industries such as manufacturing, green and low-carbon development and high and new technology.

Governing the risks: The Bank will continue to step up its efforts to resolve and dispose of the existing non-performing assets, fully grasp and balance the relationship between risk control and business development, identify markets among risks, seize assets, grow revenue and create profits among risks. While developing the business, the Bank will strictly control new non-performing assets to ensure continuously stable and promising asset quality.

Standardizing the management: The Bank will continue to formulate rules and regulations to improve the business management institutionalization and standardization, optimize and improve business systems, strengthen the implementation of regulations, and improve business operation compliance level. The Bank will continue to improve the management systems and mechanisms and the performance appraisal system, and comprehensively improve the scientific and refined level of management.

21.3 Main Work Measures for the New Year

In 2023, the Bank will focus on formulation of rules and regulations, process optimization, team building, execution improvement, technology empowerment, product innovation, customer base expansion, structural optimization, and risk control policy optimization, which will be carried out and promoted in close combination with the following nine aspects:

1. Corporate business: strengthen the lending service to serve the real economy, enhance capabilities and lay a solid foundation;
2. Retail business: expanding the scale, improve the contribution and strengthening the retail banking features;
3. Inclusive finance: actively practicing and accelerating exploration to promote rapid business development;
4. Digital transformation: accelerating the transformation pace in an all-round way, and simultaneously promoting business management;
5. Structural adjustment: building a diversified profit center to promote profit structure optimization;
6. Risk management: promoting comprehensive risk management and strengthening asset quality management and control;
7. Channel construction: continuously improving the institutional layout and promoting the transformation of small outlets;
8. Operational compliance: improving operational support capabilities and strengthening internal control compliance management;
9. Comprehensive management: leading discipline inspection with Party building, and fully improve comprehensive management.

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

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
21 February 2022	Head office of the Bank	Field research	Institutions	Liao Zhiming, Shao Chunyu from China Merchants Securities and Tenbagger Capital	Communications on the Bank's corporate banking, retail banking, wealth management and other services, 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 25 February 2022
22 February 2022	Head office of the Bank	Telephone conference	Institutions	Dai Zhifeng, Deng Meijun, Jia Jing and Yao Yubo from Zhongtai Securities and Southern Asset Management, etc.	Communications on the Bank's asset quality, capital structure and green finance, 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 25 February 2022
23 February 2022	Head office of the Bank	Telephone conference	Institutions	Shen Juan, An Na and Feng Songyue from Huatai Securities and Yinhua Fund, etc.	Communications on the business development of the Bank's leasing, wealth management and blue finance, 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 25 February 2022
24 February 2022	Head office of the Bank	Telephone conference	Institutions	Guo Qiwei, Liao Ziyuan, Liu Feiran and Xie Wenzu from TF Securities and China Securities Funds, etc.	Communications on the retail banking and the asset quality 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 25 February 2022
15 April 2022	Head office of the Bank	Telephone conference and online interaction	Institutions	Dai Zhifeng, Deng Meijun, Jia Jing and Ma Xiang from Zhongtai Securities and Guosen Securities, etc., and various investors who participated in this performance briefing through live webcast	Communications on the 2021 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 19 April 2022
20 May 2022	Head office of the Bank	Telephone conference	Institutions	Liao Zhiming, Shao Chunyu and Dai Tiantian from China Merchants Securities and Hwabao Trust, etc.	Communications on the credit allocation, 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 25 May 2022
15 June 2022	Head office of the Bank	Field research	Institutions	Mao Wei and Jiang Zhaopeng from China Southern Asset Management, Yu Yanling from Zhongtai Securities	Communications on the loan investment, customer base construction, capital planning, 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 20 June 2022
17 June 2022	Head office of the Bank	Telephone conference	Institutions	Lin Yuanyuan and Ding Huangshi from BOC Securities and CMB Wealth Management, etc.	Communications on the asset and liability layout, inclusive financial business, financial technology, 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 20 June 2022

Section V Management Discussion and Analysis

Date of reception	Place of reception	Form of reception	Type of recipient	Recipient	Major discussion points and information provided	Index of the basic particulars of the survey
23 June 2022	Head office of the Bank	Telephone conference	Institutions	Wang Yifeng and Dong Wenxin from Everbright Securities and China Life Pension, etc.	Communications on the wealth management, interest spread and interest margin, 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 27 June 2022
8 July 2022	Head office of the Bank	Telephone conference	Institutions	Liu Zhiping and Li Qingyang from Huaxi Securities and Taikang Pension, etc.	Communications on the wealth management, the credit allocation, the asset quality 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 12 July 2022
13 July 2022	Head office of the Bank	Telephone conference	Institutions	Shen Juan, An Na from Huatai Securities and Zhong Geng Fund, etc.	Communications on the redemption of offshore preference shares and credit card business 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 15 July 2022
9 September 2022	Head office of the Bank	Field research	Institutions	Dai Zhifeng, Deng Meijun from Zhongtai Securities and Fullgoal Fund, etc.	Communications on the topic of wealth management business 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 14 September 2022
2 December 2022	Head office of the Bank	Telephone conference	Institutions	Jiang Zhongyu from Guotai Junan Securities and China Universal Asset Management, etc.	Communications on the topic of assets and liabilities structure, outlet layout and wealth management business 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 December 2022

Section VI Corporate Governance

I. BASIC INFORMATION OF CORPORATE GOVERNANCE

The Bank will continue to enhance corporate governance as an important foundation to achieve sustainable and high-quality business development. During the Reporting Period, the Board of the Bank fully implemented a series of requirements of the regulatory authorities on corporate governance, focused on improving the level of corporate governance, and safeguarded the rights and interests of investors and shareholders. First, the Directors performed their duties diligently, carefully deliberated and made decisions centering on the Bank's development strategy and major operation and management issues, reflecting a high sense of responsibility and sound expertise. Second, the Bank strengthened equity management by formulating and improving the internal management system. It revised the equity management measures, equity pledge management measures, and investor relationship management measures of the Bank in accordance with the latest regulatory measures, gradually improved the management system and mechanism on its relationship with substantial shareholders and investors, and implemented the new regulations into daily work. Third, the Bank attached great importance to the management of investor relations, maintained good interaction with investors by ways including online communication, telephone communication and on-site communication, which effectively safeguarded the interests of investors, especially small and medium investors. The Bank, through careful self-examination, did not find any significant difference between the actual situation of its corporate governance and the laws, administrative regulations and the requirements under the regulatory documents issued by the CSRC regarding listed company governance. The Bank strictly complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules, and adopted the suggested best practices as set out therein as appropriate.

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

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

III. HORIZONTAL COMPETITION

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

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

4.1 Shareholders' general meeting during the Reporting Period

Session of meeting	Type of meeting	Participation percentage of investors	Date of convening	Date of disclosure	Resolutions of meeting
2021 annual general meeting	Annual general meeting	68.128598%	10 May 2022	10 May 2022	8 resolutions, such as the work report of the Board of Directors of Bank of Qingdao Co., Ltd. for 2021, the work report of the Board of Supervisors of Bank of Qingdao Co., Ltd. for 2021, the final financial accounts of Bank of Qingdao Co., Ltd. for 2021, the profit distribution plan of Bank of Qingdao Co., Ltd. for 2021, the resolution on the engagement of external auditors of Bank of Qingdao Co., Ltd. for 2022 and their remuneration, the special report on related party transactions of Bank of Qingdao Co., Ltd. for 2021, the resolution on the estimated amount of the ordinary related party transactions of Bank of Qingdao Co., Ltd. for 2022 and the resolution on the general mandate for the issue of shares by Bank of Qingdao Co., Ltd., were considered and approved.
2022 first extraordinary general meeting	Extraordinary general meeting	65.548897%	28 June 2022	28 June 2022	The resolution regarding the election of Mr. JING Zailun as an executive Director of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd. was considered and approved.

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

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

V. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Basic information

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

Name	Position	Status of office	Gender	Age	Term of office commencing on	Term of office ending on	Shareholding at the beginning of the Reporting Period (shares)	Other changes (shares)	Shareholding at the end of the Reporting Period (shares)	Reasons for changes
JING Zailun	Chairman	Incumbent	Male	53	21 July 2022	10 May 2024	-	-	-	-
	Executive Director				21 July 2022	10 May 2024	-	-	-	-
WU Xianming	Executive Director	Incumbent	Male	50	20 March 2023	10 May 2024	-	-	-	-
	President				20 March 2023	10 May 2024	-	-	-	-
LIU Peng	Executive Director	Incumbent	Male	42	2 July 2021	10 May 2024	-	-	-	-
	Vice President				30 October 2019	10 May 2024	-	-	-	-
ZHOU Yunjie	Non-executive Director	Incumbent	Male	56	9 June 2015	10 May 2024	-	-	-	-
Rosario STRANO	Non-executive Director	Incumbent	Male	59	15 June 2012	10 May 2024	-	-	-	-
TAN Lixia	Non-executive Director	Incumbent	Female	52	25 May 2012	10 May 2024	375	112	487	Rights issue
Marco MUSSITA	Non-executive Director	Incumbent	Male	63	22 December 2011	10 May 2024	-	-	-	-
DENG Youcheng	Non-executive Director	Incumbent	Male	51	27 June 2018	10 May 2024	-	-	-	-
Simon CHEUNG	Independent non-executive Director	Incumbent	Male	52	24 July 2017	10 May 2024	-	-	-	-
FANG Qiaoling	Independent non-executive Director	Incumbent	Female	47	27 June 2018	10 May 2024	-	-	-	-
Tingjie Zhang	Independent non-executive Director	Incumbent	Male	51	13 February 2020	10 May 2024	-	-	-	-
XING Lecheng	Independent non-executive Director	Incumbent	Male	60	2 July 2021	10 May 2024	-	-	-	-
ZHANG Xu	Independent non-executive Director	Incumbent	Male	53	2 July 2021	10 May 2024	-	-	-	-
YANG Fengjiang	Chief Supervisor	Incumbent	Male	58	30 March 2020	10 May 2024	500,000	150,000	650,000	Rights issue
	Employee Supervisor				26 March 2020	10 May 2024	-	-	-	-
HE Liangjun	Shareholder Supervisor	Incumbent	Male	50	15 October 2019	10 May 2024	-	-	-	-
WANG Dawei	Employee Supervisor	Incumbent	Male	49	15 May 2018	10 May 2024	-	-	-	-
MENG Xianzheng	Employee Supervisor	Incumbent	Male	55	15 May 2018	10 May 2024	370,301	111,090	481,391	Rights issue
HAO Xianjing	External Supervisor	Incumbent	Male	57	11 May 2021	10 May 2024	-	-	-	-
JIANG Xinglu	External Supervisor	Incumbent	Male	51	11 May 2021	10 May 2024	-	-	-	-
LU Kun	External Supervisor	Incumbent	Male	43	11 May 2021	10 May 2024	-	-	-	-
WANG Yu	Vice President	Incumbent	Female	55	5 September 2007	10 May 2024	500,000	150,000	650,000	Rights issue
CHEN Shuang	Vice President	Incumbent	Female	55	22 January 2017	10 May 2024	350,000	105,000	455,000	Rights issue
GUO Shaoquan	Former Chairman	Resigned	Male	60	12 May 2010	8 June 2022	500,000	150,000	650,000	Rights issue
	Former executive Director				12 May 2010	8 June 2022	-	-	-	-
WANG Lin	Former executive Director	Resigned	Male	59	31 March 2012	18 January 2023	500,000	150,000	650,000	Rights issue
	Former President				31 March 2012	18 January 2023	-	-	-	-
LU Lan	Former executive Director	Resigned	Female	58	13 December 2016	8 August 2022	380,000	114,000	494,000	Rights issue
	Former secretary to the Board				29 October 2010	8 August 2022	-	-	-	-
CHOI Chi Kin, Calvin	Former non-executive Director	Resigned	Male	44	13 December 2016	26 August 2022	-	-	-	-
Total	-	-	-	-	-	-	3,100,676	930,202	4,030,878	-

Note: During the Reporting Period, Ms. LU Lan resigned as the secretary to the Board of the Bank due to her age with effect from 8 August 2022. The Bank held the 17th meeting of the eighth session of the Board on 8 August 2022, at which it was agreed to appoint Ms. ZHANG Qiaowen, the assistant president of the Bank, as the secretary to the Board. Ms. ZHANG has obtained the qualification certificate of secretary to the Board from the Shenzhen Stock Exchange, and shall officially perform her duties from the date of approval of her qualification by the Qingdao Office of CBIRC. Mr. JING Zailun, the chairman of the Bank, shall temporarily perform the duties of the secretary to the Board before Ms. ZHANG Qiaowen officially takes office.

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

As at the latest practicable date for disclosure of this report, there was departure of Directors and senior management personnel, and there was no departure of Supervisors or dismissal of senior management personnel during their term of office of the Bank. The Directors who resigned during their term of office were GUO Shaoquan, WANG Lin, LU Lan and CHOI Chi Kin, Calvin, and the senior management personnel who resigned during their term of office were WANG Lin and LU Lan. For the reasons for the resignation of the aforesaid personnel, please refer to “Changes in Directors, Supervisors and Senior Management” in this section.

5.3 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Name	Position held	Type of change	Date of change	Reason for change
JING Zailun	Chairman, Executive Director	Newly elected	21 July 2022	–
GUO Shaoquan	Former Chairman, Former Executive Director	Resigned	8 June 2022	Resignation due to the regulation of the term of office for key positions of a bank and the approaching of retirement age
WU Xianming	Executive Director, President	Newly elected	20 March 2023	–
WANG Lin	Former Executive Director, Former President	Resigned	18 January 2023	Resignation due to the approaching of retirement age and according to organizational arrangements
LU Lan	Former Executive Director, Former Secretary to the Board	Resigned	8 August 2022	Resignation due to her age
CHOI Chi Kin, Calvin	Former Non-executive Director	Resigned	26 August 2022	Resignation as he would not be able to dedicate enough time and attention to continue with his role as a non-executive Director of the Bank due to increasing demands on time to other engagements

Note: During the Reporting Period, Ms. LU Lan resigned as the secretary to the Board of the Bank due to her age with effect from 8 August 2022. The Bank held the 17th meeting of the eighth session of the Board on 8 August 2022, at which it was agreed to appoint Ms. ZHANG Qiaowen, the assistant president of the Bank, as the secretary to the Board. Ms. ZHANG has obtained the qualification certificate of secretary to the Board from the Shenzhen Stock Exchange, and shall officially perform her duties from the date of approval of her qualification by the Qingdao Office of CBIRC. Mr. JING Zailun, the chairman of the Bank, shall temporarily perform the duties of the secretary to the Board before Ms. ZHANG Qiaowen officially takes office.

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

5.4 CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS

Mr. JING Zailun has served as the chairman of Qingdao Financial Association (青島市金融業聯合會) since March 2023.

Mr. Marco MUSSITA has ceased to be a director of Chongqing Italian Gasket Rubber & Plastic Co., Ltd. (重慶凱恩斯橡膠有限公司) since June 2022.

Mr. DENG Youcheng has ceased to be a director of Lujiazui International Trust Co., Ltd. (陸家嘴國際信託有限公司) since December 2022.

Mr. Simon CHEUNG has ceased to be the chief technology officer of Ping An Puhui Enterprise Management Co., Ltd. (平安普惠企業管理有限公司) since July 2022, and has served as the director of the small and micro ecosystem division of Ping An Puhui Enterprise Management Co., Ltd. (平安普惠企業管理有限公司) since July 2022.

Ms. Fang Qiaoling has served as an independent non-executive director of Zhongmiao Innovation Technology (Qingdao) Co., Ltd. (眾淼創新科技(青島)有限公司) since March 2023.

Mr. Tingjie ZHANG has ceased to be the managing director of Auster Capital Partners Limited since December 2022.

Mr. ZHANG Xu has served as a special researcher of the expert decision-making advisory committee of the Qingdao municipal government (青島市政府專家決策諮詢委員會) since September 2022, and has served as an external director of Weifang Rural Credit Cooperative Union (濰坊市農村信用合作社聯合社) since December 2022.

Mr. HE Liangjun has served as an executive director of Shanghai Huiyuanda Chemical Co., Ltd. (上海匯沅達化工有限公司) since March 2022, and has served as an executive director of Hainan Goodi International Trade Co., Ltd. (海南谷迪國際貿易有限公司) since June 2022.

Mr. JIANG Xinglu has ceased to be an independent director of Qingdao Eastsoft Communication Technology Co., Ltd. (青島東軟載波科技股份有限公司) since February 2023.

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

5.5 EMPLOYMENT

5.5.1 BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. Simon CHEUNG, an independent non-executive Director.

Mr. CHEUNG holds a bachelor's degree in arts majoring in computer science from the University of Wisconsin-Madison in the United States. Mr. CHEUNG has served as a director of the small and micro ecosystem division of Ping An Puhui Enterprise Management Co., Ltd. Mr. CHEUNG served as a deputy general manager of China Pingan Technology Share Limited, a director of IT architecture planning of SF Express (Group) Co., Ltd., a deputy general manager of Shenzhen Qianhai WeBank Co., Ltd., and the chief technology officer of Ping An Puhui Enterprise Management Co., Ltd.

Ms. FANG Qiaoling, an independent non-executive Director.

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

Mr. Tingjie ZHANG, an independent non-executive Director.

Mr. ZHANG holds a master's degree in business administration from the Richard Ivey School of Business at the University of Western Ontario, Canada. Mr. ZHANG served as the chief representative of the Shanghai Representative Office of Rothschild China Holdings Co., Ltd. (洛希爾中國控股有限公司), the China co-director and managing director of the Shanghai branch of Rothschild Financial Consulting (Beijing) Co., Ltd. (洛希爾財務諮詢(北京)有限公司), and the managing director of Auster Capital Partners Limited.

Mr. XING Lecheng, an independent non-executive Director.

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

Mr. ZHANG Xu, an independent non-executive Director.

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

Supervisors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Senior Management

Mr. WU Xianming, for the biography of Mr. WU, please refer to “Directors” in this section.

Ms. WANG Yu, a vice president of the Bank.

Ms. WANG holds a bachelor’s degree in economics majoring in enterprise management of Finance and Economics Institute of Tianjin, a master of business administration majoring in business administration of Tongji University in Shanghai, and is a senior economist. Ms. WANG served as the head of a sub-branch and an assistant to the President of the Bank. Prior to joining the Bank, Ms. WANG served as a staff member and a cadre of the deposit and remittance division of the Huanghai branch, a senior staff member and principal staff member of the credit card division of the Qingdao branch, and the deputy head of the high-technology park sub-branch of Bank of China.

Ms. CHEN Shuang, a vice president of the Bank.

Ms. CHEN holds a master’s degree of arts majoring in English language and literature of Shanghai International Studies University, and a master’s degree of science majoring in financial investment of the University of Edinburgh in the UK. Ms. CHEN served as an assistant to the President of the Bank. Prior to joining the Bank, Ms. WANG served as the deputy head of the Sifang sub-branch, a deputy general manager of the sales department and a manager of the international business department, and the general manager of the capital market department of CITIC Industrial Bank (now known as CITIC Bank).

Mr. LIU Peng, for the biography of Mr. LIU, please refer to “Directors” in this section.

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

Name of employee	Name of corporate shareholder	Position held in corporate shareholder	Commencement date	End date	Whether receiving remuneration in corporate shareholder’s position
ZHOU Yunjie	Haier Group (海爾集團)	Chairman of the board and chief executive officer	November 2021	To date	Yes
Rosario STRANO	Intesa Sanpaolo S.p.A.	Head of China development project	January 2020	To date	Yes
TAN Lixia	Haier Group (海爾集團)	Deputy chairman of the board and executive vice president	November 2021	To date	Yes
DENG Youcheng	Qingdao Conson Development (Group) Co., Ltd.	Deputy secretary to the party committee, director and general manager	July 2019	To date	Yes
DENG Youcheng	Qingdao Conson Industrial Co., Ltd.	Director	June 2016	To date	No
HE Liangjun	Qingdao East Steel Tower Stock Co., Ltd.	Director and secretary to the Board	April 2007	June 2025	Yes
HE Liangjun	Qingdao Hairen Investment Co., Ltd.	Supervisor	February 2014	To date	No

Section VI Corporate Governance

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

Name of employee	Name of other entity	Position held in other entity	Commencement date	End date	Whether receiving remuneration in other entity
ZHOU Yunjie	Haier Kaaosi Co., Ltd.	Chairman	June 2010	To date	No
ZHOU Yunjie	Haier Group Holding Co., Ltd.	Chairman	May 2015	To date	No
ZHOU Yunjie	Gooday Supply Chain Technologies Co., Ltd.	Chairman	August 2015	To date	No
ZHOU Yunjie	Qingdao Haier Venture & Investment Information Co., Ltd. (青島海爾創業投資諮詢有限公司)	Executive director and general manager	March 2017	To date	No
ZHOU Yunjie	Qingdao Haier Human Resources Development Co., Ltd. (青島海爾人力資源開發有限公司)	Chairman and general manager	May 2017	To date	No
ZHOU Yunjie	Qingdao Eoroom Intelligent Technology Co., Ltd.	Chairman	April 2018	December 2022	No
ZHOU Yunjie	Goodaymart (Shanghai) Investment Co., Ltd. (日日順(上海)投資有限公司)	Chairman	May 2018	To date	No
ZHOU Yunjie	Qingdao Haishang Zhicai Management Consulting Co., Ltd. (青島海商智財管理諮詢有限公司)	Executive director and general manager	July 2018	To date	No
ZHOU Yunjie	Qingdao Haier Biomedical Co., Ltd.	Director	July 2018	To date	No
ZHOU Yunjie	Qingdao Haiyunchuang Investment Holdings Co., Ltd. (青島海雲創投資控股有限公司)	Executive director	February 2019	To date	No
ZHOU Yunjie	Qingdao Haiyunchuang Investment Holdings Co., Ltd. (青島海雲創投資控股有限公司)	Executive director	February 2019	To date	No
ZHOU Yunjie	Wanlian Holdings Co., Ltd. (萬鏈控股有限公司)	Director	February 2019	To date	No
ZHOU Yunjie	Haier Kaos Ecological Technology Co., Ltd. (海爾卡奧斯生態科技有限公司)	Chairman	December 2019	To date	No
ZHOU Yunjie	COSMO IoT Technology Co., Ltd.	Director	December 2019	To date	No
ZHOU Yunjie	Qingdao Eoroom Intelligent Technology Co., Ltd.	Chairman	March 2020	To date	No
ZHOU Yunjie	Qingdao Guochuang Intelligent Home Appliance Research Institute Co., Ltd. (青島國創智能家電研究院有限公司)	Chairman	April 2020	To date	No
TAN Lixia	Zhejiang Haier Network Technology Co., Ltd. (浙江海爾網絡科技有限公司)	Director	January 2014	July 2022	No
TAN Lixia	Chongqing Haier Money Co., Ltd. (重慶海爾小額貸款有限公司)	Chairman	March 2014	To date	No
TAN Lixia	Haier Group (Qingdao) Jinying Holdings Co., Ltd.	Chairman	July 2014	To date	No
TAN Lixia	Haier Kaaosi Co., Ltd.	Director	September 2014	To date	No
TAN Lixia	Haier Group Holding Co., Ltd.	Director and general manager	May 2015	To date	No
TAN Lixia	Qingdao Haicuba Equity Investment Management Co., Ltd. (青島海立方舟股權投資管理有限公司)	Chairman	July 2015	To date	No
TAN Lixia	China Association of Women Entrepreneurs	Vice president	July 2015	To date	No
TAN Lixia	Haier Financial Factoring (Chongqing) Co., Ltd. (海爾金融保理(重慶)有限公司)	Chairman	April 2016	July 2022	No
TAN Lixia	INKON Life (Chongqing) Technology Co., Ltd. (盈康一生(重慶)科技有限公司)	Director	May 2018	To date	No
TAN Lixia	Qingdao Haier Biomedical Co., Ltd.	Chairman	July 2018	To date	No
TAN Lixia	Wanlian Holdings Co., Ltd. (萬鏈控股有限公司)	Chairman and manager	September 2018	To date	No
TAN Lixia	Qingdao Haier Biomedical Co., Ltd.	Chairman	August 2018	To date	No
TAN Lixia	The Twelfth Executive Committee of the All-China Women's Federation	Standing member	September 2018	To date	No
TAN Lixia	INKON Life Technology Co., Ltd.	Chairman	May 2019	To date	No
TAN Lixia	China International Capital Corporation Limited	Non-executive director	February 2020	To date	No
TAN Lixia	Haier Consumer Finance Co., Ltd.	Director	December 2020	September 2022	No
TAN Lixia	Beijing Zhajisong Express Co., Ltd. (北京宅急送快運股份有限公司)	Director	March 2021	To date	No

Section VI Corporate Governance

Name of employee	Name of other entity	Position held in other entity	Commencement date	End date	Whether receiving remuneration in other entity
Marco MUSSITA	OMR (China) Automotive Components Co., Ltd.	Director	June 2007	To date	Yes
Marco MUSSITA	Meccanotecnica Umbra S.p.A. (Qingdao) Mechanical Seal Co., Ltd.	Supervisor	October 2014	To date	Yes
Marco MUSSITA	Qingdao Yicai Fund Distribution Co., Ltd.	Supervisor	September 2016	September 2025	Yes
DENG Youcheng	Zhonglu Property and Casualty Insurance Co., Ltd.	Director	July 2015	To date	No
DENG Youcheng	Baiyang Industrial Investment Group Co., Ltd. (百洋產業投資集團股份有限公司)	Director	August 2020	To date	No
Simon CHEUNG	Ping An Puhui Enterprise Management Co., Ltd.	Director of Small and Micro Ecological Business Department	July 2022	To date	Yes
FANG Qiaoling	Management College of Ocean University of China	Professor and supervisor for Ph.D. candidates	January 2014	To date	Yes
FANG Qiaoling	Triangle Tyre Co., Ltd.	Independent director	June 2017	To date	Yes
FANG Qiaoling	Shandong Provincial Accounting Society	Executive council member	May 2018	To date	No
FANG Qiaoling	Chengdu LandTop Technology Co., Ltd.	Independent director	August 2021	To date	Yes
FANG Qiaoling	Zhongmiao Innovation Technology (Qingdao) Co., Ltd.	Independent director	March 20203	To date	Yes
XING Lecheng	Shandong Capital Venture Association	Vice president	March 2002	To date	No
XING Lecheng	Investment Association of China	Committee member	December 2012	To date	No
XING Lecheng	Shandong Institute of Inclusive Financial Research	Dean	August 2016	To date	No
XING Lecheng	Investment and Financing Research Center of University of Jinan (濟南大學投融資研究中心)	Director	December 2018	To date	Yes
XING Lecheng	Shandong Spark Education Technology Group Co., Ltd. (山東星火教育科技集團股份有限公司)	Independent director	December 2020	December 2023	Yes
XING Lecheng	Tiannuo Photoelectric Material Co., Ltd. (天諾光電材料股份有限公司)	Independent director	January 2021	January 2024	Yes
XING Lecheng	Shandong Laiwu Rural Commercial Bank Co., Ltd. (山東萊蕪農村商業銀行股份有限公司)	Independent director	March 2021	March 2024	Yes
XING Lecheng	Shandong Linuo Technical Glass Co., Ltd. (山東力諾特種玻璃股份有限公司)	Independent director	April 2021	April 2024	Yes
XING Lecheng	Shandong National People's Congress Standing Committee	Member	January 2023	January 2028	No
ZHANG Xu	School of Economics of Qingdao University	Professor	March 2006	To date	Yes
ZHANG Xu	Economy Development Society of China Association for Study of Foreign Economics	Committee member	November 2008	To date	No
ZHANG Xu	Qingdao Urban Economics Society	Vice president	September 2015	To date	No
ZHANG Xu	Qingdao Committee of Jiusan Society	Deputy director	December 2016	To date	No
ZHANG Xu	Qingdao CPPCC Standing Committee	Member	April 2017	To date	No
ZHANG Xu	Expert decision-making advisory committee of the Qingdao municipal government (青島市政府專家決策諮詢委員會)	Special Researcher	September 2022	September 2024	No
ZHANG Xu	Weifang Rural Credit Cooperative Union (濰坊市農村信用合作社聯合社)	External director	December 2022	To date	Yes

Name of employee	Name of other entity	Position held in other entity	Commencement date	End date	Whether receiving remuneration in other entity
HE Liangjun	Nanjing Shineng New Energy Technology Co., Ltd.	Executive director	June 2016	To date	No
HE Liangjun	Sichuan Huiyuanda Potash Fertilizer Co., Ltd.	Chairman and general manager	September 2020	To date	No
HE Liangjun	Shanghai Huiyuanda Chemical Co., Ltd. (上海匯沅達化工有限公司)	Executive director	March 2022	To date	No
HE Liangjun	Hainan Goodi International Trade Co., Ltd. (海南谷迪國際貿易有限公司)	Executive director	June 2022	To date	No
HAO Xianjing	ShineWing Certified Public Accountants	Vice president and partner	October 2009	To date	Yes
HAO Xianjing	Shandong ShineWing Engineering Management Consulting Co., Ltd.	Director	February 2015	To date	No
HAO Xianjing	Shandong Institute of Certified Public Accountants	Standing director	July 2015	To date	No
HAO Xianjing	Jinan ShineWing Certified Tax Agents Co., Ltd.	Director	April 2017	To date	No
HAO Xianjing	RemeGen Co., Ltd.	Independent director	May 2020	To date	Yes
JIANG Xinglu	Shandong Blue Economy Industrial Fund Management Co., Ltd.	General manager	January 2015	To date	Yes
JIANG Xinglu	Qingdao Yulin Fund Management Center (Limited Partnership)	Executive partner	February 2016	To date	Yes
JIANG Xinglu	Tsingtao Brewery Co., Ltd.	Independent director	June 2018	June 2024	Yes
JIANG Xinglu	Liqun Commercial Group Co., Ltd.	Independent director	May 2019	May 2025	Yes
JIANG Xinglu	Hailier Pharmaceutical Group Co., Ltd.	Independent director	August 2020	August 2023	Yes
LU Kun	Management College of Ocean University of China	Professor and supervisor for Ph.D. candidates	January 2020/ October 2021	To date	Yes

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

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

5.6 REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

Unit: RMB0'000

Name	Position	Gender	Age	Status of office	Total compensation (before tax) received from the Bank during the Reporting Period	Whether having received remunerations from the related parties of the Company
JING Zailun	Chairman, executive Director	Male	53	Incumbent	142.04	No
LIU Peng	Executive Director, vice president	Male	42	Incumbent	177.52	No
ZHOU Yunjie	Non-executive Director	Male	56	Incumbent	12.65	Yes
Rosario STRANO	Non-executive Director	Male	59	Incumbent	–	Yes
TAN Lixia	Non-executive Director	Female	52	Incumbent	12.65	Yes
Marco MUSSITA	Non-executive Director	Male	63	Incumbent	–	Yes
DENG Youcheng	Non-executive Director	Male	51	Incumbent	12.65	Yes
Simon CHEUNG	Independent non-executive Director	Male	52	Incumbent	19.12	No
FANG Qiaoling	Independent non-executive Director	Female	47	Incumbent	19.72	Yes
Tingjie ZHANG	Independent non-executive Director	Male	51	Incumbent	19.72	No
XING Lecheng	Independent non-executive Director	Male	60	Incumbent	19.72	Yes
ZHANG Xu	Independent non-executive Director	Male	53	Incumbent	19.72	No
YANG Fengjiang	Chief Supervisor, employee Supervisor	Male	58	Incumbent	183.45	No
HE Liangjun	Shareholder Supervisor	Male	50	Incumbent	7.72	Yes
WANG Dawei	Employee Supervisor	Male	49	Incumbent	199.50	No
MENG Xianzheng	Employee Supervisor	Male	55	Incumbent	176.37	No
HAO Xianjing	External Supervisor	Male	57	Incumbent	11.40	Yes
JIANG Xinglu	External Supervisor	Male	51	Incumbent	11.40	Yes
LU Kun	External Supervisor	Male	43	Incumbent	11.40	No
WANG Yu	Vice president	Female	55	Incumbent	177.22	No
CHEN Shuang	Vice president	Female	55	Incumbent	177.22	No
GUO Shaoquan	Former Chairman, former executive Director	Male	60	Resigned	121.65	No
WANG Lin	Former executive Director, former President	Male	59	Resigned	223.58	No
LU Lan	Former executive Director, former secretary to the Board	Female	58	Resigned	109.06	No
CHOI Chi Kin, Calvin	Former non-executive Director	Male	44	Resigned	6.64	Yes
Total	–	–	–	–	1,872.12	–

- Notes:*
1. The total remuneration package for certain Directors and Supervisors of the Bank for 2022 has not been finalized, but it is expected that the differences in the final remuneration will not have significant impact on the financial statements for 2022.
 2. In March 2023, the qualification of Mr. WU Xianming as an executive Director and the president of the Bank was approved by the Qingdao Office of CBIRC. Hence, Mr. WU Xianming received no remuneration for serving as a Director or senior management of the Bank during the Reporting Period.
 3. With their authorization, the emoluments of Mr. Rosario STRANO and Mr. Marco MUSSITA during the Reporting Period were waived.
 4. During the Reporting Period, Mr. JING Zailun was newly elected as the chairman and an executive Director of the Bank; Mr. GUO Shaoquan resigned as the chairman and an executive Director of the Bank; Ms. LU Lan resigned as an executive Director and the secretary to the Board of the Bank; Mr. CHOI Chi Kin, Calvin resigned as a non-executive Director of the Bank. The emoluments before tax for the Reporting Period of the above persons from the Bank were paid by the Bank according to his/her term of service on a pro-rata basis.

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

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

6.1 Information of the Board during the Reporting Period

Session of meeting	Date of convening	Date of disclosure	Resolutions of the meeting
The 10th meeting of the eighth session of the Board of Directors	23 March 2022	23 March 2022	The report on the implementation of the strategic plan of Bank of Qingdao Co., Ltd. for 2021, the special report on related party transactions of Bank of Qingdao Co., Ltd. for 2021, and the resolution on the estimated amount of the ordinary related party transactions of Bank of Qingdao Co., Ltd. for 2022 were considered and approved.
The 11th meeting of the eighth session of the Board of Directors	25 March 2022	25 March 2022	The work report of the Board of Directors of Bank of Qingdao Co., Ltd. for 2021, the president's work report of Bank of Qingdao Co., Ltd. for 2021, the final financial accounts of Bank of Qingdao Co., Ltd. for 2021, the comprehensive operation plan of Bank of Qingdao Co., Ltd. for 2022, the resolution on the 2021 annual report and its summary, results announcement of Bank of Qingdao Co., Ltd., the profit distribution plan of Bank of Qingdao Co., Ltd. for 2021, the resolution on the engagement of external auditors of Bank of Qingdao Co., Ltd. for 2022 and their remuneration, the resolution on the general mandate to issue shares of Bank of Qingdao Co., Ltd., the resolution on convening of the 2021 annual general meeting of Bank of Qingdao Co., Ltd., the social responsibility report 2021 of Bank of Qingdao Co., Ltd., and the 2021 internal control evaluation report of Bank of Qingdao Co., Ltd. were considered and approved.
The 12th meeting of the eighth session of the Board of Directors	29 April 2022	29 April 2022	The resolution on the first quarterly report of Bank of Qingdao Co., Ltd. for 2022 was considered and approved.
The 13th meeting of the eighth session of the Board of Directors	11 May 2022	–	According to the requirements of the CBIRC, the resolution on material related party transactions was considered and passed.
The 14th meeting of the eighth session of the Board of Directors	27 May 2022	–	The related resolutions submitted by the Remuneration Committee under the Board were considered and approved.
The 15th meeting of the eighth session of the Board of Directors	8 June 2022	8 June 2022	The resolution on nominating Mr. JING Zailun as a candidate for executive Director of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., the resolution on electing Mr. WANG Lin to perform the duties of the Chairman of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., and the resolution on convening of the first extraordinary general meeting of Bank of Qingdao Co., Ltd. for 2022 were considered and approved.
The 16th meeting of the eighth session of the Board of Directors	29 June 2022	29 June 2022	The resolution on the election of Chairman of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., the resolution on the adjustment to the members of the special committees of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., and the resolution on the redemption of the offshore preference shares of Bank of Qingdao Co., Ltd. were considered and approved.
The 17th meeting of the eighth session of the Board of Directors	8 August 2022	9 August 2022	The resolution on appointing Ms. ZHANG Qiaowen as the secretary to the Board of Directors of Bank of Qingdao Co., Ltd. was considered and approved.
The 18th meeting of the eighth session of the Board of Directors	24 August 2022	–	The resolution on the recovery plan (2022 Revision) of Bank of Qingdao was considered and approved.

Session of meeting	Date of convening	Date of disclosure	Resolutions of the meeting
The 19th meeting of the eighth session of the Board of Directors	26 August 2022	26 August 2022	The 2022 interim president's work report of Bank of Qingdao Co., Ltd., the resolution on the 2022 interim financial analysis report of Bank of Qingdao Co., Ltd., the resolution on the 2022 interim report and its summary, results announcement of Bank of Qingdao Co., Ltd., the 2021 substantial shareholder evaluation report of Bank of Qingdao Co., Ltd., and the resolution on the special report on storage and usage of raised funds of Bank of Qingdao Co., Ltd. for the first half of 2022 were considered and approved.
The 20th meeting of the eighth session of the Board of Directors	29 September 2022	30 September 2022	The resolution on amending the Management System for the Shares of the Bank held by Directors, Supervisors and Senior Management and their Changes of Bank of Qingdao Co., Ltd., the resolution on amending the Information Disclosure Management System of Bank of Qingdao Co., Ltd. (A+H shares), the resolution on amending the Insider Registration Management System of Bank of Qingdao Co., Ltd., and the resolution on amending the Investor Relations Management Measures of Bank of Qingdao Co., Ltd. were considered and approved.
The 21st meeting of the eighth session of the Board of Directors	28 October 2022	28 October 2022	The resolution on the third quarterly report of Bank of Qingdao Co., Ltd. for 2022 was considered and approved.
The 22nd meeting of the eighth session of the Board of Directors	28 December 2022	–	The resolution on the Administrative Measures for the Implementation of the Expected Credit Loss Method of Bank of Qingdao, the resolution on adjustment to the key parameters of expected credit loss method of Bank of Qingdao, the resolution on amending the systems relating to liquidity risk management of Bank of Qingdao, and the resolution on the recovery plan of Bank of Qingdao (December 2022 Revision) were considered and approved.

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

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

6.3 Members of the Board

As at the latest practicable date for disclosure of this report, the Board consisted of 13 Directors, including 3 executive Directors, namely JING Zailun, WU Xianming and LIU Peng; 5 non-executive Directors, namely ZHOU Yunjie, Rosario STRANO, TAN Lixia, Marco MUSSITA and DENG Youcheng; and 5 independent non-executive Directors, namely Simon CHEUNG, FANG Qiaoling, Tingjie ZHANG, XING Lecheng, and ZHANG Xu. The number of members and the composition of the Board complied with the requirements of the laws and regulations. All Directors have diversified education and culture background and occupation experience, and possess extensive professional knowledge and management experience in fields such as finance industry, corporate governance, accounting and financial management. The existing diversified composition of the Board injects different views in and facilitates the performance of the Board.

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

As at the latest practicable date for disclosure of this report, the Board comprises 13 directors, 2 of which are females. The Board targets to maintain at least the current level of female representation in 2023. The Bank has also maintained an approximately workforce 4: 6 (male: female) gender ratio in the past year (including senior management). The Board recognises that the gender diversity of the Board is achieved but can be further enhanced. The Bank will endeavour to identify suitable female candidates for future appointment to the Board and provide career development and training opportunities for our female employees to qualify them for future management and the Board positions. The Bank will continue to take steps to promote gender diversity of the Board and senior management and shall increase the proportion of female members over time when selecting and making recommendation on suitable candidates for the Board, with the ultimate goal of bringing greater gender diversity to the Board.

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

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

6.4 Changes in the Directors

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

6.5 Operation of the Board

During the Reporting Period, the Board convened a total of 14 meetings, of which 5 meetings were held in the form of on-site meetings and 9 meetings were held in the form of circulation of written resolutions. After in-depth discussion, members of the Board expressed their independent, objective and fair opinions and made scientific decisions, leveraging their professional expertise and experience, on the resolutions and reports submitted to the Board, which formed the resolutions of Board meeting. During the Reporting Period, the Board resolved on 59 major issues including the work report of the president, the report on final financial accounts, business plans, the proposal for profit distribution and material related party transactions, and considered or reviewed 61 reports, including various risk management reports, internal and external audit reports, the proposal on external audit management and its rectification report.

The Directors of the Bank have acknowledged their responsibility for preparing the financial statements of the Bank for the year ended 31 December 2022. The Directors are responsible for overseeing the preparation of financial statements for each accounting period to make sure such financial statements give a true and fair view of the financial conditions, operating results and cash flows of the Bank. In preparing the financial statements for the year ended 31 December 2022, the Directors have adopted and consistently applied applicable accounting policies, and exercised prudent and reasonable judgment.

The Board of Directors is also responsible for determining the policy for corporate governance of the Bank and has performed the duties as set out in provision A.2.1 of the Corporate Governance Code.

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

Actual attendance/Number of meetings requiring attendance													
Categories	Directors	General meetings	Board meetings				Strategy Committee	Remuneration Committee	Audit Committee	Nomination Committee	Risk Management and Consumer Rights Protection Committee	Related Party Transactions Control Committee	Network Security and Information Technology Committee
			Total	In person	By telecommunications	By proxy							
Executive Directors	JING Zailun	1/1	6/6	2/2	4/4	-	1/1	-	-	1/1	-	-	1/1
	LIU Peng	2/2	11/14	2/5	9/9	3	-	-	-	-	5/5	5/5	-
Non-executive Directors	ZHOU Yunjie	2/2	13/14	4/5	9/9	1	2/3	3/3	-	3/3	-	-	-
	Rosario STRANO	2/2	14/14	5/5	9/9	-	3/3	3/3	-	-	-	-	-
	TAN Lixia	2/2	13/14	4/5	9/9	1	-	-	7/7	-	5/5	-	3/3
	Marco MUSSITA	2/2	14/14	5/5	9/9	-	-	-	-	-	5/5	-	3/3
Independent non-executive Directors	DENG Youcheng	2/2	13/14	4/5	9/9	1	3/3	-	7/7	-	-	-	-
	Simon CHEUNG	2/2	13/14	4/5	9/9	1	-	3/3	-	2/3	-	5/5	3/3
	FANG Qiaoling	2/2	14/14	5/5	9/9	-	-	-	7/7	3/3	5/5	5/5	-
	Tingjie ZHANG	2/2	14/14	5/5	9/9	-	3/3	3/3	7/7	3/3	-	5/5	-
	XING Lecheng	2/2	14/14	5/5	9/9	-	3/3	3/3	7/7	-	5/5	5/5	-
	ZHANG Xu	2/2	14/14	5/5	9/9	-	3/3	3/3	7/7	3/3	3/3	5/5	-
Resigned Directors	GUO Shaoquan	1/1	6/6	1/1	5/5	-	2/2	3/3	-	1/1	-	-	2/2
	WANG Lin	2/2	14/14	5/5	9/9	-	3/3	-	-	3/3	5/5	-	3/3
	LU Lan	2/2	8/8	3/3	5/5	-	-	-	-	-	2/2	3/3	-
	CHOI Chi Kin, Calvin	2/2	8/11	3/5	5/6	-	2/2	-	4/5	-	-	-	-

- Notes:
- During the Reporting Period, Mr. LIU Peng did not attend the Board meetings in person for two consecutive times since he was incapable to attend the on-site Board meetings in person due to his participation in the young and middle-aged cadres training courses of the Central Party School. However, he entrusted other Directors to attend and vote on his behalf according to the law. As the executive Director and vice president of the Bank, Mr. LIU Peng has been able to understand the specific situation of the Bank in a timely and comprehensive manner, and fulfilled the due diligence obligations of Directors. Except for Mr. CHOI Chi Kin, Calvin's absence from meetings (due to failure to contact him), under the circumstance that the Directors' actual attendance of Board meetings and special committee meetings is less than required, other Directors were delegated to attend.
 - During the Reporting Period, newly elected or resigned Directors and senior management personnel were not fully account for the number of meetings that should have been attended by general meetings and the Board meetings according to their position changes.
 - In March 2023, the qualification of Mr. WU Xianming as an executive Director and the president was approved by the Qingdao Office of CBIRC. Therefore, Mr. WU Xianming was not required to attend general meetings and Board meetings during the Reporting Period.

6.7 Objections raised by Directors on matters of the Bank

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

6.8 Other explanations on the performance of duties by Directors

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

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

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

During the Reporting Period, the special committees under the Board of the Bank exercised their respective authorities and powers in an independent manner according to laws and regulations. They convened a total of 29 meetings during the year, at which 45 resolutions were considered and 55 reports of all kinds were reviewed, which allowed the special committees under the Board to play their professional roles in deliberation, provide robust support for the scientific decision-making of the Board, and improve the efficiency and quality of decision-making ability of the Board. Each of the special committees has provided important advice and recommendations on the review matters within their terms of reference.

As at the latest practicable date for disclosure of this report, the composition of the special committees under the Board of the Bank is as follows:

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

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

7.1 Strategy Committee

The primary duties of the Strategy Committee include the following:

1. Studying and making recommendations on the Bank's mid-to-long term development strategy;
2. Formulating the operation management goals of the Bank and supervising and inspecting the implementation of annual business and investment plan of the Bank;

Section VI Corporate Governance

3. Studying and formulating the Bank's capital supplementary plan and its sources of capital supplementary funds according to the development goal;
4. Studying and making recommendations on the significant investment plan which required approval by the Board under the Articles of Association;
5. Considering the proposed amendments to the Articles of Association and submitting them to the Board for consideration;
6. Studying and making recommendations on other significant matters which may affect the development of the Bank;
7. Inspecting the implementation of the above matters.

During the Reporting Period, the Strategy Committee convened 3 meetings in total, namely, 18 March 2022, 25 March 2022 and 26 August 2022, at which resolutions on the 2022 work plan of the Strategy Committee, the work report of the president and the general mandate of share issuance, were considered and approved.

7.2 Remuneration Committee

The primary duties of the Remuneration Committee include the following:

1. Formulating the remuneration plan, management system and structure of the Bank, and submitting them to the Board for consideration;
2. Formulating the remuneration plans and structure for Directors and senior management, formulating remuneration policies for establishing formal and transparent procedures, making recommendations to the Board and submitting them to the Board for consideration, and overseeing the implementation of the package plan; inspecting, evaluating and approving the remuneration proposals of senior management in accordance with the Bank's policies and objectives established by the Board;
3. Studying the appraisal criteria for Directors and senior management, organizing regular performance appraisal for Directors and senior management, and submitting the appraisal results to the Board;
4. Reviewing, assessing and approving the compensation payable to executive Directors and senior management arising from any loss or termination of office or appointment, and making recommendations to the Board to ensure that such compensation is consistent with the terms of the contract; in the event of any inconsistency with the terms of the contract, such compensation shall also be fair and reasonable but not excessive;
5. Considering remunerations paid by similar city commercial banks, time commitment and responsibilities, as well as employment conditions for other positions within the Bank;
6. Reviewing, assessing and approving the compensation arrangement in connection with the dismissal or removal of Directors for their misconduct, and making recommendations to the Board to ensure that such arrangement is consistent with the terms of the contract; in the event of any inconsistency with the terms of the contract, such compensation shall also be reasonable and appropriate;
7. Ensuring that none of the Directors or any of their associates is involved in the process of finalizing their own performance appraisal and remuneration package, except for the self-assessment section in their performance appraisal;
8. Reviewing and/or approving matters in relation to share schemes as described in Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

During the Reporting Period, the Remuneration Committee convened 3 meetings in total, namely, 18 March 2022, 25 March 2022 and 26 May 2022, at which resolutions on the 2022 work plan of the Remuneration Committee and the 2021 appropriation of the staff bonus and distribution of the performance bonus of senior management at bank level, were considered and approved.

7.3 Nomination Committee

The primary duties of the Nomination Committee include the following:

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

During the Reporting Period, the Nomination Committee convened 3 meetings in total, namely, 18 March 2022, 8 June 2022 and 8 August 2022, at which the resolution on the 2022 work plan of the Nomination Committee, and the resolution on nominating Mr. JING Zailun as a candidate for the eighth session of the Board of Directors of Bank of Qingdao were considered and approved.

7.4 Related Party Transactions Control Committee

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

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

During the Reporting Period, the Related Party Transactions Control Committee convened a total of 5 meetings, namely, 18 March 2022, 29 April 2022, 5 May 2022, 19 August 2022 and 21 October 2022, during which the members considered and passed resolutions such as the 2022 work plan of the Related Party Transaction Control Committee, confirmation of the list of related parties and review of significant related party transactions, listened to or reviewed the reports on related party transactions, focused on the compliance and fairness of related party transactions, aiming to maintain strict control over the risks in related party transactions.

7.5 Audit Committee

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

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

Section VI Corporate Governance

9. Considering major investigation findings on internal control matters as delegated by the Board or on its own initiative and senior management's response to these findings;
10. Reviewing the external auditor's letter to senior management regarding matters involved in the audit, any material queries raised by the external auditor to senior management about accounting records, financial accounts or systems of control and the senior management's response;
11. Ensuring that the Board will provide a timely response to the issues raised in the external auditor's letter to senior management regarding matters involved in the audit;
12. Reviewing the annual budget, final accounts and any significant changes and adjustments in the course of implementation, and submitting its findings to the Board for consideration;
13. Reviewing the profit distribution policy and annual profit distribution plans, and submitting its findings to the Board for consideration;
14. Monitoring integrity of the Bank's financial statements, annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgements contained in them. In reviewing these statements and reports before submission to the Board, the Committee should focus particularly on:
 - (1) Any changes in accounting policies and practices;
 - (2) Major judgement area;
 - (3) Significant adjustments resulting from audit;
 - (4) The going concern assumptions and any qualifications;
 - (5) Compliance with accounting standards;
 - (6) Compliance with relevant requirements of the securities regulatory authorities and stock exchange at the place where the Bank's shares are listed and legal requirements in relation to financial reporting;
15. Regarding 14 above:
 - (1) Members of the Committee shall liaise with the Board and senior management and the Committee must meet, at least twice (2) a year, with the Bank's external auditors;
 - (2) The Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Bank's staff responsible for the accounting and financial reporting function or compliance officer;

16. Reviewing and assessing arrangements employees of the Bank can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action by the Bank;
17. Reporting to the Board on the matters in these Terms of Reference;
18. Considering other topics, as defined by the Board.

During the Reporting Period, the Audit Committee convened 7 meetings in total, namely, 10 March 2022, 18 March 2022, 25 March 2022, 29 April 2022, 19 August 2022, 26 August 2022 and 21 October 2022, during which the members considered and passed resolutions on regular reports, engagement of accounting firms, the evaluation report on internal control, the financial report, the proposal for profit distribution, as well as reviewed special audit reports and rectification reports. It listened to the audit work summary, audit plan and management recommendations of external auditors.

7.6 Risk Management and Consumer Rights Protection Committee

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

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

Section VI Corporate Governance

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

During the Reporting Period, the Risk Management and Consumer Rights Protection Committee convened 5 meetings in total on 10 March 2022, 18 March 2022, 19 August 2022, 26 August 2022 and 28 December 2022 respectively, at which the members considered and passed resolutions on the 2022 work plan of the Risk Management and Consumer Rights Protection Committee and the 2022 plan of risk appetite of business operation, reviewed the reports on risk management of credit risk, market risk and liquidity risk.

7.7 Network Security and Information Technology Committee

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

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

During the Reporting Period, the Information Technology Committee convened 3 meetings in total on 10 March 2022, 18 March 2022 and 19 August 2022 respectively, at which the members considered and passed resolutions including the 2022 work plan of the Information Technology Committee, and listened to the report on the management of risks in information technology and report on the management of business continuity.

VIII. PERFORMANCE OF BOARD OF SUPERVISORS

8.1 Board of Supervisors

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

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

8.2 Composition of the Board of Supervisors

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

8.3 Changes in the Supervisors

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

8.4 Operation of the Board of Supervisors

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

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

During the Reporting Period, the Board of Supervisors of the Bank convened 7 meetings in total, of which 2 meetings were held in the form of on-site and 5 meetings were held in the form of circulation of written resolutions. At these meetings, the Board of Supervisors considered and approved 21 resolutions, listened to or reviewed 58 reports, covering operation management, final financial accounts, risk management and internal control of the Bank, as well as the performance evaluation of Directors, Supervisors and senior management personnel. During the Reporting Period, there was no objection raised by the Board of Supervisors to the matters supervised. During the Reporting Period, attendance of Board of Supervisors meetings is as below:

Supervisor	Number of attendance required	Number of attendance in person	Number of attendance by proxy
YANG Fengjiang	7	7	–
HE Liangjun	7	7	–
HAO Xianjing	7	7	–
JIANG Xinglu	7	7	–
LU Kun	7	7	–
WANG Dawei	7	7	–
MENG Xianzheng	7	7	–

8.6 Attendance at the general meetings during the Reporting Period

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

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

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

8.8 Operation of the special committees under the Board of Supervisors

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

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

Supervision Committee

The primary duties of the Supervision Committee include the following:

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

During the Reporting Period, the Supervision Committee held 7 meetings in total on 10 March 2022, 18 March 2022, 25 March 2022, 29 April 2022, 19 August 2022, 25 August 2022 and 25 October 2022 respectively, at which the resolutions on the report of final financial accounts, proposals for profit distribution, regular report, the engagement of accounting firm and the evaluation report on internal control were considered and approved, and listened to the work report of internal audit and the major risk management report.

Nomination and Evaluation Committee

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

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

During the Reporting Period, the Nomination and Evaluation Committee convened 3 meetings in total on 18 March 2022, 25 March 2022 and 25 August 2022 respectively, at which the resolutions on the president's work report, evaluation report on the performance of duties of the Board of Directors and Directors, the evaluation report on the performance of duties of Supervisors and the evaluation report on performance of duties of the senior management and senior executives were considered and approved.

8.9 Work of external Supervisors

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

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

The Directors and Supervisors actively participated in various trainings of the Bank and regulatory agencies to gain a deep understanding of their responsibilities and obligations, and continuously improve their comprehensive quality and duty performance capability. During the Reporting Period, all of the Bank's Directors and Supervisors joined the special training on "Strictly crack down on financial fraud and resolutely put an end to capital appropriation" jointly organized by the Listing Department of the China Securities Regulatory Commission and China Association for Public Companies to strengthen their study on typical cases of financial fraud, capital appropriation and illegal guarantee. They participated in the special training for public companies organized by the China Securities Regulatory Commission, and conducted in-depth study on the compliance management of shares held by major shareholders, directors, supervisors and senior management of public companies, performance standards of directors, supervisors and senior management, revision of public company regulatory rules and regulations and violation cases.

During the Reporting Period, the independent Directors of the Bank conducted special research on the strategic planning of the Bank for 2023-2025 and international business development with full knowledge of the Bank's operation and management, and provided numerous poignant and forward-looking suggestions on the Bank's relevant business management. All Supervisors organized and conducted a special research on the Bank's liquidity management and formulated a special research report, in which they provided targeted and constructive opinions.

IX. WORK OF SENIOR MANAGEMENT

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

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

9.1 Delegation of authority by the Board of Directors

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

9.2 Chairman and President

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

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

9.3 Securities transactions by Directors and Supervisors

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

9.4 External auditors and remuneration

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

9.5 Risk management and internal control

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

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

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

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

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

The Board of Directors of the Bank reviewed the risk management and internal control systems for the year ended 31 December 2022. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board of Directors of the Bank considered and approved the “2022 Evaluation Report on Internal Control of Bank of Qingdao Co., Ltd.”, and assessed the risk management and internal controls of the Bank. The Board of Directors is in the opinion that such risk management and internal controls of the Bank are effective.

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

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

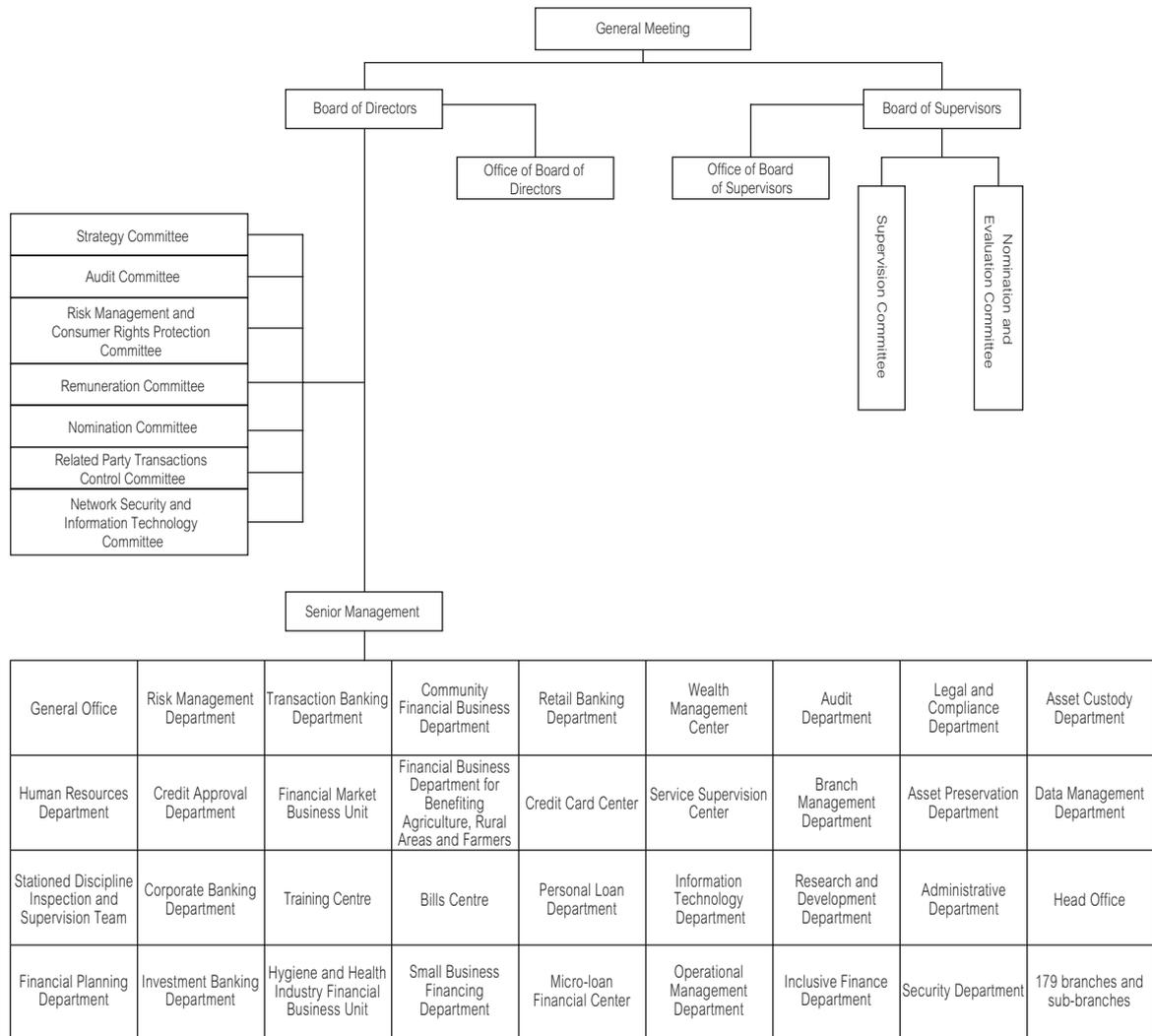
9.6 Appraisal and incentives for senior management

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

9.7 Company secretaries

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

9.8 Organization chart



9.9 Branches and sub-branches

As at the end of the Reporting Period, the Bank had a total of 180 branches and sub-branches, the details of which are as follows:

No.	Name of branch/ sub-branch	Business address	Institutions under its administration	No. of staff (persons)	Total assets (RMB100 million)
1	In Qingdao	–	1 head office, 1 branch and 102 sub-branches	1,722	3,740.36
2	Jinan Branch	Building 6, Yinfeng Fortune Plaza, No. 1 Longaoxi Road, Lixia District, Jinan	10 sub-branches under it	310	232.96
3	Dongying Branch	No. 72 Fuqian Avenue, Dongying District, Dongying	6 sub-branches under it	161	67.76
4	Weihai Branch	No. 112, No. 3-4 Shichang Avenue, Weihai	8 sub-branches under it	204	223.27
5	Zibo Branch	No. 266 Liantong Road, Zhangdian District, Zibo	4 sub-branches under it	142	121.26
6	Dezhou Branch	No. 717 Dexing Middle Avenue, Decheng District, Dezhou	4 sub-branches under it	119	64.62
7	Zaozhuang Branch	Dexin Plaza, No. 2166 Hexie Road, Xuecheng District, Zaozhuang	6 sub-branches under it	119	62.05
8	Yantai Branch	Hongyuan Business Building, No. 29 Jinshajiang Road, Development Zone, Yantai	6 sub-branches under it	157	145.11
9	Binzhou Branch	No. 471 Huanghe 8th Road, Bincheng District, Binzhou	3 sub-branches under it	74	79.54
10	Weifang Branch	Room 124, Building 7, No. 6636 Fushou East Street, Kuiwen District, Weifang	5 sub-branches under it	132	151.13
11	Laiwu Branch	No. 57, Wanfu North Road, Laiwu District, Jinan	1 sub-branch under it	58	22.60
12	Linyi Branch	Building 9, Hongxing International Plaza, Intersection of Jinan Road and Xiaohe Road, Beicheng New District, Linyi	3 sub-branches under it	98	73.65
13	Jining Branch	Welfare Lottery Building, No. 24 Hongxing Middle Road, Jining	2 sub-branches under it	75	108.21
14	Taian Branch	No. 237 Dongyue Street, Taian	2 sub-branches under it	69	25.32
15	Heze Branch	North side of East Gate of Jindu Huating, middle section of Renmin Road, Heze	1 sub-branch under it	42	21.83
16	Rizhao Branch	No. 79 Tai'an Road, Qinlou Street, Donggang District, Rizhao	–	49	15.16

X. DETAILS OF EMPLOYEES

Following the Administrative Measures of Bank of Qingdao for Recruitment, the Bank has been adhering to a fairness principle during recruitment and has never discriminated against candidates for their ethnicity, race, gender, or religious belief, so as to provide equal job opportunities and achieve a diversified and talented team.

As at the end of the Reporting Period, there were a total of 2,179 male and 2,676 female employees of the Bank and its subsidiaries, and the proportions of males and females were 44.88% and 55.12%, respectively. The differences in background and job requirements of employees were the main factors affecting the gender diversity of employees.

10.1 Number of employees, composition by profession and education background

Number of employees on the payroll of the parent company (persons)	4,708
Number of employees on the payroll of the major subsidiaries (persons)	147
Total number of employees on the payroll (persons)	4,855
Total number of employees receiving remuneration in the current period (persons)	4,855
Number of retired employees for whom the parent company and major subsidiaries need to bear expenses (persons)	—
Composition by profession	
	Number of persons of composition by profession (persons)
Composition by profession category	
Management personnel	369
Business personnel	3,684
General administrative personnel	802
Total	4,855
Education background	
	Number (persons)
Education background category	
Master's degree or above	1,037
Bachelor's degree	3,294
College graduates or below	524
Total	4,855

10.2 Remuneration Policy

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

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

10.3 Training program

For personnel training, the Bank started from the new business development situation, aimed at “strategy implementation, business development, cultural inheritance, talent development and growth”, adhered to professional, digital and platform-based operation, and deeply integrated learning and training with business development. During the Reporting Period, the Bank focused on management of teaching, tutors and teaching materials. In terms of teaching management, the Bank carried out the “Sailing Plan” for new employees, which focused on basic management and competence improvement, and launched courses to strengthen foundation. In terms of training materials management, the Bank followed the principle of “compiling good training materials, selecting good cases and presenting good courses” and compiled basic business training materials. In terms of tutors management, the Bank continued to carry out the training of internal tutors, organized the internal tutor competition and the training plan design competition, led and drove all units of the Bank to explore effective methods of practical learning and training, and continuously enhanced the training pertinence and effectiveness.

10.4 Labor outsourcing

N/A.

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

11.1 Profit distribution policy for ordinary shares and implementation thereof

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

Particulars of Cash Dividend Policy

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

11.2 Profit distribution and conversion of capital reserves into share capital during the Reporting Period

Number of bonus share per 10 shares (share(s))	–
Dividend distribution per 10 shares (RMB) (tax inclusive)	1.60
Scrip shares per 10 shares (share(s))	–
Share base of the distribution proposal (shares)	5,820,354,724
Amount of cash dividend (RMB) (tax inclusive)	931,256,755.84
Amount of cash dividends distribution through other means (such as repurchase of shares) (RMB)	–
Total cash dividend (including other means) (RMB)	931,256,755.84
Distributable profits (RMB)	4,454,754,091
Percentage of total cash dividend (including other means) to total profit distribution	100%

Cash dividend

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

Particulars of profit distribution and capital conversion from capital reserve plans

Taking into account the profit of the Bank, and in compliance with the Articles of Association and relevant regulatory requirements, the proposal for profit distribution of the Bank for 2022 is as follows:

1. 10% of net profit, equivalent to RMB284 million, will be appropriated to statutory reserve fund;
2. RMB907 million will be appropriated to general reserve;
3. RMB510 million of dividend has been distributed to the offshore preference shareholders on 20 September 2022;
4. RMB1.60 (tax inclusive) per 10 shares of cash dividend will be distributed to all ordinary shareholders on a basis of the total number of shares on the record date of equity distribution. Dividends of H shares shall be paid in Hong Kong dollars. The applicable exchange rate of RMB to Hong Kong dollars shall be the average of the central parity rates in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends at the annual general meeting (including the day the annual general meeting to be held) as announced by the People's Bank of China.
5. The retained profit will be carried forward to the next year.

Note: The profit distribution is financed by the profit of the Bank. The share base of distribution proposal, amount of cash dividend (tax inclusive) and total cash dividend in the above table are stated and calculated based on a total number of 5,820,354,724 shares outstanding at the time when the proposal for dividend distribution of ordinary shares was considered and approved by the Board of the Bank. The actual data shall depend on the total number of shares on the record date of equity distribution and be calculated accordingly.

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

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

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

13.1 Construction and Implementation of Internal Control

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

Under the guidance of the “3+3+1” compliance management innovation project, the Bank continued to reinforce the construction of three basic compliance elements as the “three strong basics”, namely compliance culture, compliance policy, and compliance system. The Bank tackled the three major compliance problems of those repeatedly committed and investigated improper behaviors, operational non-compliance of the banking counters and building a law-abiding BQD, firmly adhered to the main line of “compliance empowers business management improvement” to improve internal control and compliance management. Throughout the year, the Bank continued to carry out various compliance management activities by resorting to online and offline promoting methods such as compliance-themed lectures, speeches and training, leading compliance culture among staff of the Bank. The Bank launched compliance cultural education with the theme of “Three Questions about Compliance” and “Three Essences and Three Emphasis” to strengthen compliance awareness across the entire staff, and create a good atmosphere for law awareness, law-abiding and compliance, aiming to establish a brand built to last owing to its standardized, orderly and compliant operation.

On the basis of continuous improvement of the Bank’s the streamlined and efficient management system featuring good customer experience, smooth working process and 100% risk coverage rate, the Bank launched the “Year of System Empowerment and Improvement” in 2022. It implemented the “three upgrades” measures of system upgrade, system process upgrade, and system learning upgrade, empowering new breakthroughs in systematic management of system construction, standardized management of system review, and standardized management of system implementation. It developed and launched a smart office platform “Made System Easy (制度一點通)” to provide employees of the Bank with a good platform for “learning and using” the system, which ensured the effective operation of the internal control system.

Taking the opportunity of regulatory inspection and self-discipline and self-examination, the Bank continuously strengthened self-examination and self-correction and rectification and accountability work and solidly increased the effectiveness of internal control management through the combined efforts of head office’s supervision and individual implementation of branches and sub-branches, and rectification of specific issues and the improvement of the internal control system, as well as accountability for incompliance and warning education. External institutions were engaged to conduct special evaluation of internal control, in order to comprehensively improve the internal control management by constantly identifying and solving problems. The Bank strictly followed legal review protocols, and stayed informed of the latest enactment of laws, regulations and regulatory systems closely related to the banking business, and issued articles on risk cautions through the Bank’s magazine and intranet, to ensure early warning on risk prevention was properly made.

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

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

13.3 Internal audit

The Board of Directors of the Bank has established the Audit Committee to co-ordinate the overall internal audit work, give full play to the management guidance role of the Board of Directors, and promote the full coverage of audit supervision. The Audit Department is directly led by the Chairman and adopts a centralized and vertical management model. The internal audit work is managed by the head office audit department in a unified way, and is carried out independently and objectively throughout the Bank. The internal audit results were regularly reported by the Bank to the Board of Directors and the Board of Supervisors and were submitted in compliance with regulatory requirements, which continuously improved internal control risk management capabilities.

According to the annual work arrangement of the Board of Directors, the Bank implemented the “deep and thorough investigation” requirements, continuously expanded the breadth and depth of audit inspection, and made every effort to achieve full institutional audit coverage. During the Reporting Period, the Bank combined on-site audit and off-site audit, employed standardized model for big data audit system and stock early warning model, and constructed the audit project organization model of “taking regular audit as the main line, conducting follow-up audit for supervision, and focusing on special audit, appropriately supplemented by responsibility audit and special investigation”, which effectively identified clues, predicted risk points, promoted all-round supervision, and effectively strengthened audit supervision.

The Bank continued to deepen the managerial audit transformation, integrated the managerial audit concept into every link, innovated the management methods and means of the whole audit process, and improved the audit risk warning and reporting system. The Bank employed the methods of “audit procedure control forms”, “daily reports” and “project review meetings” to timely control the project implementation progress and risk points, strengthen quality control and ensure the realization of audit objectives. With the audit finding data accumulation as an effective support, the Bank completed the audit business special report, conducted authorization of special audit report in key areas, warned audit risks and deepened the audit results application.

The Bank continuously improved the closed-loop audit rectification management mechanism, and actively carried out relevant rectification and accountability work for follow-up audits. The Bank focused on repeated problems, steadily implemented rectification measures and accountability plans for key issues, deeply analyzed the causes of problems, followed up systematic rectifications, and formed a closed loop of rectification work. The Bank linked the problems and rectification found in internal audit and external regulation with the assessment of branches and subsidiaries, implemented quantitative audit and rectification management scoring, ensured the rectification in place and effective, constantly improved the audit mechanism and comprehensively enhanced the value of internal audit.

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

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

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

15.1 Self-evaluation report of internal control

Disclosure date of the full text of evaluation report of internal control	31 March 2023
Disclosure index of the full text of evaluation report of internal control	Website of CNINFO (http://www.cninfo.com.cn/)
The percentage of total assets of units included in the assessment scope to the total assets in the Company's consolidated financial statements	100%
The percentage of total operating income of units included in the assessment scope to the total operating income in the Company's consolidated financial statements	100%

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

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

15.2 Audit report of internal control

Audit opinion of the audit report of internal control

As at 31 December 2022, the Bank has maintained effective internal control over financial reporting in all material aspects in accordance with the Basic Standards for Enterprise Internal Control and other relevant requirements.

Disclosure of the audit report of internal control	Disclosed
Disclosure date of the full text of audit report of internal control	31 March 2023
Disclosure index of the full text of audit report of internal control	Website of CNINFO (http://www.cninfo.com.cn/)
Opinion of the audit report of internal control	Unqualified opinion
Whether there is any material deficiency in the non-financial report	No

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

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

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

XVII. INFORMATION DISCLOSURE AND TRANSPARENCY

In strict compliance with the provisions of laws and regulations, the Bank released various periodic reports and temporary announcements in compliance with laws and regulations to ensure that the information disclosed is true, accurate, complete, timely and standardized to protect the lawful rights and interests of shareholders. During the Reporting Period, 276 various announcements were released on the website of SZSE, the HKEXnews website of the Hong Kong Stock Exchange and the website of the Bank, among which, 138 announcements were released on SZSE and 138 announcements on the Hong Kong Stock Exchange.

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

XVIII. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

1. During the Reporting Period, the Bank issued a total of 1,310,664,724 new shares through A+H rights issue, and its registered capital increased from RMB4,509,690,000 to RMB5,820,354,724. The Bank completed the amendments to the Articles of Association accordingly in April 2022. For details of the amendments, please refer to the Announcement on the Completion of the Changes of Industrial and Commercial Registration for the Registered capital and the Articles of Association which was published by the Bank on CNINFO website dated 13 April 2022 (Announcement No.: 2022-025).
2. In accordance with the latest requirements of the related laws and regulations and with reference to the actual conditions of the Bank, the Bank made corresponding amendments to some provisions of the Articles of Association. The amended Articles of Association were approved by the Qingdao Office of CBIRC in March 2023. For details, please refer to the 2023 First Extraordinary General Meeting Documents which were published by the Bank on CNINFO website dated 19 January 2023 and the Announcement on the Approval of the Amendments to the Articles of Association (Announcement No.: 2023-009) dated 16 March 2023.

XIX. SHAREHOLDERS' RIGHTS

19.1 Convening of extraordinary general meetings on requisition by shareholders

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

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

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

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

19.2 Making enquiries with the Board

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

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

19.3 Proposals of the general meeting

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

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

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

XX. INVESTOR RELATIONS

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

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

The Board reviewed the Bank's shareholders' and investors' engagement and communication activities conducted in 2022 and was satisfied with the implementation and effectiveness of the shareholders' communication policy.

XXI. OTHER INFORMATION

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

Section VII Environmental and Social Responsibility

I. MAJOR ENVIRONMENTAL ISSUES

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

II. SOCIAL RESPONSIBILITY

For details, please refer to the 2022 Social Responsibility Report published on the CNINFO website, HKEXnews website of the Hong Kong Stock Exchange and the website of the Bank.

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

The Bank prioritized rural revitalization business and strengthened financial support for rural revitalization. As at the end of the Reporting Period, the balance of the Bank's agriculture-related loans amounted to RMB48.476 billion, an increase of RMB1.534 billion from the beginning of the year.

The Bank fully went into the midst of communities. Since 2019, the Bank has deployed inclusive finance service stations in Jiaozhou, Pingdu, Laixi and Jimo. As at the end of the Reporting Period, the Bank has deployed a total of 1,949 agricultural service stations. During the Reporting Period, the Bank strengthened its system construction, revised the Administrative Measures for Agriculture-Benefiting Finance Services of Bank of Qingdao 《青島銀行惠農金融業務管理辦法》, the Operating Measures for Agriculture-Benefiting Finance Services of Bank of Qingdao 《青島銀行惠農金融業務操作辦法》 and other policies and documents, specified business requirements, refined business management processes and improved agriculture-benefiting finance services.

In order to promote the regular service of agricultural business credit pass, the Bank issued the Guiding Opinions on the Credit Pass for Agricultural Business Entities of Bank of Qingdao 《青島銀行農業經營主體信貸直通車業務的指導意見》 during the Reporting Period to vigorously promoted the credit pass for new agricultural business entities. Meanwhile, the Bank strengthened product innovation, issued rural revitalization cards, and launched special agriculture-benefiting products such as "rural revitalization loans" and "breeding loans".

The Bank actively promoted the agriculture-benefiting cultural construction, regularly sent financial morning papers by means of WeChat moments, village WeChat groups and short messages, and launched offline publicity activities such as financial evening classes, discount purchases and traditional festival knowledge introduction to strengthen the spread of financial knowledge in rural areas, creating a strong agriculture-facilitating atmosphere.

IV. PROTECTION OF CONSUMER RIGHTS

During the Reporting Period, the Bank closely followed the regulatory trend, and gave full play to the mechanism and system advantages of corporate bodies. Highlighting the leading role of the "Qingcheng consumer protection" brand, the Board of Directors, the Board of Supervisors and the senior management performed their own duties, earnestly assumed the management responsibility of consumer rights protection, strengthened the top-level design, improved the system, promoted the whole bank to strengthen the concept of consumer rights protection from top to bottom, and ensured the effective implementation of strategic goals and institutional measures for consumer rights protection.

1. Improved the top-level system and highlighted the rectification results

First, the Bank carried out special rectification actions against infringement on consumers' rights and interests, personal information rights and interests, and arbitrary enterprises charges, timely rectified problems and potential risks found in self-inspection, and continuously strengthened internal control management measures, which effectively solved problems, and reinforced the risk firewall. Second, the Bank optimized and improved the review function on consumer rights protection, and formulated the Administrative Measures for Consumer Rights Protection Review of Bank of Qingdao 《青島銀行消費者權益保護審查管理辦法》, which established a scientific workflow for the review of consumer rights protection, accurately prompted the concerns and risk control measures of consumer rights protection, eliminated all hidden dangers that infringe on consumer rights, and ensured the healthy and sustainable development of front-line business. Third, the Bank promoted the construction of a diversified financial dispute resolution mechanism, formulated the Administrative Measures for Financial Dispute Mediation of Bank of Qingdao 《青島銀行金融糾紛調解管理辦法》, and established mechanisms such as dynamic mediation authority granting, remote authority granting, timely adjustment, and rapid examination and approval, so as to promote the substantive and effective resolution of contradictions and disputes before escalation and smoothed the relief channels for financial consumers' rights.

2. Strengthened personal information protection and reinforced information security

First, the Bank set up a personal information protection committee to comprehensively guide and manage the personal information protection work and improve the personal information protection organization. The Bank formulated a personal information protection work plan, and specified effective measures from aspects of organization improvement, system publication, risk investigation, rectification and optimization, which strengthened education to promote the personal information protection work of the whole bank. Second, the Bank formulated the Measures for Personal Information Protection and Management of Bank of Qingdao 《青島銀行個人信息保護管理辦法》, which specified the personal information management principles and handling rules, clarified non-compliance penalties and emergency measures, and effectively improved the personal information management of the whole bank. Third, the Bank established the personal information protection mechanism, strictly controlled the system access authority, and abided by the minimum necessity principle. The Bank revised the contract template to ensure the legal compliance of information collection and processing, strengthened the third-party institution management, strictly controlled access conditions, reinforced confidentiality obligations, and improved the exit mechanism.

3. Accurately met the needs of new citizens and provided quality financial services

First, the Bank launched the "loan to new citizens" business for small and micro enterprises. The loan targets at small and micro enterprises or individual industrial and commercial households who employed "new citizens", and small and micro enterprise owners who are "new citizens" in Qingdao. The qualified credit customers are given preferential treatment in terms of handling process, interest rate and term, etc. Second, the Bank met the credit demand of new citizens arising from reasonable housing purchases by further optimizing the mortgage application conditions for new citizens, and improving the credit availability and convenience. Third, the Bank tailored a variety of wealth management products for the new citizens, all of which are series products with high performance benchmarks among peers with the same term, helping the new citizens in preserving and increasing their wealth.

4. Strengthened knowledge dissemination matrix and created a new publicity pattern

First, the Bank summarized the "135" working method, centered on the brand concept of "sincere and faith" as the main line, focused on the three key groups of "elderly people, youngsters and new citizens", and upgraded five publicity carriers of "press corps, lecture hall, case collection, speech contest and various media". The Bank went deep into communities, campuses and business districts, and covered prevention of illegal fund-raising and telecom fraud, guidance of rational investment and lending for consumption and other financial knowledge fields, which comprehensively improved the financial literacy of consumers. Second, the Bank persisted in carrying out publicity activities on the theme of "15 Mar Consumption Fairness Promotion", "Popular Lecture Hall on Financial Knowledge", "Spreading Financial Knowledge", "Spreading Financial Knowledge to Safeguard the Money Bag" and "Financial Knowledge into Thousands of Families", and won the title of "Advanced Unit in Financial Knowledge Popularization Month to Be a Rational Investor and a Good Financial Netizen in 2022". Third, the branches carried out financial knowledge introduction and education activities every month, effectively improving financial consumers' awareness and ability of risk prevention and control. The Bank published 17 articles on financial knowledge introduction through the Bank's official WeChat account, 22 column articles through "Financial Knowledge Education" on the official website, and 13 press releases through mainstream media such as Xinhua Finance, China Economic Network, Qingdao Daily, Qingdao Evening News and Qingdao Morning Post, with a consumer audience of over two million people.

Section VIII Significant Events

I. FULFILLMENT OF UNDERTAKINGS

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

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
Undertaking made on initial public offering or refinancing	Qingdao Conson Industrial Co., Ltd.	Undertaking on voluntary lockup of shares held	Qingdao Conson Industrial Co., Ltd., a shareholder holding more than 5% of the total share capital of the Bank, undertook not to transfer nor entrust others to manage the shares of the Bank held directly or indirectly by it prior to the issuance of the A shares within 36 months from the date of the listing of A shares of the Bank on the stock exchange and not to sell back the above shares to the Bank.	16 January 2019	36 months	It was in normal performance and has been fulfilled by 16 January 2022
	Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd., Haier Smart Home Co., Ltd., Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Manniq Intelligent Technology Co., Ltd. (青島曼尼科智能科技有限公司), Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd.	Undertaking on voluntary lockup of shares held	Eight enterprises including Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd., Haier Smart Home Co., Ltd., Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Manniq Intelligent Technology Co., Ltd. (青島曼尼科智能科技有限公司), Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd. respectively undertook not to transfer nor entrust others to manage the shares of the Bank held directly or indirectly by them prior to the issuance of the A shares within 36 months from the date of the listing of A shares of the Bank on the stock exchange and not to sell back the above shares to the Bank (except for the transfers between a company and its related party if the transfer is in compliance with the relevant laws and regulations and the transferee agrees to fulfill the undertaking on lock-up of shares by the transferor).	16 January 2019	36 months	It was in normal performance and has been fulfilled by 16 January 2022

Section VIII Significant Events

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Shandong Sanliyuan Economics and Trade Co., Ltd., Qingdao Hairen Investment Co., Ltd., Qingdao Jifa Group Co., Ltd., Shanghai Jiacheng Investment Management Co., Ltd., Beijing International Trust Co., Ltd. (北京國際信託有限公司), Guosen Securities Company Limited (國信證券股份有限公司), Qingdao Bright Mountain Industries Co., Ltd. (青島貝蒙特實業有限公司), Qingdao New Hongfang Group Co., Ltd. (青島新紅紡集團有限公司), United Ventures Group Co., Ltd. (聯合創業集團有限公司), Hundsun Technologies Inc. (恒生電子股份有限公司), Qingdao Kingking Applied Chemistry Co., Ltd., Qingjian Group Co., Ltd. (青建集團股份有限公司) and Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	Undertaking on voluntary lockup of shares held	Shandong Sanliyuan Economics and Trade Co., Ltd., Qingdao Hairen Investment Co., Ltd., Qingdao Jifa Group Co., Ltd., Shanghai Jiacheng Investment Management Co., Ltd., Beijing International Trust Co., Ltd. (北京國際信託有限公司), Guosen Securities Company Limited (國信證券股份有限公司), Qingdao Bright Mountain Industries Co., Ltd. (青島貝蒙特實業有限公司), Qingdao New Hongfang Group Co., Ltd. (青島新紅紡集團有限公司), United Ventures Group Co., Ltd. (聯合創業集團有限公司), Hundsun Technologies Inc. (恒生電子股份有限公司), Qingdao Kingking Applied Chemistry Co., Ltd., Qingjian Group Co., Ltd. (青建集團股份有限公司) and Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. respectively undertook not to transfer nor entrust others to manage the shares of the Bank held directly or indirectly by them prior to the issuance of the A shares within 36 months from the date of the listing of A shares of the Bank on the stock exchange and not to sell back the above shares to the Bank.	16 January 2019	36 months	It was in normal performance and has been fulfilled by 16 January 2022
	Qingdao Collective Enterprise Cooperative Society	Undertaking on voluntary lockup of shares held	Qingdao Collective Enterprise Cooperative Society undertook not to transfer nor entrust others to manage the 2,829,795 shares held by it within 36 months from the date of the listing of A shares of the Bank on the stock exchange and not to sell back the above shares to the Bank.	16 January 2019	36 months	It was in normal performance and has been fulfilled by 16 January 2022
	Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	Undertaking on voluntary lockup of shares held	Pursuant to the Interim Measures for the Equity Management of Commercial Banks 《商業銀行股權管理暫行辦法》, 2018 Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. undertook not to transfer the share equity held by it within five years from the date of obtaining the share equity of the Bank (29 June 2018).	29 June 2018	60 months	In progress

Section VIII Significant Events

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

Section VIII Significant Events

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

Section VIII Significant Events

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	The Directors and senior management holding shares of the Bank	Undertakings on the intention of shareholding and intention of reduction of shareholding	The Directors and senior management holding shares of the Bank undertook that if they reduce the shares of the Bank held by them within 2 years from the expiration of the lock-up period, the price shall not be lower than the issue price; if the closing price of the shares of the Bank is lower than the issue price for 20 consecutive trading days during the 6 months after the listing of the Bank, or the closing price of the shares of the Bank at the end of the 6 months after listing is lower than the issue price, the lockup period of shares of the Bank held by them shall be extended for 6 months automatically. The above undertakings on the price of shareholding reduction shall not be terminated due to changes in their posts or dismissal. The above issue price refers to the issue price of the initial public offering of the A shares of the Bank. If the Bank has any ex-rights and ex-dividend issues due to cash dividend, bonus issue, capital conversion and issue of new shares after its listing, such issues shall be handled in accordance with the relevant provisions of the stock exchange.	16 January 2019	Please see the details of undertakings	In progress
	Qingdao Haier Industrial Development Co., Ltd. (青島海爾產業發展有限公司), Qingdao Haier Air-Conditioner Electronics Co., Ltd., Haier Smart Home Co., Ltd., Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Manniq Intelligent Technology Co., Ltd. (青島曼尼科智能科技有限公司), Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd.	Undertakings on subscription of the Bank's rights shares	Qingdao Haier Industrial Development Co., Ltd. (青島海爾產業發展有限公司), Qingdao Haier Air-Conditioner Electronics Co., Ltd., Haier Smart Home Co., Ltd., Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Manniq Intelligent Technology Co., Ltd. (青島曼尼科智能科技有限公司), Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd. respectively undertakes that based on the number of shares held by the Bank after the market close on the date of the registration of the rights issue, the Bank and the underwriters will agree to subscribe for the available placing shares in full by way of cash at a price determined by the Bank and the underwriter in accordance with the plan of the rights issue.	29 December 2021	Please see the details of undertakings	It was in normal performance and has been fulfilled by 28 January 2022

Section VIII Significant Events

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Intesa Sanpaolo S.p.A.	Undertakings on subscription of the Bank's rights shares	<p>Intesa Sanpaolo S.p.A. undertakes that, based on the number of shares held after the close of market on the date of registration of the rights issue, 3 shares per 10 shares will be placed in proportion to the number of shares held, and the full amount of the rights issue price determined by the Bank and the underwriters, the Company will subscribe in cash for the H shares provisionally allotted to Intesa Sanpaolo S.p.A. (the "Provisional Allotment Particulars").</p> <p>In addition to the above undertaking, Intesa Sanpaolo S.p.A., has also undertaken to purchase additional H rights shares by way of additional application (the "Additional Application Part") The Provisional Allotment Particulars of the H shares and the Additional Application Part paid in aggregate for the subscription of the H shares by Intesa Sanpaolo S.p.A are not more than EUR 270 million (approximately RMB1,946.7 million). Following the completion of the issuance of the Bank's A + H rights shares the percentage shareholding of Intesa Sanpaolo S.p.A will not exceed 17.50%. If the EUR 270 million is invested to the extent that the percentage of shares held by Intesa Sanpaolo S.p.A reaches or is lower than 17.50% of the total number of shares of the Bank after the completion of the A + H share rights issue, Intesa Sanpaolo S.p.A will contribute all of the above amounts.</p> <p>As a substantial shareholder of the Bank, Intesa Sanpaolo S.p.A undertakes that it shall comply with laws and regulations, regulatory requirements and the Articles of Association of the Bank, and shall not transfer the H rights shares held by it within five years from the date of the acquisition of the H rights shares.</p>	29 December 2021	Please see the details of undertakings	In progress

Section VIII Significant Events

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Qingdao Conson Industrial Co., Ltd., Qingdao Guoxin Capital Investment Co., Ltd. (青島國信資本投資有限公司)	Undertakings on subscription of the Bank's rights shares	Qingdao Conson Industrial Co., Ltd., Qingdao Guoxin Capital Investment Co., Ltd. (青島國信資本投資有限公司) respectively undertakes that they will subscribe in cash for all the offered rights shares to be determined in accordance with the Company's plan of the Rights Issue and to be allotted to it in proportion to the number of Shares held by it after the close of market on the registration date of the rights issue, at the price to be determined through consultation with underwriters.	29 December 2021	Please see the details of undertakings	It was in normal performance and has been fulfilled by 28 January 2022
	Haitian (HK) Holdings Limited	Undertakings on subscription of the Bank's rights shares	Haitian (HK) Holdings Limited undertakes that it will subscribe for the H rights shares tentatively allotted to Haitian (HK) Holdings Limited by way of cash in proportion to the number of shares held after the close of business on the registration date of the rights issue based on a pro rata ratio of 3 shares for every 10 shares, and the price determined by the Bank and the underwriters.	29 December 2021	Please see the details of undertakings	In progress
			<p>In addition to the above undertaking, Haitian (HK) Holdings Limited has also undertaken to make an additional capital contribution of not more than RMB349 million to subscribe for the H rights shares. Following the completion of the issuance of A + H rights shares by the Bank, the aggregate shareholding of Qingdao Conson Development (Group) Co., Ltd. shall not exceed 14.99%. If the capital contribution of RMB349 million results to the total shareholding of Qingdao Conson Development (Group) Co., Ltd. reaching or not more than 14.99% of the total number of shares of the Bank upon the completion of the A + H share rights issue, Haitian (HK) Holdings Limited will invest all of the above amounts.</p> <p>Haitian (HK) Holdings Limited, as the major shareholder of the Bank, undertakes that it shall comply with the laws and regulations, regulatory requirements and the Articles of Association of the Bank, and shall not transfer the H rights shares held by it within five years from the date of the acquisition of the H rights shares.</p>			

Section VIII Significant Events

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

Section VIII Significant Events

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

Section VIII Significant Events

- Notes:*
1. During the Reporting Period, there was no situation where the profit forecast for the Bank's assets or projects existed or the Reporting Period still fell within the period of profit forecast.
 2. On 20 June 2019, "Qingdao Haier Co., Ltd." was renamed as "Haier Smart Home Co., Ltd.".
 3. On 2 July 2021, "Qingdao Haier Robot Co., Ltd." was renamed as "Qingdao Manniq Intelligent Technology Co., Ltd.".

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

During the Reporting Period, there was no controlling shareholder. During the Reporting Period, the Bank's largest shareholder and its related parties were also not involved in appropriation of funds of the Bank for non-operating purposes. KPMG Huazhen LLP, the auditor of the Bank, has issued the Special Report of Bank of Qingdao Co., Ltd. on Appropriation of Funds for Non-operating Purposes and the Flow Funds involving Related Parties for 2022 (《關於青島銀行股份有限公司 2022 年度非經營性資金佔用及其他關聯資金往來情況的專項說明》).

III. NON-COMPLIANCE WITH EXTERNAL GUARANTEES

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

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

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

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

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

VI. ENGAGEMENT OR DISMISSAL OF ACCOUNTING FIRMS

6.1 Current accounting firm engaged

Name of the domestic accounting firm	KPMG Huazhen LLP
Continued term of audit service of the domestic accounting firm	13 years
Name of certified public accountants of the domestic accounting firm	HUANG Aizhou, MA Xin
Continued term of audit service of certified public accountants of the domestic accounting firm	1 year, 3 years
Name of the overseas accounting firm	KPMG
Continued term of audit service of the overseas accounting firm	8 years
Name of certified public accountants of the overseas accounting firm	LI Ka Lam
Continued term of audit service of certified public accountants of the overseas accounting firm	1 year

Note: During the Reporting Period, the Bank did not change the accounting firm. The certified public accountants of the domestic accounting firm were changed from Cheng Hailiang and Ma Xin to Huang Aizhou and Ma Xin; the certified public accountants of overseas accounting firm was changed from Lee Lok Man to Li Ka Lam.

For the year ended 31 December 2022, RMB6.622 million of the total audit fees was agreed to be paid by the Company (including subsidiaries) to KPMG Huazhen LLP and KPMG for the annual audit of financial statement, the interim review, the quarterly implementation of agreed-upon procedures and internal control audit, etc. and it was agreed to pay RMB0.86 million of the non-audit fees to them. The above fees include related taxes, travel, office expenses and other sundry expenses.

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

The Bank engaged KPMG Huazhen LLP as the internal control audit business institution for 2022 and the internal control audit fee payable is RMB600,000.

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

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

VII. DELISTING UPON PUBLICATION OF ANNUAL REPORT

N/A.

VIII. MATTERS RELATED TO BANKRUPTCY AND REORGANIZATION

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

IX. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the major litigation of the Bank is as follows:

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

Save for the above, the Bank was not involved in any other major litigation or arbitration during the Reporting Period. The Bank is involved in several litigations in the daily operation due to loan collection and other reasons. The Bank anticipate that these litigations will not have a material adverse impact on its financial or operating results. As at the end of the Reporting Period, there were 6 pending litigation cases which were initiated against the Bank involved a total amount of approximately RMB1.4744 million, which will not have a material adverse impact on the financial or operating results of the Bank, and no provision arose from the litigation.

X. PUNISHMENT AND RECTIFICATION

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

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

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

XII. SIGNIFICANT RELATED PARTY TRANSACTIONS

12.1 Related party transactions during the ordinary course of business

The Bank conducted related party transactions by strictly following the relevant regulations of the regulatory authorities and rules for management of related party transaction formulated by the Bank.

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

According to the requirements of the CBIRC, during the Reporting Period, there were 9 proposals on material related party transactions approved by the Board, which were related transactions with 8 related enterprises of Haier Group and BQD Financial Leasing. As at the end of the Reporting Period, the Bank's balance of credit-related significant related party transactions was RMB2.709 billion, the details of which are as follows:

Unit: RMB in 100 million

Name of related party	Type of business	Balance of credit-related significant related party transactions	Net credit after deducting margin	Percentage of the net capital as at the end of the Reporting Period
BQD Financial Leasing Company Limited	Interbank borrowing	13.00	13.00	3.12
Qingdao Haiyun Chuangzhi Business Development Co., Ltd. (青島海雲創智商業發展有限公司)	Residential development loan	7.39	7.39	1.77
Haier Financial Factoring (Chongqing) Co., Ltd. (海爾金融保理(重慶)有限公司)	Short-term working capital loan	3.18	3.18	0.76
Qingdao Haichen Real Estate Development Co., Ltd. (青島海宸房地產開發有限公司)	Residential development loan	2.17	2.17	0.52
Haier Group Finance Co., Ltd.	Commercial bill financing	0.96	0.96	0.23
Qingdao Haishanghai Commercial Operation Co., Ltd. (青島尚海商業運營有限公司)	Short-term working capital loan	0.10	0.10	0.02
Qingdao Haiyu Qingquan Hot Spring Hotel Co., Ltd. (青島海御清泉溫泉酒店有限公司)	Short-term working capital loan	0.10	0.10	0.02
Qingdao Tizhiwang IoT Technology Co., Ltd. (青島梯之網物聯科技有限公司)	Short-term working capital loan	0.10	0.10	0.02
Qingdao Mindray Ecological Environment Technology Co., Ltd. (青島邁帝瑞生態環境科技有限公司)	Short-term working capital loan	0.10	0.10	0.02

Section VIII Significant Events

According to the provisions of the CSRC and SZSE, the Bank has made a forecast of the daily related party transactions in 2022 and published the Announcement on Estimated Ordinary Related Party Transactions in 2022 (Announcement No.: 2022-017) on CNINFO website dated 23 March 2022. The related party transactions in the Reporting Period have not exceeded the forecast. The details are as follows:

- (1) Haier Group Corporation and its related parties: the balance of credit-related transactions at the end of the Reporting Period was RMB1.600 billion (including the balance of the RMB191 million credit-related transactions carried out by BQD Financial Leasing and the related parties of Haier Group);
- (2) Intesa Sanpaolo S.p.A. and its related parties: there is no balance of credit-related transactions at the end of the Reporting Period, the actual amount of the non-credit transactions during the Reporting Period was RMB11.5548 million;
- (3) Qingdao Conson Development (Group) Co., Ltd. and its related parties: the balance of credit-related transactions at the end of the Reporting Period was nil, the actual amount of the non-credit transactions during the Reporting Period was RMB38.4191 million;
- (4) BQD Financial Leasing Company Limited: the balance of credit-related transactions at the end of the Reporting Period was RMB1.300 billion, the actual amount of the non-credit transactions during the Reporting Period was RMB2.2156 million;
- (5) BQD Wealth Management Company Limited: the actual amount of the non-credit transaction during the Reporting Period was RMB312 million;
- (6) Related natural persons: the balance of credit transactions at the end of the Reporting Period was RMB208 million and the risk exposure was RMB208 million.

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

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

12.3 Related party transactions in connection with joint external investment

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

12.4 Related creditors' rights and debts transactions

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

12.5 Transactions with related financial companies

During the Reporting Period, there were no deposits, loans or other financial business between the Bank and the financial companies that were related to the Bank. The facilities of RMB250 million granted by the Bank to Haier Group Finance Co., Ltd. was for holders of bank acceptance bills issued by Haier Group Finance Co., Ltd. to pledge and discount of bank acceptance bills with the Bank. The Bank has no direct business with Haier Group Finance Co., Ltd.

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

The Bank does not control any financial companies.

12.7 Other significant related party transactions

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

XIII. MATERIAL CONTRACTS AND IMPLEMENTATION THEREOF

13.1 Custody, contracting and leasing

No matter related to custody, contracting, and leasing of assets of other companies by the Bank, or matter related to custody, contracting, and leasing of assets of the Bank by other companies, with its profit or loss brought to the Bank amounting to more than 10% of the Bank's total profit for the year, occurred during the Reporting Period or in previous periods and subsisted in the Reporting Period.

13.2 Significant guarantees

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

13.3 Entrusted cash and asset management

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

13.4 Major contracts of daily operation

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

13.5 Other material contracts

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

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

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

XV. OTHER MATTERS OF SIGNIFICANCE

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

XVI. MAJOR ISSUES OF THE BANK'S SUBSIDIARIES

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

XVII. PUBLICATION OF ANNUAL REPORT

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

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

Section IX Changes in Shareholdings and Information on Shareholders

I. CHANGES IN SHAREHOLDINGS

1.1 Changes in Shareholdings

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

Unit: share

Items	As at 31 December 2021		Increase/decrease (+/-) during the Reporting Period				As at 31 December 2022		
	Number of shares	Percentage %	New issue	Bonus issue	Conversion from reserves	Others	Sub-total	Number of shares	Percentage %
I. Shares with selling restrictions	2,141,602,419	47.49	-	-	-	-1,628,142,482	-1,628,142,482	513,459,937	8.82
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. Shares held by state-owned legal entities	680,564,147	15.09	-	-	-	-585,596,566	-585,596,566	94,967,581	1.63
3. Shares held by other domestic investors	1,461,038,272	32.40	-	-	-	-1,042,545,916	-1,042,545,916	418,492,356	7.19
Of which: Shares held by domestic non-state-owned legal entities	1,436,972,356	31.86	-	-	-	-1,021,653,160	-1,021,653,160	415,319,196	7.14
Shares held by domestic natural individuals	24,065,916	0.53	-	-	-	-20,892,756	-20,892,756	3,173,160	0.05
4. Shares held by foreign investors	-	-	-	-	-	-	-	-	-
Of which: Shares held by foreign legal entities	-	-	-	-	-	-	-	-	-
Shares held by foreign natural individuals	-	-	-	-	-	-	-	-	-
II. Shares without selling restrictions	2,368,087,581	52.51	1,310,664,724	-	-	1,628,142,482	2,938,807,206	5,306,894,787	91.18
1. RMB ordinary shares	605,052,601	13.42	781,754,230	-	-	1,628,142,482	2,409,896,712	3,014,949,313	51.80
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	1,763,034,980	39.09	528,910,494	-	-	-	528,910,494	2,291,945,474	39.38
4. Others	-	-	-	-	-	-	-	-	-
III. Total number of shares	4,509,690,000	100.00	1,310,664,724	-	-	-	1,310,664,724	5,820,354,724	100.00

Notes: 1. For the reasons for the Bank's change of the total number of shares and the approval of the change of shares during the Reporting Period, please refer to "I. Changes in Shareholdings – 1.2 Changes of Shares with Selling Restrictions" in this section and "II. SECURITIES ISSUANCE AND THE LISTING". The above changes in shares do not involve regulatory approval and share transfer.

2. For the impact of the Bank's A+H rights issue on financial indicators, please refer to "Section II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS VI. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS".

Section IX Changes in Shareholdings and Information on Shareholders

1.2 Changes of Shares with Selling Restrictions

On 17 January 2022, a total of 1,631,288,859 shares in issue prior to the initial public offering of A shares were released. For details, please refer to the Indicative Announcement for the Listing and Circulation of Shares Issued Prior to the Initial Public Offering of A Shares which was published by the Bank on CNINFO website dated 13 January 2022 (Announcement No.: 2022-007).

Name of shareholders	Number of Restricted shares at the beginning of the period	Number of restricted shares increased during the period	Number of Restricted Shares unlocked during the period	Number of restricted shares at the end of the period	Reason for the lock-up	Date of unlocking the restricted shares
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	503,556,341	–	503,556,341	–	Pre-IPO shares subject to trading restrictions	17 January 2022
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	218,692,010	–	218,692,010	–	Pre-IPO shares subject to trading restrictions	17 January 2022
Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	152,170,000	–	152,170,000	–	Pre-IPO shares subject to trading restrictions	17 January 2022
Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	145,297,405	–	145,297,405	–	Pre-IPO shares subject to trading restrictions	17 January 2022
Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司)	133,910,000	–	133,910,000	–	Pre-IPO shares subject to trading restrictions	17 January 2022
Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司)	90,936,164	–	90,936,164	–	Pre-IPO shares subject to trading restrictions	17 January 2022
Shanghai Jiacheng Investment Management Co., Ltd. (上海嘉誠投資管理有限公司)	77,276,328	–	77,276,328	–	Pre-IPO shares subject to trading restrictions	17 January 2022
Guosen Securities Company Limited (國信證券股份有限公司)	52,540,225	–	52,540,225	–	Pre-IPO shares subject to trading restrictions	17 January 2022
Qingdao Bright Mountain Industries Co., Ltd. (青島貝蒙特實業有限公司)	34,682,270	–	34,682,270	–	Pre-IPO shares subject to trading restrictions	17 January 2022
Qingjian Group Co., Ltd. (青建集團股份公司)	32,121,818	–	32,121,818	–	Pre-IPO shares subject to trading restrictions	17 January 2022
12 other legal entity shareholders	166,040,382	–	166,040,382	–	Pre-IPO shares subject to trading restrictions	17 January 2022
145 natural individual shareholders	24,065,916	–	24,065,916	–	Pre-IPO shares subject to trading restrictions	17 January 2022
Of which: Total 7 Directors, Supervisors and senior management ¹	3,100,301	–	3,100,301	3,146,293	Pre-IPO shares subject to trading restrictions	17 January 2022
Total 110 other employee shareholders holding 50,000 shares or more ²	20,763,589	–	20,763,589	–	Pre-IPO shares subject to trading restrictions	17 January 2022
Total 28 other natural individual shareholders	202,026	–	202,026	–	Pre-IPO shares subject to trading restrictions	17 January 2022
Total	1,631,288,859	–	1,631,288,859	3,146,293	–	–

Section IX Changes in Shareholdings and Information on Shareholders

Notes:

1. In addition to the compliance with the Company Law of the PRC, the Securities Law of the PRC and the regulations promulgated by the CSRC, the SZSE and China Securities Depository and Clearing Corporation Limited, Directors, Supervisors and senior management of the Bank will continue to, after this release of shares from trading restrictions, undertake that the number of shares in issue of the Bank prior to the listing of its A shares transferred by each of them through concentrated bidding, block trade and share transfer by agreement every year will not exceed 15% of the total number of shares of the Bank held by each of them, and the total number of shares transferred by each of them within 5 years shall not exceed 50% of the total number of shares of the Bank held by each of them.
2. Pursuant to the Notice on the Regulation of Internal Staff Shares in Financial Enterprises (Caijin [2010] No. 97)《關於規範金融企業內部職工持股的通知》(財金[2010]97號), the individuals holding more than 50,000 shares of internal staff shares will continue to, after this release of shares from trading restrictions, undertake that the number of shares in issue of the Bank prior to the listing of its A shares available for sale every year shall not exceed 15% of the total number of the shares of the Bank held by each of them, and the number of shares available for sale within 5 years shall not exceed 50% of the total number of shares of the Bank held by each of them.
3. As the seven Directors, Supervisors and senior management involved in this release of trading restrictions made subscriptions for the Bank's shares under rights issue during the Reporting Period, the number of locked shares (i.e. restricted shares) held by them at the end of the Reporting Period exceeded the number of shares that have been released from trading restrictions for the period.

II. SECURITIES ISSUANCE AND THE LISTING

In order to facilitate its stable and rapid development, further increase its operation strengths and enhance its core competitiveness and capability for sustainable development, the Bank completed A+H rights issue during the Reporting Period. The details are as follows:

2.1 Issue of securities (excluding preference shares) during the Reporting Period

Stock name	Issue date	Issue price	Issue volume (share)	Listing date	Approved number of shares for listing and dealing (share)	Ending date of transaction	Disclosure index	Disclosure date
A share	4 January 2022	RMB3.20 per share	781,754,230	28 January 2022	781,754,230	-	The Changes in Shares under A Share Rights Issue and Listing Announcement of A Rights Shares (Announcement No.: 2022-011) published by the Bank on CNINFO website	26 January 2022
H share	13 January 2022	HKD3.92 per share	528,910,494	11 February 2022	528,910,494	-	The Announcement on Results of H Share Rights Issue and Changes in Shares (Announcement No.: 2022-012) published by the Bank on CNINFO website	9 February 2022

In December 2021, the Bank obtained the Approval in Respect of the Rights Issue of Bank of Qingdao Co., Ltd. (Zheng Jian Xu Ke [2021] No. 3932) issued by CSRC. The Bank allotted three shares for every 10 shares to all A share shareholders at a price of RMB3.20 per share. 781,754,230 A rights shares were actually issued and were listed on 28 January 2022. The par value of each A rights share was RMB1, with the total par value of RMB781,754,230. On 29 December 2021, the closing price of A shares of the Bank was RMB4.68 per share, and the net amount of funds raised was RMB3.17 per share. These raised funds were used as replenishment to the Bank's core tier-one capital. For details, please refer to the Bank's Announcement of Changes in A Rights Shares and Listing of A Rights Shares dated 26 January 2022 (Announcement No. 2022-011) published on CNINFO website.

In December 2021, the Bank obtained the Approval in Respect of the Issuance of Overseas Listed Foreign Shares of Bank of Qingdao Co., Ltd. (Zheng Jian Xu Ke [2021] No. 3861) issued by CSRC. The Bank placed three shares for every 10 shares to all H share shareholders at the same price as the price of the A share rights issue, which is HK\$3.92 per share after exchange rate conversion. 528,910,494 H rights shares were actually issued and were listed on 11 February 2022. The par value of each H rights share was RMB1, with the total par value of RMB528,910,494. On 29 December 2021, the closing price of H shares of the Bank was HK\$4.43 per share, and the net amount of funds raised was HK\$3.87 per share. These raised funds were used as replenishment to the Bank's core tier-one capital. For details, please refer to the Announcement of Results of H share Rights Issue and Changes in Shares dated 9 February 2022 (Announcement No: 2022-012) on CNINFO website and the announcement on results of H share rights issue published on the HKEXnews website of the Hong Kong Stock Exchange on the same date.

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

During the Reporting Period, the total number of shares of the Bank increased from 4,509,690,000 shares to 5,820,354,724 shares. For more details about the changes in shares subject to selling restrictions before initial offering, internal staff shares and the shareholdings of shareholders and the changes in assets and liability structure, please refer to the relevant parts of this report.

2.3 Existing Internal Staff Shares

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

III. SHAREHOLDERS AND DE FACTO CONTROLLERS

3.1 Number of shareholders and their shareholdings in the Bank

Unit: share

Total number of ordinary shareholders at the end of the Reporting Period	70,139	Total number of ordinary shareholders as at the end of the last month before the date of the disclosure of the annual report	70,531	Total number of preference shareholders whose voting rights were resumed at the end of the Reporting Period	–	Total number of preference shareholders whose voting rights were resumed as at the end of the last month before the date of the disclosure of the annual report	–
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Shareholdings of ordinary shareholders who hold more than 5% of the shares or shareholdings of the top ten ordinary shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholding	Number of shares held as at the end of the Reporting Period	Increase or decrease during the Reporting Period	Number of shares with selling restrictions held	Number of shares without selling restrictions held	Share pledged or locked-up Status of shares	Number of shares
Hong Kong Securities Clearing Company Nominees Limited	Overseas legal entity	21.87%	1,272,955,224	135,061,444	–	1,272,955,224	Unknown	Unknown
Intesa Sanpaolo S.p.A. (意大利聯合聖保羅銀行)	Overseas legal entity	17.50%	1,018,562,076	393,808,096	–	1,018,562,076	–	–
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	State-owned legal entity	11.25%	654,623,243	151,066,902	–	654,623,243	–	–
Qingdao Haier Industrial Development Co., Ltd. (青島海爾產業發展有限公司)	Domestic non-state-owned legal entity	9.15%	532,601,341	122,908,002	409,693,339	122,908,002	–	–
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	Domestic non-state-owned legal entity	4.88%	284,299,613	65,607,603	–	284,299,613	–	–
Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	Domestic non-state-owned legal entity	3.25%	188,886,626	43,589,221	–	188,886,626	–	–
Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司)	Domestic non-state-owned legal entity	2.99%	174,083,000	40,173,000	–	174,083,000	–	–
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	State-owned legal entity	2.12%	123,437,855	28,470,274	94,967,581	28,470,274	–	–
Shandong Sanliyan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	Domestic non-state-owned legal entity	2.09%	121,600,000	-30,570,000	–	121,600,000	Pledged Locked-up	121,600,000 121,600,000
Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司)	Domestic non-state-owned legal entity	2.03%	118,217,013	27,280,849	–	118,217,013	–	–

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

N/A

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

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

Description of the voting rights entrusted by the above shareholders, the voting rights the above shareholders are entrusted with, the voting the above shareholders abstained from

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

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

N/A

Section IX Changes in Shareholdings and Information on Shareholders

Shareholdings of the top ten shareholders without selling restrictions

Name of shareholders	Number of ordinary shares held without selling restrictions as at the end of the Reporting Period	Types of shares	
		Types of shares	Number
Hong Kong Securities Clearing Company Nominees Limited	1,272,955,224	Overseas listed foreign shares	1,272,955,224
Intesa Sanpaolo S.p.A.	1,018,562,076	Overseas listed foreign shares	1,018,562,076
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	654,623,243	RMB ordinary shares	654,623,243
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	284,299,613	RMB ordinary shares	284,299,613
Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	188,886,626	RMB ordinary shares	188,886,626
Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司)	174,083,000	RMB ordinary shares	174,083,000
Qingdao Haier Industrial Development Co., Ltd. (青島海爾產業發展有限公司)	122,908,002	RMB ordinary shares	122,908,002
Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	121,600,000	RMB ordinary shares	121,600,000
Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司)	118,217,013	RMB ordinary shares	118,217,013
Guosen Securities Company Limited (國信證券股份有限公司)	68,377,292	RMB ordinary shares	68,377,292

Explanation on the related relationships or acting in concert among the top ten ordinary shareholders without selling restrictions and that between the top ten ordinary shareholders without selling restrictions and the top ten ordinary shareholders

Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd. and Haier Smart Home Co., Ltd. are all under Haier Group, and they are persons acting in concert. The Bank is not aware of any related relationships among the remaining top ten ordinary shareholders without selling restrictions and that between the remaining top ten ordinary shareholders without selling restrictions and the top ten ordinary shareholders or whether they are parties acting in concert.

Explanation on the margin trading and securities lending by top ten ordinary shareholders

The Bank is not aware of margin trading and securities lending by holder of shares in which Hong Kong Securities Clearing Company Nominees Limited acts as an agent. As at the end of the Reporting Period, top ten ordinary shareholders did not participate in margin trading and securities lending business and refinancing business.

- Notes**
- Among the total number of ordinary shareholders as at the end of the Reporting Period, there are 69,990 A share shareholders and 149 H share shareholders; In the total number of ordinary shareholders at the end of last month before the disclosure of the annual report, there are 70,383 A share shareholders and 148 H share shareholders;
 - The shares held by Hong Kong Securities Clearing Company Nominees Limited are the total number of shares in the Bank's H shareholders accounts traded on the trading platform of Hong Kong Securities Clearing Company Nominees Limited by it as an agent;
 - As at the end of the Reporting Period, Intesa Sanpaolo S.p.A., as an H share registered shareholder of the Bank, held 1,015,380,976 H shares, and the remaining 3,181,100 H shares were agented to and under the name of Hong Kong Securities Clearing Company Nominees Limited. In this table, the agent shares have been deducted from the number of shares held by Hong Kong Securities Clearing Company Nominees Limited;
 - The top 10 ordinary shareholders and the top 10 ordinary shareholders without selling restrictions of the Bank did not conduct any transactions on agreed repurchases during the Reporting Period.

3.2 Controlling Shareholders of the Bank

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

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

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

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

As at the end of the Reporting Period, the largest shareholder of the Bank and the person acting in concert had not pledged any of their shares in the Bank.

3.5 Substantial shareholders of the Bank

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

1. Haier Group Corporation

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

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

As at the end of the Reporting Period, Haier Group Corporation held a total of 1,055,878,943 A shares of the Bank via eight companies within the group, which accounted for 18.14% of the total ordinary share capital. The above shares were not pledged or frozen. These eight companies were persons acting in concert. The ultimate beneficiary of Haier Group Corporation is itself, and Haier Group Corporation is the de facto controller of Haier Smart Home Co., Ltd., INKON Life Technology Co., Ltd., Qingdao Haier Biomedical Co., Ltd. and Qingdao Thunderobot Technology Co., Ltd.* (青島雷神科技股份有限公司). Haier Group Corporation has declared to the Bank related parties in accordance with regulatory requirements. As at the end of the Reporting Period, the balance of the Bank's credit-related significant related party transactions² with Haier Group was RMB1,409 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

2. Intesa Sanpaolo S.p.A.

Intesa Sanpaolo S.p.A. was established on 5 January 2007 (through merger of Banca Intesa S.p.A. (意大利聯合銀行) and Sanpaolo IMI S.p.A. (意大利聖保羅意米銀行)) with its legal representative of Gian Maria GROS-PIETRO and a registered capital of EUR10,369 million. Intesa Sanpaolo S.p.A. is a multi-national bank headquartered in Turin, Italy. It is one of the most prominent players of the Eurozone's banking industry as well as the industry-leader of Italy's retail banking, corporate banking business and wealth management businesses. Intesa Sanpaolo S.p.A. has a total of approximately 3,600 branches in Italy, providing 13.60 million customers with high-quality service. Intesa Sanpaolo S.p.A. has established a strategic international layout, including approximately 950 branches serving 7.10 million customers, commercial banking in 12 countries and an international and professional service network for corporate customers in 25 countries.

² *Note:* The data on the related-party transactions mentioned herein is computed based on the requirements of the CBIRC.

Section IX Changes in Shareholdings and Information on Shareholders

As at the end of the Reporting Period, Intesa Sanpaolo S.p.A. held 1,018,562,076 H shares of the Bank, which accounted for 17.50% of the total ordinary share capital. The above shares were not pledged or frozen. Intesa Sanpaolo S.p.A. has no controlling shareholders, no de facto controllers, no persons acting in concert, and its ultimate beneficiary is itself and itself is a listed company, and the listed companies controlled by RISANAMENTO SPA. Intesa Sanpaolo S.p.A. has declared to the Bank related parties in accordance with regulatory requirements. During the Reporting Period, there was no significant related party transaction between the Bank and Intesa Sanpaolo S.p.A.

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

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

Qingdao Conson Development (Group) Co., Ltd. is a wholly-state-owned company contributed by the State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government on behalf of the Qingdao Municipal People's Government. Since its establishment, the Group has followed the urban development strategy, undertaken the mission of urban development, and formed the primary business sectors of the modern ocean, integrated financial services, urban functionality development, urban operation and services, and has nine core tier-1 subsidiaries and one listed company. The Group has a domestic main credit rating of AAA and an international credit rating of BBB+ (Fitch) and has been assessed as an A-class enterprise by the Qingdao State-owned Assets Supervision and Administration Commission for many consecutive years.

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

3.5.2 Other substantial shareholders under the regulatory caliber

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

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

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

N/A.

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

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

V. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2022, in so far as the Directors, Supervisors and chief executives of the Bank were aware, substantial shareholders who had an interest or short position in the issued share capital of the Bank which are required to be recorded in the register to be kept under section 336 of the SFO or held an equity interest or short position of 5% or more in the issued share capital of the Bank which are required to be notified to the Bank are shown as below:

Name of shareholders	Notes	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of shares ⁽¹⁾	Approximate percentage of the total number of A shares ⁽²⁾	Approximate percentage of the total number of H shares ⁽³⁾	Long/short position
Haier Group Corporation (海爾集團公司)	1	A shares	Interest of controlled corporation	1,055,878,943	18.14	29.93	–	Long
Haier Kaaosi Co., Ltd. (海爾卡奧斯股份有限公司)	2	A shares	Interest of controlled corporation	532,601,341	9.15	15.09	–	Long
Qingdao Haier Industrial Development Co., Ltd. (青島海爾產業發展有限公司)	2	A shares	Beneficial owner	532,601,341	9.15	15.09	–	Long
Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	–	A shares	Beneficial owner	188,886,626	3.25	5.35	–	Long
			Interest of controlled corporation	318,085,033	5.46	9.01	–	Long
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	–	A shares	Beneficial owner	284,299,613	4.88	8.06	–	Long
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)	3	A shares	Interest of controlled corporation	654,623,893	11.25	18.55	–	Long
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	3	A shares	Beneficial owner	654,623,893	11.25	18.55	–	Long
Intesa Sanpaolo S.p.A.	–	H shares	Beneficial owner	1,018,562,076	17.50	–	44.44	Long
AMTD Group Company Limited	5	H shares	Interest of controlled corporation	225,033,531	3.87	–	9.82	Long
AMTD Strategic Investment Limited	5	H shares	Beneficial owner	196,882,000	3.38	–	8.59	Long
AMTD Investment Solutions Group Limited	5	H shares	Beneficial owner	28,151,531	0.48	–	1.23	Long
Jinan Binhe New District Constructive Investment Group Co., Ltd. (濟南濱河新區建設投資集團有限公司)	–	H shares	Beneficial owner	200,000,000	3.44	–	8.73	Long
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)	6	H shares	Interest of controlled corporation	217,847,280	3.74	–	9.50	Long
Qingdao Conson Financial Holdings Co., Ltd. (青島國信金融控股有限公司)	6	H shares	Interest of controlled corporation	217,847,280	3.74	–	9.50	Long
Haitian (HK) Holdings Limited (海天(香港)控股有限公司)	6	H shares	Beneficial owner	217,847,280	3.74	–	9.50	Long

Notes:

- (1) 1,055,878,943 shares of the Bank are held by Haier Group Corporation via its directly or indirectly controlled companies.
- (2) These 1,055,878,943 shares are held as to 532,601,341 shares directly by Qingdao Haier Industrial Development Co., Ltd., which is 100% owned by Haier Kaaosi Co., Ltd. Therefore, Haier Kaaosi Co., Ltd. is deemed to be interested in all the shares of the Bank held by Qingdao Haier Industrial Development Co., Ltd.

Section IX Changes in Shareholdings and Information on Shareholders

- (3) Qingdao Conson Industrial Co., Ltd. is 100% owned by Qingdao Conson Development (Group) Co., Ltd. Therefore, Qingdao Conson Development (Group) Co., Ltd. is deemed to be interested in all the shares of the Bank held by Qingdao Conson Industrial Co., Ltd.
- (4) AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited hold 196,882,000 shares and 28,151,531 shares of the Bank respectively. AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited are controlled by AMTD Group Company Limited. Therefore, AMTD Group Company Limited is deemed to be interested in all the shares of the Bank held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited.

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

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

- (5) Haitian (HK) Holdings Limited holds 217,847,280 shares of the Bank and is wholly-owned by Qingdao Conson Financial Holdings Co., Ltd. which is 90.27% owned by Qingdao Conson Development (Group) Co., Ltd.
- (6) According to the disclosure of interests notices submitted by Ariana Capital Investment Limited on 30 June 2020, Ariana Capital Investment Limited was interested in 176,766,469 shares of the Bank directly held by it. As at the latest practicable date for disclosure of this annual report, no other disclosure of interests notices have been submitted by them.
- (7) Under Section 336 of the SFO, forms disclosing of interests shall be submitted by shareholders of the Bank upon satisfaction of certain conditions. Changes of shareholders' shareholdings in the Bank are not required to inform the Bank and the Hong Kong Stock Exchange, except for the satisfaction of certain conditions. Therefore, there could be difference between shareholders' latest shareholdings in the Bank and the shareholdings submitted to the Hong Kong Stock Exchange.
- (8) As at 31 December 2022, the number of the Bank's total issued ordinary shares, A shares and H shares are 5,820,354,724 shares, 3,528,409,250 shares and 2,291,945,474 shares, respectively.
- (9) Save as disclosed in the above table, as at 31 December 2022, Goncius I Limited was interested in 488,911,765 H shares of the Bank as beneficial owner, accounting for approximately 8.40% of the total number of shares of the Bank and approximately 21.33% of the total number of H shares of the Bank respectively; Deutsche Bank Aktiengesellschaft was interested in 126,300,000 H shares of the Bank as holder of security interest of the share, accounting for approximately 2.17% of the total number of the shares and approximately 5.51% of the total number of the H shares of the Bank respectively.

As at 31 December 2022, save as disclosed above, in so far as the Directors, Supervisors and chief executives of the Bank are aware, there is no person who had an interest or short position in the shares, underlying shares or equity derivatives of the Bank which are required to be recorded in the register to be kept under section 336 of the SFO or held an equity interest or short position of 5% or more in the issued capital of the Bank which are required to be notified to the Bank.

Section X Preference Shares

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

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

II. NUMBER OF SHAREHOLDER OF PREFERENCE SHARES AND ITS SHAREHOLDINGS

To reduce financing costs and optimize capital structure, the Bank had redeemed all US\$1.203 billion offshore preference shares on 19 September 2022. The above-mentioned offshore preference shares had been delisted from the Hong Kong Stock Exchange, which took effect after 4:00 p.m., 21 September 2022. As at the end of the Reporting Period, the Bank had no existing offshore preference shares.

III. PROFIT DISTRIBUTION FOR PREFERENCE SHARES

Date of distribution	Dividend rate	Amount of distribution (USD in ten thousand) (including tax)	Whether it was in compliance with the conditions and relevant procedures of distribution	Dividend payment method	Whether it was a cumulative dividend	Whether it participated in the distribution of residual profits
20 September 2022	5.50%	7,351.67	Yes	In cash	No	No

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

IV. REPURCHASE OR CONVERSION OF PREFERENCE SHARES

Start date of the repurchase period	End date of the repurchase period	Repurchase price (USD/share)	Pricing principle	Number of shares repurchased	Proportion of shares repurchased	Total amount of funds for repurchase (RMB)	Term of the repurchase of shares	Source of funds for the repurchase	Entity to exercise the repurchase option
19 September 2022	19 September 2022	20.00	The aggregate liquidation preference amount plus dividends accrued but not paid as of the redemption date	60,150,000	100%	1,269,165,000	N/A	Self-owned funds	All holders of preference shares
Impact on the Company's share capital structure			After the completion of the redemption, the Bank had no outstanding offshore preference shares.						
Procedures in respect of the repurchase of preference shares			<ol style="list-style-type: none"> On 29 June 2022, the Bank held the 16th meeting of the 8th session of the Board, at which the proposal on redemption of offshore preference shares of Bank of Qingdao Co., Ltd. was considered and approved. On 20 July 2022, the Bank received the Letter on Relevant Opinions on the Redemption of Offshore Preference Shares by Bank of Qingdao (《關於青島銀行贖回境外優先股相關意見的函》) from Qingdao Office of CBIRC, and Qingdao Office of CBIRC agreed to the redemption of offshore preference shares by the Bank. The Bank redeemed all offshore preference shares of USD1.203 billion on 19 September 2022. 						

During the Reporting Period, the Bank had no conversion of offshore preference shares.

V. RESUMPTION OF VOTING RIGHTS OF PREFERENCE SHARES DURING THE REPORTING PERIOD

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

VI. ACCOUNTING POLICIES ADOPTED FOR PREFERENCE SHARES AND REASONS

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

Section XI Report of the Board of Directors

I. PRINCIPAL ACTIVITIES

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

II. OPERATIONS IN COMPLIANCE WITH LAWS AND REGULATIONS

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

III. BUSINESS REVIEW AND OUTLOOK

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

IV. EXPOSURE TO MAJOR RISKS

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

V. EARNINGS AND DIVIDENDS

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

Taxation applying to dividends on ordinary shares

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

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

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

Section XI Report of the Board of Directors

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

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

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

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

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

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

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

VI. ANNUAL GENERAL MEETING OF 2022 AND THE DATE OF THE CLOSURE OF REGISTER OF MEMBERS

The Bank intends to hold the 2022 annual general meeting on Wednesday, 31 May 2023. In order to determine the list of shareholders of H shares who are entitled to attend and vote at the 2022 annual general meeting, the H share register of members of the Bank will be closed from Thursday, 25 May 2023 to Wednesday, 31 May 2023 (both days inclusive), during such period no transfer of H shares will be registered. Shareholders of H shares of the Bank who intend to attend and vote at the annual general meeting must lodge all the transfer documents together with the relevant share certificates with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 24 May 2023.

VII. DISTRIBUTABLE RESERVES

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

VIII. FINANCIAL INFORMATION HIGHLIGHTS

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

IX. DONATIONS

The Company made charity and other donations of approximately RMB5.6908 million in total during the Reporting Period.

X. ENVIRONMENTAL POLICIES AND PERFORMANCE

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

XI. PROPERTY AND EQUIPMENT

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

XII. ACQUISITIONS, DISPOSAL OF ASSETS DURING THE REPORTING PERIOD

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

XIII. RETIREMENT BENEFITS

The retirement benefits provided by the Company to employees include defined contribution plan and defined benefit plan. The defined contribution plan is the enterprise annuity plan and the basic pension insurance in the social security system established and managed by the government agency that our employees participated in according to the requirements of relevant Chinese laws and regulations. As for defined contribution plan, forfeited contributions may not be used by the Company to reduce the existing level of contributions. As for defined benefit plan, Towers Watson Management Consulting Co., Ltd. (韬睿惠悦管理諮詢有限公司), a qualified staff (a member of society of Actuaries in America) of an independent actuary, was engaged by the Company to assess the plan based on the expected cumulative welfare unit method. The actuarial assumptions adopted in the actuarial evaluation results include discount rate, mortality rate, etc., and the plan did not have corresponding asset and contribution. No significant changes incurred during the Reporting Period. For details, please refer to notes to the financial statements of this annual report.

XIV. SUBSTANTIAL SHAREHOLDERS

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

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

During the Reporting Period, the Bank had not purchased or sold any listed securities of the Bank. For details on the redemption of offshore preference shares by the Bank, please refer to the section headed "Preference Shares".

XVI. PRE-EMPTIVE RIGHTS

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

XVII. EMPLOYEES AND MAJOR CUSTOMER

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

During the Reporting Period, the operating income from the top five largest customers of the Company did not exceed 30% of the total operating income of the Company. Due to the nature of its business, the Bank had no major suppliers.

XVIII. ISSUANCE OF DEBENTURE

On 14 July 2022, the Bank issued "2022 Undated Capital Bonds (first tranche) of Bank of Qingdao Co., Ltd." in China's national inter-bank bond market. The issue size of the bonds was RMB4.0 billion with the proceeds from this issuance to be used to replenish the Bank's additional tier 1 capital.

On 16 August 2022, the Bank issued "2022 Undated Capital Bonds (second tranche) of Bank of Qingdao Co., Ltd." in China's national inter-bank bond market. The issue size of the bonds was RMB2.4 billion with the proceeds from this issuance to be used to replenish the Bank's additional tier 1 capital.

XIX. EQUITY-LINKED AGREEMENT

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

XX. USE OF RAISED FUNDS

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

XXI. UNDERTAKINGS REGARDING THE LISTING OF H SHARES

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

XXII. SHARE CAPITAL

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

XXIII. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

XXIV. CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

Name of Director/ Supervisor/chief executive	Type of shares	Capacity	Number of shares held	Percentage of the total number of ordinary shares ^{Note}	Percentage of the total number of A shares ^{Note}	Long position/ short position
TAN Lixia	A shares	Beneficial owner	487	0.00%	0.00%	Long position
WANG Lin	A Shares	Beneficial owner	650,000	0.01%	0.02%	Long position
YANG Fengjiang	A shares	Beneficial owner	650,000	0.01%	0.02%	Long position
MENG Xianzheng	A shares	Beneficial owner	481,391	0.01%	0.01%	Long position

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

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

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

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

XXVII. ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

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

XXIX. PERMITTED INDEMNITY PROVISIONS AND INSURANCE FOR DIRECTORS

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

XXX. MANAGEMENT CONTRACTS

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

XXXI. DIRECTORS AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

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

XXXII. CORPORATE GOVERNANCE

Please refer to section "Corporate Governance" for details.

XXXIII. CONNECTED TRANSACTIONS

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

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

XXXIV. REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please refer to section "Corporate Governance" for details.

XXXV. PUBLIC FLOAT

Based on the public information available to the Bank and to the knowledge of the Directors, as at the end of the Reporting Period, the Bank has maintained sufficient public float as required by the Hong Kong Stock Exchange. As at the latest practicable date for disclosure of this report, the public float of the Bank's A shares and H shares was 49.33%.

XXXVI. AUDITORS

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

By order of the Board



JING Zailun
chairman

Section XII Report of the Board of Supervisors

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

I. COMPLIANT OPERATIONS OF THE COMPANY

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

II. AUTHENTICITY OF FINANCIAL REPORT

KPMG Huazhen LLP and KPMG audited the 2022 annual financial statements prepared by the Company in accordance with Accounting Standards for Business Enterprises and IFRSs respectively, and issued unqualified audit reports. The financial report has truly and completely reflected the financial position and operating results of the Bank as at 31 December 2022.

III. INFORMATION DISCLOSURE

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

IV. ACQUISITION AND DISPOSAL OF ASSETS OF THE COMPANY

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

V. RELATED PARTY TRANSACTIONS

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

VI. IMPLEMENTATION OF RESOLUTIONS OF THE SHAREHOLDERS' GENERAL MEETING

The Board of Supervisors had no objection to the reports and proposals submitted by the Board of Directors to the shareholders' general meeting of the Bank in 2022; supervised the implementation of the resolutions of the shareholders' general meeting, and considered that the Board of Directors had conscientiously implemented the relevant resolutions of the shareholders' general meeting.

VII. INTERNAL CONTROL

The Board of Supervisors reviewed the 2022 Annual Internal Control Evaluation Report of Bank of Qingdao Co., Ltd. and had no objection to the contents of the report. During the Reporting Period, there was no material deficiency in the integrity, rationality, effectiveness and implementation of the Bank's internal control mechanisms and systems were found.

By order of the Board of Supervisors



YANG Fengjiang
Chief Supervisor

Independent Auditor's Report

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

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

OPINION

We have audited the consolidated financial statements of Bank of Qingdao Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 173 to 297, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Independent Auditor's Report (continued)

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

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

1. Loss allowances of loans and 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

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

The determination of loss allowances of loans and financial investments 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 rate, adjustments for forward-looking information and other adjustment factors. Extensive management judgment is involved in the selection of those parameters and the application of the assumptions.

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

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

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

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

Independent Auditor's Report (continued)

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

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

1. Loss allowances of loans and 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

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

- for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the compilation logics of the overdue information of the loans and financial investments measured at amortised cost and the system calculation of the internal credit grading of corporate customers for selected samples.
- evaluating the reasonableness of management's assessment on whether the credit risk of the loan or the financial investment measured at amortised cost has, or has not, increased significantly since initial recognition and whether the loan or the financial investment is credit-impaired by selecting risk-based samples. We analysed the portfolio by industry sector to select samples in industries more vulnerable to the current economic situation and other borrowers or debtors with potential credit risk. We checked loan 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 of the loan or the financial investment measured at amortised cost.
- evaluating the reasonableness of loss given default for selected samples of corporate loans or financial investment measured at amortised cost that are credit-impaired, by checking the financial situation of the borrower or the debtor, the security type, the seniority of the claim, the recoverable amount of collateral, 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 financial investments measured at amortised cost by using the expected credit loss model.
- assessing the reasonableness of the disclosures in the consolidated financial statements in relation to loss allowances of loans and financial investments measured at amortised cost against prevailing accounting standards.

Independent Auditor's Report (continued)

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

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

2. Assessment of fair value of financial instruments

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

The Key Audit Matter

How the matter was addressed in our audit

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

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

We identified assessment of the fair value of financial instruments as a key audit matter because of the assets and liabilities measured at fair value are material to the Group and the degree of complexity involved in the valuation techniques and the degree of judgment exercised by management in determining the inputs used in the valuation models.

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

- understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the valuation, independent price verification, front office/back office reconciliations and valuation model approval for financial instruments.
- for level 2 and level 3 financial instruments, on a sample basis, involving our valuation specialists to assess whether the valuation method selected is appropriate with reference to the prevailing accounting standards. Our procedures included developing parallel models, obtaining inputs independently and verifying the inputs; assessing the appropriate application of fair value adjustment that form an integral part of fair value, by inquiring of management about any changes in the fair value adjustment methodologies and assessing the appropriateness of the inputs adjustments applied; and comparing our valuation results with that of the Group.
- assessing the reasonableness of the disclosures in the consolidated financial statements in relation to assessment of fair value of financial instruments against prevailing accounting standards.

Independent Auditor's Report (continued)

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

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

3. Consolidation of structured entities

Refer to the accounting policies in note 2(25), and note 47 to the financial statements.

The Key Audit Matter

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

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

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

How the matter was addressed in our audit

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

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

Independent Auditor's Report (continued)

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

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

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Independent Auditor's Report (continued)

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Li Ka Lam.

KPMG

Certified Public Accountants

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

31 March 2023

Consolidated statement of profit or loss

for the year ended 31 December 2022 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2022	2021
Interest income		19,830,162	18,208,935
Interest expense		(11,541,848)	(10,563,310)
Net interest income	3	8,288,314	7,645,625
Fee and commission income		1,791,282	2,175,357
Fee and commission expense		(346,152)	(220,231)
Net fee and commission income	4	1,445,130	1,955,126
Net trading gains/(losses)	5	741,182	(171,489)
Net gains arising from investments	6	1,057,175	1,680,445
Other operating income	7	117,454	28,666
Operating income		11,649,255	11,138,373
Operating expenses	8	(4,218,441)	(3,915,738)
Credit losses	11	(4,288,828)	(3,966,971)
Impairment losses on other assets		(6,027)	(30,254)
Profit before taxation		3,135,959	3,225,410
Income tax expense	12	31,566	(232,197)
Net profit for the year		3,167,525	2,993,213
Profit attributable to:			
Equity shareholders of the Bank		3,082,775	2,922,664
Non-controlling interests		84,750	70,549
Basic and diluted earnings per share (in RMB)	13	0.45	0.51

The notes on pages 181 to 297 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2022 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2022	2021
Net profit for the year		3,167,525	2,993,213
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Remeasurement of defined benefit liability	39(4)	(5,280)	(3,382)
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)	(459,440)	457,690
– Credit losses of financial assets measured at fair value through other comprehensive income	39(4)	(198,053)	259,474
Other comprehensive income, net of tax		(662,773)	713,782
Total comprehensive income		2,504,752	3,706,995
Total comprehensive income attributable to:			
Equity shareholders of the Bank		2,420,002	3,636,446
Non-controlling interests		84,750	70,549

The notes on pages 181 to 297 form part of these financial statements.

Consolidated statement of financial position

as at 31 December 2022 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2022	31 December 2021
Assets			
Cash and deposits with central banks	14	27,825,306	53,241,394
Deposits with banks and other financial institutions	15	2,301,037	2,126,922
Placements with banks and other financial institutions	16	8,432,022	5,108,646
Derivative financial assets	17	108,376	146,617
Financial assets held under resale agreements	18	–	12,288,925
Loans and advances to customers	19	262,518,662	238,608,698
Financial investments:			
– Financial investments measured at fair value through profit or loss	20	47,259,762	55,947,254
– Financial investments measured at fair value through other comprehensive income	21	96,678,701	72,613,395
– Financial investments measured at amortised cost	22	58,202,665	61,422,152
Long-term receivables	24	15,280,949	11,688,253
Property and equipment	25	3,466,386	3,390,193
Right-of-use assets	26	826,958	845,889
Deferred tax assets	27	3,446,343	2,505,442
Other assets	28	3,266,825	2,315,830
Total assets		529,613,992	522,249,610
Liabilities			
Borrowings from central banks	29	13,256,605	25,494,116
Deposits from banks and other financial institutions	30	6,439,660	6,341,814
Placements from banks and other financial institutions	31	17,808,095	16,904,500
Derivative financial liabilities	17	188,147	144,689
Financial assets sold under repurchase agreements	32	25,634,354	25,305,596
Deposits from customers	33	348,043,307	317,965,807
Income tax payable		703,876	124,032
Debt securities issued	34	74,866,951	92,218,300
Lease liabilities	35	515,043	505,895
Other liabilities	36	5,564,659	3,917,133
Total liabilities		493,020,697	488,921,882

The notes on pages 181 to 297 form part of these financial statements.

Consolidated statement of financial position (continued)

as at 31 December 2022 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2022	31 December 2021
Equity			
Share capital	37	5,820,355	4,509,690
Other equity instruments			
Including: preference shares	38(1)	–	7,853,964
perpetual bonds	38(2)	6,395,783	–
Capital reserve	39(1)	10,687,634	8,337,869
Surplus reserve	39(2)	2,388,248	2,103,883
General reserve	39(3)	6,618,047	5,576,461
Other comprehensive income	39(4)	83,726	746,499
Retained earnings	40	3,822,519	3,507,129
Total equity attributable to equity shareholders of the Bank		35,816,312	32,635,495
Non-controlling interests		776,983	692,233
Total equity		36,593,295	33,327,728
Total liabilities and equity		529,613,992	522,249,610

Approved and authorised for issue by the board of directors on 31 March 2023.

Jing Zailun	Wu Xianming	Chen Shuang	Meng Dageng	(Company Stamp)
Legal Representative	President	Vice President in charge	Chief Financial Officer	
(Chairman)		of finance function		

The notes on pages 181 to 297 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2022 (Expressed in thousands of Renminbi, unless otherwise stated)

For the year ended 31 December 2022

Note	Attributable to equity shareholders of the Bank										Non-controlling interests	Total equity
	Share capital	Other equity instruments		Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total			
		Preference shares	Perpetual bonds									
		Note 38(1)	Note 38(2)									
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	38	-	(7,853,964)	-	(494,375)	-	-	-	-	(8,348,339)	-	(8,348,339)
Appropriation of profit:												
- Appropriation to surplus reserve	40	-	-	-	-	284,365	-	-	(284,365)	-	-	-
- Appropriation to general reserve	40	-	-	-	-	-	1,041,586	-	(1,041,586)	-	-	-
- Dividends	40	-	-	-	-	-	-	-	(1,441,434)	(1,441,434)	-	(1,441,434)
Balance at 31 December 2022		5,820,355	-	6,395,783	10,687,634	2,388,248	6,618,047	83,726	3,822,519	35,816,312	776,983	36,593,295

The notes on pages 181 to 297 form part of these financial statements.

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2022 (Expressed in thousands of Renminbi, unless otherwise stated)

For the year ended 31 December 2021

	Attributable to equity shareholders of the Bank									Total equity	
	Note	Share capital	Other equity instruments Note 38	Capital reserve Note 39(1)	Surplus reserve Note 39(2)	General reserve Note 39(3)	Other comprehensive income Note 39(4)	Retained earnings	Total		Non-controlling interests
Balance at 1 January 2021		4,509,690	7,853,964	8,337,869	1,859,737	5,072,217	32,717	2,618,980	30,285,174	621,684	30,906,858
Total comprehensive income		-	-	-	-	-	713,782	2,922,664	3,636,446	70,549	3,706,995
Appropriation of profit:											
- Appropriation to surplus reserve	40	-	-	-	244,146	-	-	(244,146)	-	-	-
- Appropriation to general reserve	40	-	-	-	-	504,244	-	(504,244)	-	-	-
- Dividends	40	-	-	-	-	-	-	(1,286,125)	(1,286,125)	-	(1,286,125)
Balance at 31 December 2021		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

The notes on pages 181 to 297 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2022 (Expressed in thousands of Renminbi, unless otherwise stated)

	2022	2021
Cash flows from operating activities		
Profit before taxation	3,135,959	3,225,410
Adjustments for:		
Credit losses	4,288,828	3,966,971
Impairment losses on other assets	6,027	30,254
Depreciation and amortisation	547,473	493,063
Unrealised foreign exchange (gains)/losses	(653,140)	187,667
Net losses on disposal of property and equipment, intangible assets and other assets	1,042	1,426
Dividend income	(8,000)	(2,600)
Losses/(Gains) from changes in fair value	1,326,823	(473,453)
Net gains arising from investments	(2,376,258)	(1,206,092)
Interest expense on debt securities issued	2,709,725	2,927,687
Interest income from financial investments	(5,210,430)	(5,264,161)
Others	2,407	(17,073)
	3,770,456	3,869,099
Changes in operating assets		
Net decrease in deposits with central banks	876,604	3,502,520
Net increase in deposits with banks and other financial institutions	(80,000)	(820,000)
Net increase in placements with banks and other financial institutions	(7,850,000)	(400,000)
Net increase in loans and advances to customers	(26,803,985)	(39,517,125)
Net decrease/(increase) in financial assets held under resale agreements	12,303,355	(2,568,775)
Net increase in long-term receivables	(3,683,039)	(741,348)
Net increase in other operating assets	(89,368)	(68,847)
	(25,326,433)	(40,613,575)
Changes in operating liabilities		
Net (decrease)/increase in borrowings from central banks	(12,177,107)	14,173,786
Net increase/(decrease) in deposits from banks and other financial institutions	68,577	(10,605,073)
Net increase in placements from banks and other financial institutions	823,824	3,949,611
Net increase/(decrease) in financial assets sold under repurchase agreements	90,548	(7,789,208)
Net increase in deposits from customers	27,822,253	41,293,439
Net increase/(decrease) in other operating liabilities	3,569,064	(457,640)
	20,197,159	40,564,915
Income tax paid	(315,907)	(815,438)
Net cash flows (used in)/generated from operating activities	(1,674,725)	3,005,001
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	58,448,688	53,247,732
Cash received from investment gains and interest	7,417,275	6,889,307
Proceeds from disposal of property and equipment, intangible assets and other assets	1,233	6,165
Payments on acquisition of investments	(75,639,964)	(63,965,654)
Payments on acquisition of property and equipment, intangible assets and other assets	(493,960)	(627,428)
Net cash flows used in investing activities	(10,266,728)	(4,449,878)

The notes on pages 181 to 297 form part of these financial statements.

Consolidated statement of cash flows (continued)

for the year ended 31 December 2022 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2022	2021
Cash flows from financing activities			
Cash received from investors		4,177,534	–
Proceeds from issuance of other equity instruments		6,400,000	–
Net proceeds from debt securities issued	41(2)	71,080,326	82,957,923
Repayment of debt securities issued	41(2)	(88,101,992)	(64,109,270)
Payment for redemption of other equity instruments		(8,348,339)	–
Interest paid on debt securities issued	41(2)	(3,039,408)	(2,392,548)
Dividends paid		(1,440,645)	(1,285,422)
Payment of lease liabilities	41(2)	(146,863)	(138,280)
Payment for other financing activities		(29,533)	–
Net cash flows (used in)/generated from financing activities		(19,448,920)	15,032,403
Effect of foreign exchange rate changes on cash and cash equivalents		46,002	(13,639)
Net (decrease)/increase in cash and cash equivalents		(31,344,371)	13,573,887
Cash and cash equivalents as at 1 January		42,853,368	29,279,481
Cash and cash equivalents as at 31 December	41(1)	11,508,997	42,853,368
Net cash flows generated from operating activities include:			
Interest received		15,308,429	13,707,841
Interest paid		(6,520,564)	(6,693,120)

The notes on pages 181 to 297 form part of these financial statements.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

Bank of Qingdao Co., Ltd. (the “Bank”), formerly known as Qingdao City Cooperative Bank Co., Ltd., is a joint-stock commercial bank established on 15 November 1996 with the approval of the People’s Bank of China (the “PBOC”) according to the notices YinFu [1996] No. 220 “Approval upon the Preparing of Qingdao City Cooperative Bank” and YinFu [1996] No.353 “Approval upon the Opening of Qingdao City Cooperative Bank”.

The Bank changed its name from Qingdao City Cooperative Bank Co., Ltd. to Qingdao City Commercial Bank Co., Ltd. in 1998 according to LuyinFu [1998] No. 76 issued by Shandong Branch of the PBOC. The Bank changed its name from Qingdao City Commercial Bank Co., Ltd. to Bank of Qingdao Co., Ltd. in 2008 according to YinJianFu [2007] No.485 issued by the former China Banking Regulatory Commission (the “CBRC”).

The Bank obtained its financial institution licence No. B0170H237020001 from the Qingdao Office of the 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, 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 2022.

The Bank has 16 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Qingdao Westcoast, Laiwu, Linyi, Jining, Taian, Heze and Rizhao as at 31 December 2022. 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, Mainland China excludes the Hong Kong Special Administrative Region of the PRC (“Hong Kong”), the Macau Special Administrative Region of the PRC (“Macau”) and Taiwan.

2 SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and related interpretations, issued by the International Accounting Standards Board (the “IASB”), as well as with the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The financial statements are presented in Renminbi (“RMB”), rounded to the nearest thousands, which is the functional currency of the Group.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(25).

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).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 central banks, short-term deposits and placements with banks and other financial institutions, and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Recognition and initial measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

A financial assets or financial liability is measured initially at fair value. For financial assets and financial liabilities measured at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs. A trade receivable, without significant financing component or practical expedient applied for one year or less contracts, is initially measured at the transaction price.

Measurement of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value, the Group shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date (including the condition and location of the asset; and restrictions, if any, on the sale or use of the asset, etc.), and use valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. The adopted valuation techniques mainly include market approach, income approach and cost approach.

(ii) Classification and subsequent measurement of financial assets

(a) Classification of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. The instrument meets the definition of equity from the perspective of the issuer.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Group's key management personnel.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The Group also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

(b) Subsequent measurement of financial assets

- *Financial assets measured at FVTPL*

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

- *Financial assets measured at amortised cost*

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, reclassified, through the amortisation process or in order to recognise impairment gains or losses.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

– *Debt investments measured at FVOCI*

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

– *Equity investments designated as at FVOCI*

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

(iii) **Classification and subsequent measurement of financial liabilities**

Financial liabilities are classified as financial liabilities measured at FVTPL and other financial liabilities.

– Financial liabilities measured at FVTPL

A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability, separately stated in the statement of financial position) or it is designated as such on initial recognition.

Financial liabilities measured at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities, financial guarantee contracts and credit commitments arising from transfers of financial assets which did not qualify for derecognition or continuing involvement (see Note 2(4)(iv)).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Financial guarantee contracts and credit commitments

Financial guarantee contracts

Financial guarantee contracts are contracts that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, income related to financial guarantee is allocated and recognised in profit or loss in accordance with the policies in Note 2(17). A financial guarantee contract is measured at the higher of the amount of the loss allowance determined in accordance with impairment policies of financial instruments (see Note 2(4)(v)) and the amount initially recognised less the cumulative amount of income.

Credit commitments

Credit commitments are commitments to grant credit under the established contract terms and conditions.

The impairment allowance of credit commitments provided by the Group is measured using the expected credit loss (ECL) model. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by issuing another financial instrument.

For credit commitments and financial guarantee contracts, the loss allowance is recognised as a provision.

(v) Impairment

The Group recognises loss allowances for ECL on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI;
- lease receivables; and
- financial guarantee contracts issued and loan commitments, which are not measured at FVTPL.

Financial assets measured at fair value, including debt investments or equity securities at FVTPL, equity securities designated at FVOCI and derivative financial assets, are not subject to the ECL assessment.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value, discounted at effective interest rate or the credit-adjusted effective interest rate on purchased or originated credit-impaired (POCI) financial assets, of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The Group's method of measuring ECLs of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

The maximum period considered when estimating ECLs is the maximum contractual period (including extension options) over which the Group is exposed to credit risk.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the end of the reporting period (or a shorter period if the expected life of the instrument is less than 12 months).

The Group applies a 'three-stage model' for measuring ECL. For the measurement and segmentation of ECL of financial instruments of the Group, see Note 44(1) Credit risk.

Presentation of allowance for ECL

ECLs are remeasured at the end of each reporting period to reflect changes in the financial instruments' credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income. The Group recognises loss allowances for loan commitments and financial guarantee contracts that are not measured at FVTPL in contingent liabilities. (See Note 36(3)).

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(vi) Offsetting

Financial assets and financial liabilities are generally presented separately in the statement of financial position, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the statement of financial position when both of the following conditions are satisfied:

- The Group currently has a legally enforceable right to set off the recognised amounts; and
- The Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(vii) Derecognition of financial assets and financial liabilities

Financial asset is derecognised when one of the following conditions is met:

- The Group's contractual rights to the cash flows from the financial asset expire;
- The financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or
- The financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

When the financial asset has been transferred, if the Group neither transfers nor retains substantially all of the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- The carrying amount of the financial asset transferred measured at the date of derecognition; and
- The sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

The Group derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(vii) Derecognition of financial assets and financial liabilities (continued)

Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which 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 (such as rescheduled loans), the Group may modify or otherwise renegotiate the financial assets contracts. The Group would assess whether or not the modified or renegotiated contractual terms are substantially different to the original terms.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a new asset under the revised terms.

If the modification or renegotiation does not result in derecognition, but leads to changes in contractual cash flows, the Group recalculates the carrying amount of the financial asset and recognised the relevant gain or loss in profit or loss for the period. When assessing whether a significant increase in credit risk has occurred, the Group compares the risk of a default occurring under the revised terms as at the end of the reporting period with that as at the date of initial recognition under original terms.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ix) Derivative financial instruments

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

An embedded derivative and the host contract together form the hybrid contract. If the host contract included in the hybrid contract is an asset within the scope of International Financial Reporting Standards 9, *Financial Instruments*, the embedded derivative is no longer split from the host contract of the financial asset, but the hybrid financial instrument as a whole is related to the classification of the financial asset provision. If the host contract included in the hybrid contract is not an asset within the scope of International Financial Reporting Standards 9, *Financial Instruments*, when their economic characteristics and risks are not closely related to those of the hybrid contract, those separate instruments with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid instrument is not carried at FVTPL, certain derivatives embedded in other financial instruments should be split from the hybrid contract and treated as separate derivatives. These embedded derivatives are measured at fair value with the changes in fair value recognised in profit or loss.

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

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

(x) Equity instrument

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(xi) Preference shares and perpetual bonds

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

Preference shares and perpetual bonds issued by the Group that should be classified as equity instruments are recognised in equity based on the actual proceeds received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the preference shares and perpetual bonds are redeemed according to the contractual terms, the redemption amount is recognised as a deduction from equity.

(5) Resale and repurchase agreements transactions (including securities borrowing and lending)

Financial assets held under resale agreements refers to the funds paid by the Group in transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under the resale agreement. Financial assets sold under repurchase agreements refers to the funds received by the Group in transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under the repurchase agreement.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

Securities borrowing and lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(6) Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value and subsequent changes in fair value are recorded in the statement of profit or loss.

(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(12)).

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 (see Note 2(8)).

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying amount of a property and equipment is derecognised:

- When the property and equipment is holding for disposal; or
- When no future economic benefit is expected to be generated from its use or disposal.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item, and are recognised in profit or loss on the date of retirement or disposal.

(8) Assets held for sale

The Group classified a non-current asset or disposal group as held for sale when the carrying amount of a non-current asset or disposal group will be recovered through a sale transaction rather than through continuing use.

A disposal group refers to a group of assets to be disposed of, by sale or otherwise, together as a whole in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction.

A non-current asset or disposal group is classified as held for sale when all the following criteria are met:

- According to the customary practices of selling such asset or disposal group in similar transactions, the non-current asset or disposal group must be available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets or disposal groups; and
- Its sale is highly probable, that is, the Group has made a resolution on a sale plan and has obtained a firm purchase commitment. The sale is to be completed within one year.

Non-current assets or disposal groups held for sale are stated at the lower of carrying amount and fair value (see Note 2(25)(ii)) less costs to sell (except financial assets (see Note 2(4)), deferred tax assets (see Note 2(14)) initially and subsequently. Any excess of the carrying amount over the fair value (see Note 2(25)(ii)) less costs to sell is recognised as an impairment loss in profit or loss.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(9) 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(12)). 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:

Classes	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.

(10) 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(12)).

(11) 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(12) for the method of impairment test and provision for impairment.

(12) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the reporting period based on the internal and external sources of information to determine whether there is any indication of impairment:

- property and equipment
- right-of-use assets
- intangible assets
- investments in subsidiaries, associates and joint ventures
- non-financial repossessed assets
- long-term deferred expenses, etc.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A Cash-Generating Unit (the “CGU”) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group’s operations and how management makes decisions about continuing or disposing of the Group’s assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called “asset”) is the greater of its fair value less costs of disposal and value in use.

An asset’s fair value less costs of disposal is the amount determined by the price of a sale agreement in an arm’s length transaction, less the costs that are directly attributable to the disposal of the asset. The value in use of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using an appropriate pre-tax discount rate.

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups and then, to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs of disposal (if measurable), value in use (if measurable) and zero.

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment is recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss is limited to the asset’s carrying amount that would have been determined had no impairment loss been recognised in prior periods.

(13) Employee benefits

(i) Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(ii) Post-employment benefits – defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participated in a defined contribution basic pension insurance and unemployment insurance in the social insurance system established and managed by government 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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Post-employment benefits – defined benefit plans

In accordance with the projected unit credit method, the Group measures the obligations under defined benefit plans using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, and discount obligations under the defined benefit plans to determine the present value of the defined benefit liability.

The Group attributes benefit obligations under a defined benefit plan to periods of service provided by respective employees. Service cost and interest expense on the defined benefit liability are charged to profit or loss or recognised as part of the cost of assets, and remeasurements of defined benefit liability are recognised in other comprehensive income.

(iv) Termination benefits

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognise termination benefits in profit or loss at the earlier of:

- When the Group can no longer withdraw an offer of those benefits;
- When the Group has a specific, formal restructure plan involving payment of termination benefits, and the plan has started or been informed each affected party about the influence of the plan, therefore each party formed reasonable expectations.

(14) 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 transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or deductible loss). 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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying amount of a deferred tax asset is reviewed at the end of the reporting period, 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.

(15) 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 expenditure required to settle the related present obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid-point of that range. In other cases, the best estimate is determined according to the following circumstances:

- Where the contingency involves a single item, the best estimate is the most likely outcome.
- 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.

(16) Fiduciary activities

The Group acts in fiduciary activities as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (the “entrusted funds”) to the Group, and the Group grants loans to third parties (the “entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(17) Income recognition

Revenue is the gross inflow of economic benefits arising in the course of the Group's ordinary activities when the inflows result in increase in shareholders' equity, other than increase relating to contributions from shareholders.

Revenue is recognised when the Group satisfies the performance obligation in the contract by transferring the control over relevant goods or services to the customers.

Where a contract has two or more performance obligations, the Group determines the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocates the transaction price in proportion to those stand-alone selling prices. The Group recognises as revenue the amount of the transaction price that is allocated to each performance obligation. The stand-alone selling price is the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group considers all information that is reasonably available to the entity, maximises the use of observable inputs to estimate the stand-alone selling price.

(i) Interest income

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, where appropriate, to the book value of the financial asset, or the amortised cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but does not include expected credit losses.

The Group recognises interest income based on the effective interest method. Interest income is calculated by applying the effective interest rate to the book value of financial assets, except for:

- 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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(18) 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.

(19) Expenses recognition

(i) Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognised on an accrual basis.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(20) 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(17).

(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(12).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

A constant periodic rate is used to calculate the interest on the lease liability in each period during the lease term with a corresponding charge to profit or loss or included in the cost of assets where appropriate. Variable lease payments not included in the measurement of the lease liability is charged to profit or loss or included in the cost of assets where appropriate as incurred.

Under the following circumstances after the commencement date, the Group remeasures lease liabilities based on the present value of revised lease payments:

- There is a change in the amounts expected to be payable under a residual value guarantee;
- There is a change in future lease payments resulting from a change in an index or a rate used to determine those payments;
- There is a change in the assessment of whether the Group will exercise a purchase, extension or termination option, or there is a change in the exercise of the extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases in profit or loss or as the cost of the assets where appropriate using the straight-line method over the lease term.

(ii) As a lessor

The Group determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset irrespective of whether the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

When the Group is a sub-lessor, it assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies practical expedient described above, then it classifies the sub-lease as an operating lease.

Under a finance lease, at the commencement date, the Group recognises the finance lease receivable and derecognises the finance lease asset. The finance lease receivable is initially measured at an amount equal to the net investment in the lease. The net investment in the lease is measured at the aggregate of the unguaranteed residual value and the present value of the lease receivable that are not received at the commencement date, discounted using the interest rate implicit in the lease.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return. The derecognition and impairment of the finance lease receivable are recognised in accordance with the accounting policy in Note 2(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.

(21) 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.

(22) 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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(23) 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.

(24) 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(12).

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(25) 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 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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the related operating income and expenses of the asset (the asset group) and discount rate to calculate the present value. All relevant materials which can be obtained are used for the estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumptions.

(v) Depreciation and amortisation

Property and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account their residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on the historical experiences of similar assets and estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

(vi) Determination of control over structured entities

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 NET INTEREST INCOME

	2022	2021
Interest income arising from		
Deposits with central banks	312,506	385,253
Deposits with banks and other financial institutions	32,124	25,529
Placements with banks and other financial institutions	269,147	8,194
Loans and advances to customers		
– Corporate loans and advances	8,396,220	7,489,738
– Personal loans and advances	3,957,348	3,630,074
– Discounted bills	378,374	437,022
Financial assets held under resale agreements	304,872	347,966
Financial investments	5,210,430	5,264,161
Long-term receivables	969,141	620,998
Sub-total	19,830,162	18,208,935
Interest expense arising from		
Borrowings from central banks	(503,458)	(399,507)
Deposits from banks and other financial institutions	(180,286)	(225,054)
Placements from banks and other financial institutions	(607,577)	(462,311)
Deposits from customers	(7,046,209)	(5,986,659)
Financial assets sold under repurchase agreements	(454,745)	(562,092)
Debt securities issued	(2,709,725)	(2,927,687)
Others	(39,848)	–
Sub-total	(11,541,848)	(10,563,310)
Net interest income	8,288,314	7,645,625

Note:

- (i) The above interest income and expense are related to financial instruments which are not measured at FVTPL.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

	2022	2021
Fee and commission income		
Wealth management service fees	859,349	1,264,544
Agency service fees	458,418	506,887
Custody and bank card service fees	319,653	228,180
Settlement fees	84,663	65,142
Financial leasing service fees	26,864	86,800
Others	42,335	23,804
Sub-total	1,791,282	2,175,357
Fee and commission expense	(346,152)	(220,231)
Net fee and commission income	1,445,130	1,955,126

5 NET TRADING GAINS/(LOSSES)

	Note	2022	2021
Net gains/(losses) of foreign exchange and foreign exchange derivative financial instruments	(i)	738,300	(147,908)
Net gains/(losses) from debt securities	(ii)	25,013	(12,108)
Net losses of non-foreign exchange derivative financial instruments		(21,655)	(11,473)
Others		(476)	—
Total		741,182	(171,489)

Notes:

- (i) Net gains/(losses) of foreign exchange and foreign exchange derivative financial instruments include gains or losses from the purchase and sale of foreign currency spot, foreign exchange derivative financial instruments, and translation of foreign currency monetary assets and liabilities into RMB, etc.
- (ii) Net gains/(losses) from debt securities mainly include gains or losses arising from the buying and selling of, and changes in the fair value of debt securities held for trading.

6 NET GAINS ARISING FROM INVESTMENTS

	2022	2021
Net gains on financial investments measured at FVTPL	540,041	1,377,578
Net gains on disposal of financial assets measured at FVOCI	509,085	300,257
Others	8,049	2,610
Total	1,057,175	1,680,445

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

7 OTHER OPERATING INCOME

	2022	2021
Government grants	107,256	23,737
Rental income	10,343	967
Net losses on disposal of property and equipment, intangible assets and other assets	(1,042)	(1,426)
Others	897	5,388
Total	117,454	28,666

8 OPERATING EXPENSES

	2022	2021
Staff costs		
– Salaries, bonuses and allowances	1,314,992	1,213,680
– Social insurance and housing allowances	174,120	153,942
– Staff welfare expenses	175,977	231,745
– Staff education expenses	35,665	32,115
– Labor union expenses	26,392	24,428
– Post-employment benefits		
– defined contribution plans	240,096	218,457
– Early retirement and supplementary retirement plans	(8,425)	17,270
Sub-total	1,958,817	1,891,637
Property and equipment expenses		
– Depreciation and amortization	547,473	493,063
– Electronic equipment operating expenses	150,138	137,455
– Maintenance	122,102	111,095
Sub-total	819,713	741,613
Tax and surcharges	146,885	139,602
Other general and administrative expenses	1,293,026	1,142,886
Total	4,218,441	3,915,738

Note:

- (i) Other general and administrative expenses include audit remunerations for auditors which amounted to RMB6.25 million for the year ended 31 December 2022 (2021: RMB6.52 million).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

Name	Year ended 31 December 2022					Total emoluments before tax
	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	
Executive directors						
JING Zailun	–	806	318	88	208	1,420
GUO Shaoquan	–	696	409	72	40	1,217
WANG Lin	–	1,277	490	158	311	2,236
LU Lan	–	578	402	–	111	1,091
LIU Peng	–	927	438	151	259	1,775
Non-executive directors						
ZHOU Yunjie	127	–	–	–	–	127
Rosario STRANO	–	–	–	–	–	–
TAN Lixia	127	–	–	–	–	127
Marco MUSSITA	–	–	–	–	–	–
DENG Youcheng	127	–	–	–	–	127
CHOI Chi Kin, Calvin	66	–	–	–	–	66
Independent non-executive directors						
CHEUNG Simon	191	–	–	–	–	191
FANG Qiaoling	197	–	–	–	–	197
Tingjie ZHANG	197	–	–	–	–	197
XING Lecheng	197	–	–	–	–	197
ZHANG Xu	197	–	–	–	–	197
Supervisors						
YANG Fengjiang	–	927	439	151	318	1,835
WANG Dawei	–	603	1,084	151	157	1,995
MENG Xianzheng	–	606	850	151	157	1,764
HE Liangjun	77	–	–	–	–	77
HAO Xianjing	114	–	–	–	–	114
JIANG Xinglu	114	–	–	–	–	114
LU Kun	114	–	–	–	–	114
Total	1,845	6,420	4,430	922	1,561	15,178

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Name	Year ended 31 December 2021					Total emoluments before tax
	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	
Executive directors						
GUO Shaoquan	–	1,380	941	145	304	2,770
WANG Lin	–	1,255	906	145	300	2,606
LU Lan	–	883	919	–	182	1,984
LIU Peng	–	908	943	145	243	2,239
Non-executive directors						
ZHOU Yunjie	124	–	–	–	–	124
Rosario STRANO	–	–	–	–	–	–
TAN Lixia	130	–	–	–	–	130
Marco MUSSITA	–	–	–	–	–	–
DENG Youcheng	130	–	–	–	–	130
CHOI Chi Kin, Calvin	130	–	–	–	–	130
Independent non-executive directors						
CHEN Hua	90	–	–	–	–	90
DAI Shuping	90	–	–	–	–	90
CHEUNG Simon	180	–	–	–	–	180
FANG Qiaoling	186	–	–	–	–	186
Tingjie ZHANG	186	–	–	–	–	186
XING Lecheng	102	–	–	–	–	102
ZHANG Xu	102	–	–	–	–	102
Supervisors						
YANG Fengjiang	–	908	1,024	145	300	2,377
WANG Dawei	–	593	1,082	145	155	1,975
MENG Xianzheng	–	579	850	145	151	1,725
FU Changxiang	48	–	–	–	–	48
HU Yanjing	48	–	–	–	–	48
HE Liangjun	81	–	–	–	–	81
HAO Xianjing	65	–	–	–	–	65
JIANG Xinglu	65	–	–	–	–	65
LU Kun	65	–	–	–	–	65
Total	1,822	6,506	6,665	870	1,635	17,498

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Notes:

- (1) The emoluments of non-executive directors ("NED"), independent non-executive directors ("INED"), shareholder supervisors and external supervisors were affected by the time of service during the reporting period. Directors and supervisors received emoluments since their assumption of duty until their departure. The changes in directors and supervisors in the year of 2022 and 2021 are as follows:
 - (i) In May 2021, Mr. FU Changxiang and Mr. HU Yanjing no longer served as external supervisor of the Bank. Mr. HAO Xianjing, Mr. JIANG Xinglu and Mr. LU Kun began to assume their duties as external supervisor.
 - (ii) In July 2021, Mr. CHEN Hua and Ms. DAI Shuping no longer served as independent non-executive directors of the Bank. Mr. LIU Peng, executive director of the Bank, Mr. XING Lecheng and Mr. ZHANG Xu, INED of the Bank, began to assume their duties.
 - (iii) 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.
 - (iv) 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.
- (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 2022 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 2022.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2022, the five individuals with the highest emoluments included two directors and two supervisors of the Bank (2021: three directors and one supervisor), whose emoluments are disclosed in Note 9. The emoluments before individual income tax for the rest of the one highest paid individuals for the reporting period are as follows:

	2022	2021
Salaries and other emoluments	1,182	1,148
Discretionary bonuses	439	864
Contributions to pension schemes	151	145
Total	1,772	2,157

The individual whose emoluments before individual income tax are within the following bands is set out below:

	2022	2021
HKD nil-1,000,000	–	–
HKD1,000,001-1,500,000	–	–
HKD1,500,001-2,000,000	1	–
HKD2,000,001-2,500,000	–	–
HKD2,500,001-3,000,000	–	1

There were no amounts paid during the reporting period to any of these individuals in connection with their retirement from employment or as compensation for loss of office with the Group or as inducement to join.

11 CREDIT LOSSES

	2022	2021
Deposits with banks and other financial institutions	1,117	565
Placements with banks and other financial institutions	22,445	4,910
Financial assets held under resale agreements	(21,110)	12,470
Loans and advances to customers	2,636,284	3,110,029
Financial investments measured at amortised cost	1,598,896	351,302
Financial investments measured at FVOCI		
– Debt instruments	(278,471)	347,477
Long-term receivables	183,238	86,472
Credit commitments	115,201	35,178
Others	31,228	18,568
Total	4,288,828	3,966,971

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

12 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

	Note	2022	2021
Current tax		688,411	507,549
Deferred tax	27(2)	(719,977)	(275,352)
Total		(31,566)	232,197

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

	2022	2021
Profit before taxation	3,135,959	3,225,410
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	783,990	806,353
Tax effect of non-deductible expenses for tax purpose		
– Entertainment expenses	2,883	3,750
– Annuity	9,176	7,452
– Others	17,052	13,884
Sub-total	29,111	25,086
Tax effect of non-taxable income for tax purpose (Note (i))	(844,667)	(599,242)
Income tax	(31,566)	232,197

Note:

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

13 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share was computed by dividing the profit for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue. Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the reporting period.

	Note	2022	2021 (after adjustment)	2021 (before adjustment)
Weighted average number of ordinary shares (in thousands)	13(1)	5,692,062	4,764,216	4,509,690
Net profit attributable to equity shareholders of the Bank		3,082,775	2,922,664	2,922,664
Less: dividends on preference shares declared		510,176	474,381	474,381
Net profit attributable to ordinary shareholders of the Bank		2,572,599	2,448,283	2,448,283
Basic and diluted earnings per share (in RMB)		0.45	0.51	0.54

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

	2022	2021 (after adjustment)	2021 (before adjustment)
Number of ordinary shares in issue as at 1 January	4,509,690	4,509,690	4,509,690
Effect of the rights issues	1,182,372	254,526	—
Weighted average number of ordinary shares	5,692,062	4,764,216	4,509,690

In January and February 2022, the Bank offered rights issues to its existing A share and H share shareholders, respectively, at prices less than their fair values. Therefore, there were bonus elements for these rights issues and the weighted average number of ordinary shares were adjusted accordingly.

14 CASH AND DEPOSITS WITH CENTRAL BANKS

	Note	31 December 2022	31 December 2021
Cash on hand		349,481	369,326
Deposits with central banks			
– Statutory deposit reserves	14(1)	17,661,919	18,294,944
– Surplus deposit reserves	14(2)	9,769,018	34,288,149
– Other deposits with central banks	14(3)	35,394	278,973
Sub-total		27,466,331	52,862,066
Accrued interest		9,494	10,002
Total		27,825,306	53,241,394

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

14 CASH AND DEPOSITS WITH CENTRAL BANKS (continued)

- (1) The Bank places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at 31 December 2022, the statutory deposit reserve ratios for RMB deposits applicable to the Bank were 5.25% (31 December 2021: 6.0%). As at 31 December 2022, the statutory deposit reserve ratios for foreign currency deposits applicable to the Bank were 6.0% (31 December 2021: 9.0%). The Bank's subsidiary places statutory deposit reserves with the PBOC in accordance with relevant regulations.

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

- (2) The surplus deposit reserves are maintained with the PBOC mainly for the purpose of clearing.
- (3) Other deposits with central banks 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 2022	31 December 2021
In Mainland China		
– Banks	1,679,178	1,409,836
– Other financial institutions	34,957	120,697
Outside Mainland China		
– Banks	576,363	584,236
Accrued interest	13,130	13,627
Sub-total	2,303,628	2,128,396
Less: Provision for impairment losses	(2,591)	(1,474)
Total	2,301,037	2,126,922

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2022	31 December 2021
In Mainland China		
– Banks	–	4,112,327
– Other financial institutions	8,250,000	1,000,000
Accrued interest	209,377	1,229
Sub-total	8,459,377	5,113,556
Less: Provision for impairment losses	(27,355)	(4,910)
Total	8,432,022	5,108,646

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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 instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregated fair values of derivative financial assets and liabilities can fluctuate significantly.

	31 December 2022			31 December 2021		
	Nominal amount	Fair value of		Nominal amount	Fair value of	
		Assets	Liabilities		Assets	Liabilities
Interest rate contracts	49,204,972	102,911	(101,859)	50,066,444	141,416	(141,098)
Exchange rate contracts	5,890,408	5,465	(86,288)	480,218	3,806	(3,591)
Others	–	–	–	100,000	1,395	–
Total	55,095,380	108,376	(188,147)	50,646,662	146,617	(144,689)

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2022	31 December 2021
In Mainland China		
– Banks	–	10,004,500
– Other financial institutions	–	2,298,855
Accrued interest	–	6,680
Sub-total	–	12,310,035
Less: Provision for impairment losses	–	(21,110)
Total	–	12,288,925

(2) Analysed by type of security held

	31 December 2022	31 December 2021
Debt securities	–	12,303,355
Accrued interest	–	6,680
Sub-total	–	12,310,035
Less: Provision for impairment losses	–	(21,110)
Total	–	12,288,925

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	31 December 2022	31 December 2021
Measured at amortised cost:		
Corporate loans and advances		
– Corporate loans	172,955,292	149,822,068
Sub-total	172,955,292	149,822,068
Personal loans and advances		
– Residential mortgage	46,459,431	45,937,206
– Personal consumption loans	16,931,630	19,015,201
– Personal business loans	9,988,969	11,790,781
Sub-total	73,380,030	76,743,188
Accrued interest	598,681	829,555
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost		
– 12-month ECL	(3,901,150)	(3,159,298)
– Lifetime ECL		
– not credit-impaired loans	(510,711)	(603,867)
– credit-impaired loans	(2,697,610)	(2,663,172)
Sub-total	(7,109,471)	(6,426,337)
Measured at FVOCI:		
Corporate loans and advances		
– Discounted bills	22,501,207	17,640,224
– Forfeiting	192,923	–
Net loans and advances to customers	262,518,662	238,608,698

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

	31 December 2022	31 December 2021
Unsecured loans	52,463,310	54,080,566
Guaranteed loans	56,725,873	49,142,728
Loans secured by mortgages	104,787,862	94,014,190
Pledged loans	55,052,407	46,967,996
Gross loans and advances to customers	269,029,452	244,205,480

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	31 December 2022				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	380,033	473,148	19,913	2,430	875,524
Guaranteed loans	747,334	923,685	279,806	315,317	2,266,142
Loans secured by mortgages	443,768	305,377	154,135	41,774	945,054
Pledged loans	1,513	77,771	–	–	79,284
Total	1,572,648	1,779,981	453,854	359,521	4,166,004
As a percentage of gross loans and advances to customers	0.59%	0.66%	0.17%	0.13%	1.55%

	31 December 2021				
	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	400,126	86,043	10,969	1,477	498,615
Guaranteed loans	398,106	360,450	798,749	160,503	1,717,808
Loans secured by mortgages	192,714	110,905	97,356	138,916	539,891
Total	990,946	557,398	907,074	300,896	2,756,314
As a percentage of gross loans and advances to customers	0.41%	0.23%	0.37%	0.12%	1.13%

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

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

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

	31 December 2022			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)	241,459,799	2,210,427	3,263,777	246,934,003
Less: Provision for impairment losses	(3,901,150)	(510,711)	(2,697,610)	(7,109,471)
Net loans and advances to customers measured at amortised cost	237,558,649	1,699,716	566,167	239,824,532

	31 December 2021			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired (Note (i))	
Gross loans and advances to customers measured at amortised cost (including accrued interest)	221,484,002	2,544,940	3,365,869	227,394,811
Less: Provision for impairment losses	(3,159,298)	(603,867)	(2,663,172)	(6,426,337)
Net loans and advances to customers measured at amortised cost	218,324,704	1,941,073	702,697	220,968,474

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	31 December 2022			
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired (Note (i))	Total
Gross/net loans and advances to customers at FVOCI	22,676,508	17,622	–	22,694,130
Provision for impairment losses through other comprehensive income	(27,639)	(31)	–	(27,670)

	31 December 2021			
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired (Note (i))	Total
Gross/net loans and advances to customers at FVOCI	17,640,224	–	–	17,640,224
Provision for impairment losses through other comprehensive income	(13,269)	–	–	(13,269)

Note:

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(5) Movements of provision for impairment losses

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

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

	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/(Release) 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 written off	–	–	122,818	122,818
Other changes	–	–	(15,180)	(15,180)
As at 31 December 2022	3,901,150	510,711	2,697,610	7,109,471

	2021			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2021	2,113,757	923,214	2,250,830	5,287,801
Transfer to				
– 12-month ECL	4,447	(4,435)	(12)	–
– Lifetime ECL				
– not credit-impaired loans	(53,236)	60,019	(6,783)	–
– credit-impaired loans	(27,721)	(1,077,196)	1,104,917	–
Charge for the year	1,122,051	702,265	1,287,225	3,111,541
Write-offs and transfer out	–	–	(2,496,161)	(2,496,161)
Recoveries of loans and advances written off	–	–	539,709	539,709
Other changes	–	–	(16,553)	(16,553)
As at 31 December 2021	3,159,298	603,867	2,663,172	6,426,337

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	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	27,639	31	–	27,670

	2021			
	12-month ECL	Lifetime ECL - not credit- impaired	Lifetime ECL - credit- impaired	Total
As at 1 January 2021	14,781	–	–	14,781
Release for the year	(1,512)	–	–	(1,512)
As at 31 December 2021	13,269	–	–	13,269

The Group enters into securitisation transactions in the normal course of business. See Note 48(2) for details.

20 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2022	31 December 2021
Financial investments held for trading	–	–
Financial investments designated as at FVTPL	–	–
Other financial investments measured at FVTPL		
Debt securities, analysed by type of issuers:		
– Governments and central banks	24,637	–
– Banks and other financial institutions	2,684,943	877,656
– Corporate entities	1,017,848	106,924
Sub-total	3,727,428	984,580
Investment funds	34,950,084	39,973,092
Asset management plans	7,787,802	13,488,145
Trust fund plans	791,832	1,501,437
Other investments	2,616	–
Total	47,259,762	55,947,254
Listed	1,318,187	106,924
Of which: listed outside Hong Kong	460,708	106,924
Unlisted	45,941,575	55,840,330
Total	47,259,762	55,947,254

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	31 December 2022	31 December 2021
Debt securities, analysed by type of issuers:			
– Governments and central banks		34,298,700	31,766,923
– Policy banks		7,179,615	1,075,384
– Banks and other financial institutions		19,761,408	11,447,917
– Corporate entities		33,292,034	22,697,107
Sub-total		94,531,757	66,987,331
Asset management plans		712,934	3,755,953
Equity investments	21(1)	23,250	23,250
Other investments		–	701,504
Accrued interest		1,410,760	1,145,357
Total		96,678,701	72,613,395
Listed	21(2)	26,770,249	27,822,686
Of which: listed outside Hong Kong		24,391,557	25,014,048
Unlisted		69,908,452	44,790,709
Total		96,678,701	72,613,395

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

- (1) The Group holds a number of unlisted equity investments. The Group designates them as financial investments measured at FVOCI, and the details are as follows:

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 shareholding in investees (%)	Cash dividend for the year
China UnionPay Co., Ltd.	13,000	–	–	13,000	0.34	8,000
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	10,000	–	–	10,000	1.14	–
Clearing Center for City Commercial Banks	250	–	–	250	0.81	–
Total	23,250	–	–	23,250		8,000

Investees	2021					
	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Percentage of shareholding in investees (%)	Cash dividend for the year
China UnionPay Co., Ltd.	13,000	–	–	13,000	0.34	2,600
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	10,000	–	–	10,000	2.15	–
Clearing Center for City Commercial Banks	250	–	–	250	0.81	–
Total	23,250	–	–	23,250		2,600

For the year ended 31 December 2022 and 31 December 2021, the Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earnings.

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

(3) Movements of the provision for impairment losses on debt instruments of financial investments at FVOCI are as follows:

	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)	–
(Release)/Charge for the year	(100,150)	99,087	(277,408)	(278,471)
As at 31 December 2022	51,725	152,028	–	203,753

	2021			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2021	51,291	20,935	62,521	134,747
Transfer to				
– 12-month ECL	3,321	(3,321)	–	–
– Lifetime ECL				
– not credit-impaired	(3,411)	3,411	–	–
– credit-impaired	(209)	(6,033)	6,242	–
Charge for the year	9,412	106,273	231,792	347,477
As at 31 December 2021	60,404	121,265	300,555	482,224

Provision for impairment losses on debt instruments of financial investments measured at FVOCI is recognised in other comprehensive income, and any impairment loss or gain is recognised in the profit or loss without decreasing the carrying amount of financial investments presented in the statement of financial position.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

	Note	31 December 2022	31 December 2021
Debt securities, analysed by type of issuers:			
– Governments and central banks		29,382,700	27,859,492
– Policy banks		10,720,004	9,989,948
– Banks and other financial institutions		8,957,230	10,543,252
– Corporate entities		801,917	1,073,845
Sub-total		49,861,851	49,466,537
Asset management plans		2,609,200	4,340,630
Trust fund plans		1,738,700	1,768,700
Other investments		6,070,640	6,080,000
Accrued interest		868,992	1,014,107
Less: Provision for impairment losses	22(1)	(2,946,718)	(1,247,822)
Total		58,202,665	61,422,152
Listed	22(2)	17,456,387	18,853,576
Of which: listed outside Hong Kong		17,456,387	18,853,576
Unlisted		40,746,278	42,568,576
Total		58,202,665	61,422,152

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

	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	–
(Release)/Charge for the year	(115,326)	22,919	1,691,303	1,598,896
Others	–	–	100,000	100,000
As at 31 December 2022	191,705	27,839	2,727,174	2,946,718

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST (continued)

	2021			Total
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	
As at 1 January 2021	282,041	541,384	273,095	1,096,520
Transfer to				
– Lifetime ECL				
– not credit-impaired	(653)	653	–	–
– credit-impaired	–	(184,891)	184,891	–
Charge for the year	17,602	158,886	174,814	351,302
Others	–	–	(200,000)	(200,000)
As at 31 December 2021	298,990	516,032	432,800	1,247,822

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

23 INVESTMENT IN SUBSIDIARIES

	31 December 2022	31 December 2021
BQD Financial Leasing Company Limited	510,000	510,000
BQD Wealth Management Company Limited	1,000,000	1,000,000
Total	1,510,000	1,510,000

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 INVESTMENT IN SUBSIDIARIES (continued)

The subsidiaries are as follows:

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

Notes:

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

24 LONG-TERM RECEIVABLES

	31 December 2022	31 December 2021
Minimum finance lease receivables	17,338,104	13,034,350
Less: Unearned finance lease income	(1,839,700)	(1,163,127)
Present value of finance lease receivables	15,498,404	11,871,223
Accrued interest	220,389	126,022
Sub-total	15,718,793	11,997,245
Less: Provision for impairment losses		
– 12-month ECL	(265,041)	(227,836)
– Lifetime ECL		
– not credit-impaired	(65,109)	(36,120)
– credit-impaired	(107,694)	(45,036)
Net balance	15,280,949	11,688,253

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 LONG-TERM RECEIVABLES (continued)

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

	2022			Total
	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL - credit-impaired	
As at 1 January 2022	227,836	36,120	45,036	308,992
Transfer to				
– 12-month ECL	968	(968)	–	–
– Lifetime ECL				
– not credit-impaired	(5,402)	5,402	–	–
– credit-impaired	–	(24,933)	24,933	–
Charge for the year	41,639	49,488	92,111	183,238
Others	–	–	(54,386)	(54,386)
As at 31 December 2022	265,041	65,109	107,694	437,844
	2021			
	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL - credit-impaired	Total
As at 1 January 2021	192,063	59,446	36,075	287,584
Transfer to				
– Lifetime ECL				
– not credit-impaired	(3,659)	3,659	–	–
– credit-impaired	–	(9,330)	9,330	–
Charge/(Release) for the year	39,432	(17,655)	64,695	86,472
Others	–	–	(65,064)	(65,064)
As at 31 December 2021	227,836	36,120	45,036	308,992

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 LONG-TERM RECEIVABLES (continued)

Minimum finance lease receivables, unearned finance lease income and present value of finance lease receivables analysed by remaining period are listed as follows:

	31 December 2022		
	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Repayable on demand	10,588	–	10,588
Less than 1 year (inclusive)	8,114,338	(900,857)	7,213,481
1 year to 2 years (inclusive)	4,649,797	(477,521)	4,172,276
2 years to 3 years (inclusive)	2,107,665	(226,068)	1,881,597
3 years to 5 years (inclusive)	1,846,901	(178,214)	1,668,687
More than 5 years	433,569	(42,509)	391,060
Indefinite (Note (i))	175,246	(14,531)	160,715
Total	17,338,104	(1,839,700)	15,498,404

	31 December 2021		
	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Repayable on demand	–	–	–
Less than 1 year (inclusive)	6,356,792	(624,763)	5,732,029
1 year to 2 years (inclusive)	3,944,051	(325,873)	3,618,178
2 years to 3 years (inclusive)	1,904,459	(134,456)	1,770,003
3 years to 5 years (inclusive)	704,616	(56,171)	648,445
More than 5 years	50,534	(6,035)	44,499
Indefinite (Note (i))	73,898	(15,829)	58,069
Total	13,034,350	(1,163,127)	11,871,223

Note:

- (i) See Note 44 (3) for the definition of indefinite long-term receivables.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

25 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	Construction in progress ("CIP")	Total
Cost						
As at 1 January 2021	3,150,797	676,050	67,139	97,254	226,808	4,218,048
Increase	8,399	96,625	12,300	24,540	165,225	307,089
CIP transfer in/(out)	318,125	–	–	–	(318,125)	–
Decrease	(263)	(39,674)	(6,775)	(2,418)	–	(49,130)
As at 31 December 2021	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
Accumulated depreciation						
As at 1 January 2021	(418,308)	(437,511)	(50,294)	(64,167)	–	(970,280)
Increase	(72,530)	(71,309)	(6,842)	(10,738)	–	(161,419)
Decrease	–	37,483	6,436	1,966	–	45,885
As at 31 December 2021	(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)
Net book value						
As at 31 December 2022	2,986,114	310,837	21,087	48,649	99,699	3,466,386
As at 31 December 2021	2,986,220	261,664	21,964	46,437	73,908	3,390,193

As at 31 December 2022 and 31 December 2021, the Group did not have significant property and equipment which were temporarily idle.

As at 31 December 2022, the carrying amount of premises with incomplete title deeds of the Group was RMB11 million (31 December 2021: RMB11 million). Management is in the opinion that the incomplete title deeds would not affect the rights to these assets of the Group.

As at 31 December 2022 and 31 December 2021, the Group was not aware of any indicators for the possibility of property and equipment impairment, hence no impairment loss was recognised.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

25 PROPERTY AND EQUIPMENT (continued)

The net book values of premises at the end of the reporting period are analysed by the remaining terms of the land leases as follows:

	31 December 2022	31 December 2021
Held in Mainland China		
– Long-term leases (over 50 years)	15,913	16,304
– Medium-term leases (10 – 50 years)	2,963,234	2,967,813
– Short-term leases (less than 10 years)	6,967	2,103
Total	2,986,114	2,986,220

26 RIGHT-OF-USE ASSETS

	Premises	Others	Total
Cost			
As at 1 January 2021	1,081,656	4,114	1,085,770
Additions	178,065	–	178,065
Decrease	(20,057)	–	(20,057)
As at 31 December 2021	1,239,664	4,114	1,243,778
Additions	139,087	–	139,087
Decrease	(72,752)	–	(72,752)
As at 31 December 2022	1,305,999	4,114	1,310,113
Accumulated amortisation			
As at 1 January 2021	(257,647)	(1,302)	(258,949)
Additions	(155,359)	(651)	(156,010)
Decrease	17,070	–	17,070
As at 31 December 2021	(395,936)	(1,953)	(397,889)
Additions	(157,367)	(651)	(158,018)
Decrease	72,752	–	72,752
As at 31 December 2022	(480,551)	(2,604)	(483,155)
Net value			
As at 31 December 2022	825,448	1,510	826,958
As at 31 December 2021	843,728	2,161	845,889

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

27 DEFERRED INCOME TAX ASSETS

(1) Analysed by nature

	31 December 2022		31 December 2021	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Provision for impairment losses	11,660,966	2,915,242	9,958,224	2,489,556
Deferred interest income from discounted bills	163,569	40,892	182,845	45,711
Change in fair value	1,400,620	350,155	(538,790)	(134,697)
Others	560,218	140,054	419,487	104,872
Total	13,785,373	3,446,343	10,021,766	2,505,442

(2) Analysed by movement

	Provision for impairment losses	Deferred interest income from discounted bills Note (i)	Change in fair value	Others Note (ii)	Total
As at 1 January 2021	2,216,502	25,212	136,230	90,073	2,468,017
Recognised in profit or loss	359,545	20,499	(118,363)	13,671	275,352
Recognised in other comprehensive income	(86,491)	–	(152,564)	1,128	(237,927)
As at 31 December 2021	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

Notes:

- (i) Pursuant to the requirement issued by the local tax authority, tax obligations arise when the Group receives discounted bills. The deductible temporary difference, which arises from the interest income recognised in profit or loss using the effective interest method, forms deferred tax assets.
- (ii) Others mainly include early retirement and supplementary retirement plans accrued, contingent liabilities, and other accrued expenses, which are deductible against taxable income when actual payment occurs.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 OTHER ASSETS

	Note	31 December 2022	31 December 2021
Continuously involved assets		922,695	922,695
Long-term deferred expense		379,973	347,664
Intangible assets	28(1)	353,076	296,612
Prepayments		184,694	254,624
Precious metals		112,690	112,651
Interest receivable (Note (i))	28(2)	39,810	28,754
Deferred expense		5,759	4,556
Repossessed assets (Note (ii))		–	59,692
Others (Note (iii))		1,306,712	338,730
Sub-total		3,305,409	2,365,978
Less: Provision for impairment losses		(38,584)	(50,148)
Total		3,266,825	2,315,830

Notes:

- (i) As at 31 December 2022, the book value of the Group's interest receivable after deducting the provision for impairment is RMB15.44 million (31 December 2021: RMB12.78 million).
- (ii) As at 31 December 2022, the Group has no repossessed. As at 31 December 2021, repossessed assets of the Group mainly included premises, etc. The book value of the Group's repossessed assets is RMB29.44 million. The impairment provision for repossessed assets of the Group is RMB30.25 million.
- (iii) Mainly includes settlement receivable and other receivables.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 OTHER ASSETS (continued)

(1) Intangible assets

	2022	2021
Cost		
As at 1 January	799,866	659,876
Additions	167,420	139,990
Decrease	–	–
As at 31 December	967,286	799,866
Accumulated amortisation		
As at 1 January	(503,254)	(407,358)
Additions	(110,956)	(95,896)
Decrease	–	–
As at 31 December	(614,210)	(503,254)
Net value		
As at 31 December	353,076	296,612
As at 1 January	296,612	252,518

Intangible assets of the Group mainly include software.

As at 31 December 2022 and 31 December 2021, the Group was not aware of any indicators for the possibility of intangible assets impairment, hence no impairment loss was recognised.

(2) Interests receivable

	31 December 2022	31 December 2021
Interest receivable arising from:		
– Loans and advances to customers	39,810	28,754
Total	39,810	28,754

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

29 BORROWINGS FROM CENTRAL BANKS

	31 December 2022	31 December 2021
Borrowings	13,125,175	22,668,325
Re-discounted bills	73,957	2,707,914
Accrued interest	57,473	117,877
Total	13,256,605	25,494,116

30 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2022	31 December 2021
In Mainland China		
– Banks	2,526,890	65,652
– Other financial institutions	3,873,427	6,266,088
Accrued interest	39,343	10,074
Total	6,439,660	6,341,814

31 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2022	31 December 2021
In Mainland China		
– Banks	16,753,990	15,792,856
– Other financial institutions	727,000	–
Outside Mainland China		
– Banks	143,051	1,007,361
Accrued interest	184,054	104,283
Total	17,808,095	16,904,500

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

32 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2022	31 December 2021
In Mainland China		
– Central banks	–	2,320,000
– Banks	25,394,779	22,984,231
Outside Mainland China		
– Other financial institutions	237,752	–
Accrued interest	1,823	1,365
Total	25,634,354	25,305,596

(2) Analysed by types of collaterals

	31 December 2022	31 December 2021
Discounted bills	17,999,779	10,301,931
Debt securities	7,632,752	15,002,300
Accrued interest	1,823	1,365
Total	25,634,354	25,305,596

33 DEPOSITS FROM CUSTOMERS

	31 December 2022	31 December 2021
Demand deposits		
– Corporate customers	91,660,860	118,280,119
– Personal customers	29,571,148	29,923,260
Sub-total	121,232,008	148,203,379
Time deposits		
– Corporate customers	101,968,834	84,609,604
– Personal customers	117,757,021	80,507,262
Sub-total	219,725,855	165,116,866
Outward remittance and remittance payables	389,102	80,246
Fiscal deposits to be transferred	211	124,432
Accrued interest	6,696,131	4,440,884
Total	348,043,307	317,965,807
Including:		
Pledged deposits	17,495,516	17,375,572

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 DEBT SECURITIES ISSUED

	31 December 2022	31 December 2021
Debt securities issued (Note (i))	9,993,574	26,985,704
Certificates of interbank deposit issued (Note (ii))	64,620,293	64,711,488
Accrued interest	253,084	521,108
Total	74,866,951	92,218,300

Notes:

- (i) Financial debts with fixed interest rates were issued by the Group. The details are as follows:
- (a) Ten-year Tier-two Capital Bonds were issued with a fixed interest rate of 5.00% per annum and with a nominal amount of RMB3.0 billion in June 2017. The debts will mature on 29 June 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. The debts were redeemed on 29 June 2022. As at 31 December 2021, the fair value of the debts was RMB3.030 billion.
 - (b) Ten-year Tier-two Capital Bonds were issued with a fixed interest rate of 5.00% per annum and with a nominal amount of RMB2.0 billion in July 2017. The debts will mature on 14 July 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. The debts were redeemed on 14 July 2022. As at 31 December 2021, the fair value of the debts was RMB2.022 billion.
 - (c) Three-year Financial Bonds were issued with a fixed interest rate of 3.65% per annum and with a nominal amount of RMB3.0 billion in May 2019. The debts have matured on 22 May 2022 with annual interest payments. As at 31 December 2021, the fair value of the debts was RMB3.013 billion.
 - (d) Five-year Financial Bonds were issued with a fixed 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 2022, the fair value of the debts was RMB1.016 billion (31 December 2021: RMB1.025 billion).
 - (e) Three-year Financial Bonds were issued with a fixed interest rate of 3.70% per annum and with a nominal amount of RMB3.0 billion in May 2019. The debts have matured on 31 May 2022 with annual interest payments. As at 31 December 2021, the fair value of the debts was RMB3.014 billion.
 - (f) Five-year Financial Bonds were issued with a fixed 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 2022, the fair value of the debts was RMB1.016 billion (31 December 2021: RMB1.025 billion).
 - (g) Three-year Small and Micro Enterprises Financial Bonds were issued with a fixed interest rate of 3.45% per annum and with a nominal amount of RMB3.0 billion in December 2019. The debts have matured on 5 December 2022 with annual interest payments. As at 31 December 2021, the fair value of the debts was RMB3.020 billion.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 DEBT SECURITIES ISSUED (continued)

- (h) Five-year Small and Micro Enterprises Financial Bonds were issued with a fixed 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 2022, the fair value of the debts was RMB1.017 billion (31 December 2021: RMB1.026 billion).
- (i) Three-year Small and Micro Enterprises Financial Bonds were issued with a fixed interest rate of 3.42% per annum and with a nominal amount of RMB3.0 billion in December 2019. The debts have matured on 16 December 2022 with annual interest payments. As at 31 December 2021, the fair value of the debts was RMB3.019 billion.
- (j) Five-year Small and Micro Enterprises Financial Bonds were issued with a fixed 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 2022, the fair value of the debts was RMB1.017 billion (31 December 2021: RMB1.025 billion).
- (k) Ten-year Tier-two Capital Bonds were issued with a fixed interest rate of 4.80% per annum and with a nominal amount of RMB4.0 billion in March 2021. The debts will mature on 24 March 2031 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2022, the fair value of the debts was RMB4.086 billion (31 December 2021: RMB4.185 billion).
- (l) Ten-year Tier-two Capital Bonds were issued with a fixed interest rate of 4.34% per annum and with a nominal amount of RMB2.0 billion in May 2021. The debts will mature on 28 May 2031 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2022, the fair value of the debts was RMB2.014 billion (31 December 2021: RMB2.057 billion).
- (ii) The Group issued a number of certificates of interbank deposit with duration between 1 month and 1 year. As at 31 December 2022 and 2021, the outstanding fair value of certificates of interbank deposit was RMB64.583 billion and RMB64.778 billion respectively.

35 LEASE LIABILITIES

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

	31 December 2022	31 December 2021
Less than 1 year (inclusive)	133,544	139,576
1 year to 2 years (inclusive)	110,492	105,419
2 years to 3 years (inclusive)	93,757	93,499
3 years to 5 years (inclusive)	119,643	123,285
More than 5 years	118,182	104,222
Total undiscounted cash flows of lease liabilities	575,618	566,001
Lease liabilities on statement of financial position	515,043	505,895

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 OTHER LIABILITIES

	Note	31 December 2022	31 December 2021
Financial liabilities related to precious metals		1,830,079	–
Continuously involved liabilities		922,695	922,695
Employee benefits payable	36(1)	652,469	825,417
Risk guarantee deposits for leasing business		677,270	762,878
Settlement payable		114,183	494,993
Taxes payable	36(2)	195,142	260,249
Payable raising from fiduciary activities		110,469	175,672
ECL on credit commitments	36(3)	252,642	137,441
Dividend payable		19,258	18,469
Others		790,452	319,319
Total		5,564,659	3,917,133

(1) Employee benefits payable

	31 December 2022	31 December 2021
Salaries, bonuses and allowances payable	525,727	625,787
Staff welfare expenses	2,611	57,320
Staff education expenses	25,068	22,236
Labor union expenses	18,200	16,934
Post-employment benefits- defined contribution plans	133	10,000
Early retirement and supplementary retirement plans (Note (i))	80,730	93,140
Total	652,469	825,417

Note:

- (i) Early retirement and supplementary retirement plans include early retirement plan and supplementary retirement plan.

Early retirement plan

The Bank provides early retirement benefit payments to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date.

Supplementary retirement plan

The Bank provides a supplementary retirement plan to its eligible employees.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 OTHER LIABILITIES (continued)

(2) Taxes payable

	31 December 2022	31 December 2021
Value added tax payable	146,222	210,186
Urban construction tax and surcharges payable	29,467	28,860
Others	19,453	21,203
Total	195,142	260,249

(3) Expected credit loss on credit commitments

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

	2022			Total
	12-month ECL	Lifetime ECL- not credit- impaired	Lifetime ECL- credit- impaired	
As at 1 January 2022	129,789	7,652	–	137,441
Transfer to				
– 12-month ECL	52	(52)	–	–
– Lifetime ECL				
– not credit-impaired loans	(1,658)	1,658	–	–
– credit-impaired loans	(744)	–	744	–
Charge/(Release) for the year	122,175	(6,230)	(744)	115,201
As at 31 December 2022	249,614	3,028	–	252,642

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 OTHER LIABILITIES (continued)

	2021			Total
	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL - credit-impaired	
As at 1 January 2021	102,164	99	–	102,263
Transfer to				
– 12-month ECL	5	(5)	–	–
– Lifetime ECL				
– not credit-impaired loans	(1,078)	1,078	–	–
Charge for the year	28,698	6,480	–	35,178
As at 31 December 2021	129,789	7,652	–	137,441

37 SHARE CAPITAL

Authorised and issued share capital

	31 December 2022	31 December 2021
Number of shares authorised, issued and fully paid at nominal value (in thousands)	5,820,355	4,509,690

In January 2022, the Bank issued 782 million ordinary A shares with a nominal value of RMB1 at RMB3.20 per share. In February 2022, the Bank issued 529 million ordinary H shares with a nominal value of RMB1 at HKD3.92 per share. After deducting the above issuance costs, the premium arising from the A Share and H Share Rights 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, and the balance of the capital reserve was RMB11.182 billion.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 OTHER EQUITY INSTRUMENTS

(1) Preference shares

(a) Preference shares outstanding at the end of the year

As at 31 December 2022, the Group has no outstanding preference shares.

The Bank issued the Notice on the Redemption of the Offshore Preference Shares on 29 July 2022, the Update of Offshore Preference Shares Redemption and Distribution of Dividends on 16 September 2022, and the Notice on Completion of Redemption of the Offshore Preference Shares on 21 September 2022. Pursuant to the terms and conditions of the Offshore Preference Shares and the reply letter from the CBIRC Qingdao Office, the Bank redeemed all the Offshore Preference Shares on 19 September 2022 (the "Redemption Date"). The aggregate price of the Redemption was USD1,269,165,000 (being the sum of (i) the aggregate liquidation preference of the Offshore Preference Shares in the amount of USD1,203,000,000 and (ii) the Dividends in the amount of USD66,165,000). Upon redemption and cancellation of the outstanding amount of the Offshore Preference Shares, there was no Offshore Preference Shares outstanding.

The Bank's preference shares outstanding as at 31 December 2021 are as follows:

Financial instrument outstanding	Issue date	Accounting classification	Dividend rate	Issue price	Amount (in thousands of shares)	In original currency (in thousands)	In RMB (in thousands)	Maturity	Conversion
Offshore Preference Shares	19 Sep 2017	Equity	5.5%	20 USD/Share	60,150	1,203,000	7,883,259	None	None
Total							7,883,259		
Less: Issue fees							(29,295)		
Book value							7,853,964		

(b) Main Clauses

(i) Dividend

There is a fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. Dividends will be paid annually.

(ii) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends. The Bank may elect to cancel any dividend, but such cancellation will require a shareholder's resolution to be passed.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 OTHER EQUITY INSTRUMENTS (continued)

(iii) Dividend stopper

If the Bank cancels all or part of the dividends to the preference shareholders, the Bank shall not make any dividend distribution to ordinary shareholders before the Bank pays the dividends for the current dividend period to the preference shareholders in full.

(iv) Order of distribution and liquidation method

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

(v) Mandatory conversion trigger events

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

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

(vi) Redemption

Under the premise of obtaining the approval of the regulatory authority and condition of redemption, the Bank has right to redeem all or some of Offshore Preference Shares in first call date and subsequent any dividend payment date. The first call date after issuance and subsequent any dividend payment date (redemption price is equal to issue price plus accrued dividend in current period).

The first redemption date of USD preference shares is five years after issuance.

(vii) Dividend setting mechanism

Non-cumulative dividend is a dividend on preference shares which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, preference shareholders of the Bank will not participate the distribution of residual profits with ordinary shareholders.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 OTHER EQUITY INSTRUMENTS (continued)

(c) Changes in preference shares outstanding

Preference shares outstanding	31 December 2021		Decrease during the year		31 December 2022	
	Amount	Book value	Amount	Book value	Amount	Book value
	(in thousands of shares)	(in thousands of RMB)	(in thousands of shares)	(in thousands of RMB)	(in thousands of shares)	(in thousands of RMB)
Offshore Preference shares	60,150	7,853,964	(60,150)	(7,853,964)	–	–

(2) Perpetual bonds

(a) 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 2022 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%	100 RMB/Unit	40,000	4,000,000	None	None
2022 Domestic Perpetual Bond Series 2	16 Aug 2022	Equity	3.55%	100 RMB/Unit	24,000	2,400,000	None	None
Total						6,400,000		
Less: Issue fees						(4,217)		
Book value						6,395,783		

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 OTHER EQUITY INSTRUMENTS (continued)

(b) 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.

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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.

(v) Redemption

The duration of the Domestic Perpetual Bonds is the same as the continuing operation of the Bank. Five years after the issuance date of the Domestic Perpetual Bonds, the Bank shall have the right to redeem them in whole or in part on each distribution payment date (including the fifth distribution payment date since the issuance). In the event that the Domestic Perpetual Bonds are not classified as additional tier 1 capital due to unpredicted changes in regulations, the Bank shall have the right to redeem Domestic Perpetual Bonds fully instead of partly.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 OTHER EQUITY INSTRUMENTS (continued)

(c) Changes in perpetual bonds outstanding

	31 December 2021		Increase during the year		31 December 2022	
	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)
Perpetual bonds outstanding						
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

(3) Interests attribute to equity instruments' holders

Item	31 December 2022	31 December 2021
Total equity attribute to equity holders of the Bank	35,816,312	32,635,495
– Equity attribute to ordinary shareholders of the Bank	29,420,529	24,781,531
– Equity attribute to other equity instrument holders of the Bank	6,395,783	7,853,964
Total equity attribute to non-controlling interests	776,983	692,233
– Equity attribute to non-controlling interests of ordinary shares	776,983	692,233

39 RESERVES

(1) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of nominal value.

(2) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund.

Pursuant to the Company Law of the PRC and the Article of Association, the Bank is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises issued by the MOF after offsetting prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RESERVES (continued)

(3) General reserve

Pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)” issued by the MOF in March 2012, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% 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 2022 amounted to RMB6.317 billion, which has reached 1.50% of the year ending balance of the Bank’s gross risk-bearing assets.

(4) Other comprehensive income

Item	2022					
	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Balance at the end of the year
Items that will not be reclassified to profit or loss Including: Remeasurements of defined benefit plan	(11,573)	(7,040)	–	1,760	(5,280)	(16,853)
Items that may be reclassified to profit or loss Including: Changes in fair value from financial assets measured at FVOCI	386,452	(134,216)	(478,371)	153,147	(459,440)	(72,988)
Credit losses of financial assets measured at FVOCI	371,620	63,659	(327,729)	66,017	(198,053)	173,567
Total	746,499	(77,597)	(806,100)	220,924	(662,773)	83,726

Item	2021					
	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Balance at the end of the year
Items that will not be reclassified to profit or loss Including: Remeasurements of defined benefit plan	(8,191)	(4,510)	–	1,128	(3,382)	(11,573)
Items that may be reclassified to profit or loss Including: Changes in fair value from financial assets measured at FVOCI	(71,238)	603,419	6,835	(152,564)	457,690	386,452
Credit losses of financial assets measured at FVOCI	112,146	390,042	(44,077)	(86,491)	259,474	371,620
Total	32,717	988,951	(37,242)	(237,927)	713,782	746,499

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RESERVES (continued)

(5) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital	Other equity instruments		Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
			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	38	-	(7,853,964)	-	(494,375)	-	-	-	-	(8,348,339)
Appropriation of profit:										
- Appropriation to surplus reserve	40	-	-	-	-	284,365	-	-	(284,365)	-
- Appropriation to general reserve	40	-	-	-	-	-	906,980	-	(906,980)	-
- Dividends	40	-	-	-	-	-	-	-	(1,441,434)	(1,441,434)
Balance at 31 December 2022		5,820,355	-	6,395,783	10,687,634	2,388,248	6,316,926	83,726	3,263,408	34,956,080

	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
Balance at 1 January 2021		4,509,690	7,853,964	8,337,869	1,859,737	4,981,263	32,717	2,570,030	30,145,270
Total comprehensive income		-	-	-	-	-	713,782	2,441,457	3,155,239
Appropriation of profit:									
- Appropriation to surplus reserve	40	-	-	-	244,146	-	-	(244,146)	-
- Appropriation to general reserve	40	-	-	-	-	428,683	-	(428,683)	-
- Dividends	40	-	-	-	-	-	-	(1,286,125)	(1,286,125)
Balance at 31 December 2021		4,509,690	7,853,964	8,337,869	2,103,883	5,409,946	746,499	3,052,533	32,014,384

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 PROFIT APPROPRIATION

(1) At the Bank's board of directors meeting held on 31 March 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).

The profit appropriation resolution mentioned above has yet to be approved by the annual general meeting.

(2) According to the terms of issuance of the Offshore Preference Shares and related authorization, the chairman, the president and the secretary to the board of directors of the Bank jointly signed the Decision on Full Distribution of Dividends on Offshore Preference Shares of Bank of Qingdao Co., Ltd. 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 to be distributed amounts to USD73.5167 million (before tax), calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of Offshore Preference Shares. The dividend payment date is 20 September 2022, and the amount of dividend is equivalent to approximately RMB510 million (before tax).

(3) 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).

(4) According to the terms of issuance of the Offshore Preference Shares and related authorization, the chairman, the president and the secretary to the board of directors of the Bank jointly signed the Decision on Full Distribution of Dividends on Offshore Preference Shares of Bank of Qingdao Co., Ltd. for the Fourth Dividend Accruing Year at the Bank's board of directors meeting held on 30 August 2021 and agreed the dividend distribution plan for Offshore Preference Shares to be distributed amounts to USD73.5167 million (before tax), calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of Offshore Preference Shares. The dividend payment date is 23 September 2021, and the amount of dividend is equivalent to approximately RMB474 million (before tax).

(5) At the Bank's 2020 annual general meeting held on 11 May 2021, the shareholders approved the following profit appropriation for the year ended 31 December 2020:

- Appropriated RMB233 million to surplus reserve;
- Appropriated RMB581 million to general reserve;
- Declared cash dividends to all ordinary shareholders of approximately RMB812 million representing RMB1.80 per 10 shares (before tax).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents:

	31 December 2022	31 December 2021
Cash	349,481	369,326
Surplus deposit reserves with central banks	9,769,018	34,288,149
Original maturity within three months:		
– Deposits with banks and other financial institutions	1,390,498	1,294,769
– Placements with banks and other financial institutions	–	4,712,327
– Certificates of interbank deposit issued	–	2,188,797
Total	11,508,997	42,853,368

(2) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Debt securities issued	Interest payable arising from debt securities issued	Lease liabilities	Total
Balance at 1 January 2022	91,697,192	521,108	505,895	92,724,195
Changes from financing cash flows:				
– Net proceeds from debt securities issued	71,080,326	–	–	71,080,326
– Interest paid on debt securities issued	(1,928,008)	(1,111,400)	–	(3,039,408)
– Repayment of debt securities issued	(88,101,992)	–	–	(88,101,992)
– Repayment of lease liabilities	–	–	(146,863)	(146,863)
Total changes from financing cash flows	(18,949,674)	(1,111,400)	(146,863)	(20,207,937)
Other changes:				
– Increase in lease liabilities	–	–	137,159	137,159
– Interest expense	1,866,349	843,376	18,852	2,728,577
Balance at 31 December 2022	74,613,867	253,084	515,043	75,381,994

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Debt securities issued	Interest payable arising from debt securities issued	Lease liabilities	Total
Balance at 1 January 2021	72,496,921	337,587	453,671	73,288,179
Changes from financing cash flows:				
– Net proceeds from debt securities issued	82,957,923	–	–	82,957,923
– Interest paid on debt securities issued	(1,508,948)	(883,600)	–	(2,392,548)
– Repayment of debt securities issued	(64,109,270)	–	–	(64,109,270)
– Repayment of lease liabilities	–	–	(138,280)	(138,280)
Total changes from financing cash flows	17,339,705	(883,600)	(138,280)	16,317,825
Other changes:				
– Increase in lease liabilities	–	–	171,403	171,403
– Interest expense	1,860,566	1,067,121	19,101	2,946,788
Balance at 31 December 2021	91,697,192	521,108	505,895	92,724,195

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

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

Major shareholders' information

Company name	Number of ordinary shares of the Bank held by the Company (in thousands)	Proportion of ordinary shares of the Bank held by the Company		Registered location	Business	Legal form	Legal representative
		31 December 2022	31 December 2021				
Intesa Sanpaolo S.p.A. ("ISP")	1,018,562	17.50%	13.85%	Italy	Commercial banking	Joint stock limited company	Gian Maria GROS-PIETRO
Qingdao Conson Industrial Co., Ltd. ("Qingdao Conson")	654,623	11.25%	11.17%	Qingdao	State-owned assets operation and investment, import and export of goods and technology	Limited liability company	WANG Jianhui
Qingdao Haier Industrial Development Co., Ltd. ("Haier Industrial Development")	532,601	9.15%	9.08%	Qingdao	Business activities	Limited liability company	XIE Juzhi

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Changes in ordinary shares of the Bank held by major shareholders

	ISP		Qingdao Conson		Haier Industrial Development	
	Number (in thousands of shares)	Percentage	Number (in thousands of shares)	Percentage	Number (in thousands of shares)	Percentage
As at 1 January 2021	624,754	13.85%	503,556	11.17%	–	–
Increase	–	–	–	–	409,693	9.08%
As at 31 December 2021	624,754	13.85%	503,556	11.17%	409,693	9.08%
Increase	393,808	3.65%	151,067	0.08%	122,908	0.07%
As at 31 December 2022	1,018,562	17.50%	654,623	11.25%	532,601	9.15%

Changes in registered capital of major shareholders

	Currency	31 December 2022	31 December 2021
ISP	EUR	10,369 Million	10,084 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 subsidiary is set out in Note 23.

(c) **Other related parties**

Other related parties include members of the board of directors, the board of supervisors and senior management and close family members of such individuals; entities (and their subsidiaries) which members of the board of directors, the board of supervisors and senior management, and close family members of such individuals can control, jointly control or act as directors or senior managers in, etc.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Related party transactions and balances

Related party transactions of the Group mainly refer to loans, deposits and financial investments, which are entered into in the normal course and terms of business at the time of the transaction, with consistent pricing policies as in transactions with independent third parties.

(a) Transactions with the related parties except subsidiary (excluding remuneration of key management personnel)

	ISP and its group	Qingdao Conson and its group	Haier Industrial Development and its group	Other corporate related parties (Note (i))	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 operating losses	–	–	–	5,050	–	5,050	4.30%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

	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 2021							
Loans and advances to customers	–	–	1,102,328	–	21,278	1,123,606	0.46%
Financial investments measured at FVTPL	–	–	–	2,228,791	–	2,228,791	3.98%
Long-term receivables	–	–	150,170	–	–	150,170	1.25%
Deposits with banks and other financial institutions	2,043	–	–	–	–	2,043	0.10%
Deposits from customers	158,224	164,535	475,306	4,144,425	96,741	5,039,231	1.58%
Deposits from banks and other financial institutions	–	189	513	–	–	702	0.01%
Credit commitments:							
Bank acceptances	–	–	9	–	–	9	0.00%
2021							
Interest income	–	–	46,357	57	777	47,191	0.26%
Interest expense	2,464	1,712	8,411	55,235	3,553	71,375	0.68%
Fee and commission income	–	–	–	44,176	–	44,176	2.03%
Operating expenses	–	566	–	–	–	566	0.01%
Other operating losses	–	–	–	15,160	–	15,160	52.88%

Note:

- (i) In the first half of 2022, AMTD Global Markets Limited, the Group's related party, as one of the Underwriters and Joint Bookrunners of the Bank's H Share Rights Issue, received an underwriting commission fee from the Group which is not significant to the financial statements of the Group. The above underwriting commission fee was capitalised as issuance costs of the H Share Rights Issue.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(b) Transactions with subsidiary

	31 December 2022	31 December 2021
Balances at the end of the year:		
On-balance sheet items:		
Placements with banks and other financial institutions	1,311,569	–
Deposits from banks and other financial institutions	829,336	974,828
	2022	2021
Transactions during the year:		
Interest income	11,569	–
Interest expense	6,712	4,213
Fee and commission income	238,833	58,020
Fee and commission expense	55,519	134,385
Other operating income	2,033	2,035

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.

	2022	2021
Remuneration of key management personnel	18,722	21,799

The total compensation package for certain key management personnel for the year ended 31 December 2022 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 2022.

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 2022, the credit card overdraft balance of the Bank to the key management personnel amounted to RMB10.6 thousand (31 December 2021: RMB58.4 thousand), which have been included in loans and advances to related parties stated in Note 42(2).

(4) Plan and transaction of annuity

Except for normal contributions, there were no other related party transactions in the enterprise annuity funds established by the Group and the Bank during the reporting period.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 SEGMENT REPORTING

Segment reporting is disclosed in accordance with the accounting policy set out in Note 2(23).

The Group manages its business by business lines. Segment assets and liabilities, and segment income, expense and operating results are measured in accordance with the Group's accounting policies. Internal charges and transfer pricing of transactions between segments are determined for management purpose and have been reflected in the performance of each segment. Interest income and expenses earned from third parties are referred to as "External net interest income/expense". Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "Internal net interest income/expense".

Segment income, expense, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets, and liabilities are determined before intra-group balances, and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total payment during the period to acquire property and equipment, intangible assets and other long-term assets.

The Group defines its reporting segments based on the following for management purpose:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, deposit taking activities, agency services, remittance and settlement services.

Retail banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans and deposit services.

Financial market business

This segment covers financial market operations. The financial market business enters into inter-bank money market transactions, repurchases transactions, investments in debt securities, and non-standardised debt investments, etc.

Un-allocated items and others

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 SEGMENT REPORTING (continued)

	2022				
	Corporate banking	Retail banking	Financial market business	Un-allocated 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)	775,606	940,589	(1,716,195)	–	–
Net interest income	5,712,615	1,611,665	495,852	468,182	8,288,314
Net fee and commission income	186,786	675,281	559,512	23,551	1,445,130
Net trading (losses)/gains	(125,987)	(11,782)	879,427	(476)	741,182
Net gains arising from investments	68,964	–	988,211	–	1,057,175
Other operating income	51,707	26,054	10,300	29,393	117,454
Operating income	5,894,085	2,301,218	2,933,302	520,650	11,649,255
Operating expenses	(2,036,089)	(1,330,464)	(758,574)	(93,314)	(4,218,441)
Credit losses	(2,391,739)	(443,235)	(1,270,304)	(183,550)	(4,288,828)
Impairment losses on other assets	(6,027)	–	–	–	(6,027)
Profit before taxation	1,460,230	527,519	904,424	243,786	3,135,959
Other segment information					
– Depreciation and amortisation	(229,778)	(277,830)	(32,469)	(7,396)	(547,473)
– Capital expenditure	206,014	249,096	36,785	2,065	493,960

	31 December 2022				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	209,943,060	88,215,513	212,537,502	15,471,574	526,167,649
Deferred tax assets					3,446,343
Total assets					529,613,992
Segment liabilities/Total liabilities	223,436,198	153,209,549	103,132,597	13,242,353	493,020,697
Credit commitments	49,637,911	18,441,375	–	–	68,079,286

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 SEGMENT REPORTING (continued)

	2021				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	4,507,089	1,097,106	1,787,234	254,196	7,645,625
Internal net interest income/(expense)	1,156,030	541,159	(1,697,189)	–	–
Net interest income	5,663,119	1,638,265	90,045	254,196	7,645,625
Net fee and commission income	243,766	593,507	1,034,347	83,506	1,955,126
Net trading gains/(losses)	66,525	3,261	(241,275)	–	(171,489)
Net gains arising from investments	21,329	–	1,659,116	–	1,680,445
Other operating income	430	625	40	27,571	28,666
Operating income	5,995,169	2,235,658	2,542,273	365,273	11,138,373
Operating expenses	(1,899,946)	(1,343,044)	(608,259)	(64,489)	(3,915,738)
Credit losses	(3,036,410)	(235,375)	(608,321)	(86,865)	(3,966,971)
Impairment losses on other assets	(30,254)	–	–	–	(30,254)
Profit before taxation	1,028,559	657,239	1,325,693	213,919	3,225,410
Other segment information					
– Depreciation and amortisation	(188,027)	(273,214)	(11,512)	(20,310)	(493,063)
– Capital expenditure	240,675	349,716	35,066	1,971	627,428

	31 December 2021				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	202,386,003	98,846,968	206,763,705	11,747,492	519,744,168
Deferred tax assets					2,505,442
Total assets					522,249,610
Segment liabilities/					
Total liabilities	241,782,150	115,150,726	121,092,429	10,896,577	488,921,882
Credit commitments	33,433,498	12,977,027	–	–	46,410,525

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT

The main risks of the Group are described and analysed as follows:

The board of directors has the ultimate responsibility for risk management and oversees the Group's risk management functions through the Risk Management and Consumer Right Protection Committee, the Audit Committee and the Related Party Transaction Control Committee, etc.

The President is responsible for overall risk management at the senior management level with the assistance of other key management personnel. In accordance with the risk management strategy determined by the board of directors, the senior management keeps abreast of the level of risk and the management status, enabling the Group to have sufficient resources to develop and implement risk management policies and systems, and to monitor, identify and control risks in various businesses.

The Group establishes the enterprise risk management committee, which is mainly in charge of the enterprise risk management. Each department within the Group implements risk management policies and procedures in accordance with their respective management functions and is responsible for their own risk management in their respective business areas.

Each branch establishes a branch risk management committee, which is mainly in charge of the management and control of various risks of the branch, evaluating the risk status of the branch regularly, determining and improving the risk management and internal control measures and methods, etc., under the guidance from relevant risk management departments of the head office. Each branch should report major risk events to the relevant risk management department of the head office, and carry out risk treatments according to the plans or improvements proposed by the head office department.

The Group has exposure to the following risks from its use of financial instruments in the normal course of the Group's operations, which mainly include: credit risk, interest rate risk, foreign currency risk, liquidity risk and operational risk. This note presents information about the Group's exposure to each of the above risks and their sources, as well as the Group's risk management objectives, policies and processes for measuring and managing risks.

The Group aims to seek an appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Group's financial performance. Based on such objectives, the Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of reliable and up-to-date management information systems.

(1) Credit risk

(a) Definition and scope

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group. Credit risk mainly arises from loan portfolio, investment portfolio, guarantees and various other on- and off-balance sheet credit risk exposures.

The Risk Management and Consumer Right Protection Committee of the Board of Directors monitors the control of credit risk, and regularly reviews related reports on risk profile. Credit risk management is under the unified leadership of the Risk Management Committee of the head office. Each business unit is required to implement credit policies and procedures, and is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(b) Credit risk assessment method

Stage of financial instruments

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

The three risk stages are defined as follows:

- Stage 1: A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month ECL is recognised as loss allowance.
- Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime ECL is recognised as loss allowance.
- Stage 3: A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime ECL is recognised as loss allowance.

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 and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort, including forward-looking information. In particular, the following information is taken into account:

- Failure to make payments of principal or interest on their contractually due dates;
- An actual or expected significant deterioration in a financial instrument's external or internal credit rating;
- 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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

Definition of default

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

Credit impairment assessment

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

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

Measuring ECL – the parameters, assumptions and valuation techniques

Based on whether there is significant increase in credit risk 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 of the currency. 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 the forward-looking information into account to reflect the influence on future's point-in-time PD under the macro-economic environment.
- LGD is expressed as a percentage loss per unit of exposure at the time of default. It varies depending on the type of business products, collateral and other factors.
- EAD is based on the amounts the Group expects to be owed at the time of default.

During the reporting period, there has been no significant changes in the estimate techniques and key assumptions of the Group.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

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. 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.

As at 31 December 2022, the Group has taken into account different macroeconomic scenarios and made forward-looking forecasts of key economic indicators, including the forecasted cumulative growth rate of CPI, used to estimate ECL, which is about 2.05% in the neutral scenario.

The Group has carried out sensitivity analysis of key economic variables, used in forward-looking measurement. As at 31 December 2022 and 31 December 2021, 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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

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

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

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

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

(d) Collaterals and other credit enhancements

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(e) Maximum credit risk exposure

As at the end of the reporting period, the maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements is set out below:

The Group

	31 December 2022	31 December 2021
Deposits with central banks	27,475,825	52,872,068
Deposits with banks and other financial institutions	2,301,037	2,126,922
Placements with banks and other financial institutions	8,432,022	5,108,646
Derivative financial assets	108,376	146,617
Financial assets held under resale agreements	–	12,288,925
Loans and advances to customers	262,518,662	238,608,698
Financial investments		
– Financial investments measured at FVTPL	12,307,062	15,974,162
– Financial investments measured at FVOCI	96,655,451	72,590,145
– Financial investments measured at amortised cost	58,202,665	61,422,152
Long-term receivables	15,280,949	11,688,253
Others	1,307,938	347,590
Subtotal	484,589,987	473,174,178
Credit commitments	68,079,286	46,410,525
Total	552,669,273	519,584,703

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(f) Risk concentrations

Credit risk is often greater when transactions are concentrated in one single industry or have comparable economic features. In addition, different industrial sectors have their unique characteristics in terms of economic development, and could present a different credit risk.

The composition of the Group's and the Bank's gross loans and advances to customers (excluding accrued interest) by industry is analysed as follows:

	31 December 2022		31 December 2021	
	Amount	Percentage	Amount	Percentage
Construction	36,870,337	13.70%	28,960,161	11.86%
Manufacturing	30,836,317	11.46%	33,331,662	13.65%
Wholesale and retail trade	27,177,633	10.10%	20,430,787	8.37%
Water, environment and public utility management	24,242,353	9.01%	20,997,541	8.60%
Renting and business activities	22,197,699	8.25%	20,453,934	8.38%
Real estate	21,744,001	8.08%	21,257,028	8.70%
Financial service	13,558,837	5.04%	7,721,467	3.16%
Transportation, storage and postal services	5,031,283	1.87%	3,859,235	1.58%
Production and supply of electric and heating power, gas and water	4,837,379	1.80%	3,783,905	1.55%
Scientific research and technical services industries	2,788,039	1.04%	2,218,078	0.91%
Others	6,365,544	2.37%	4,448,494	1.81%
Subtotal for corporate loans and advances (including discounted bills and forfeiting)	195,649,422	72.72%	167,462,292	68.57%
Personal loans and advances	73,380,030	27.28%	76,743,188	31.43%
Total for loans and advances to customers	269,029,452	100.00%	244,205,480	100.00%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

Distribution of debt securities investments (excluding accrued interest) analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The ratings are obtained from Wind, Bloomberg Composite, or major rating agencies where the issuers of debt securities are located. The account balance of debt securities investments analysed by rating as at the end of the reporting period are as follows:

	31 December 2022					
	Unrated	AAA	AA	A	Below A	Total
Debt securities (analysed by type of issuers):						
Governments and central banks	–	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

	31 December 2021					
	Unrated	AAA	AA	A	Below A	Total
Debt securities (analysed by type of issuers):						
Governments and central banks	–	59,626,415	–	–	–	59,626,415
Policy banks	–	11,065,332	–	–	–	11,065,332
Banks and other financial institutions	–	20,965,292	1,505,958	–	397,575	22,868,825
Corporate entities	–	7,268,441	13,387,633	113,111	3,108,691	23,877,876
Total	–	98,925,480	14,893,591	113,111	3,506,266	117,438,448

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(g) Analysis on the credit quality of financial instruments

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

The Group

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

Financial assets measured at FVOCI	31 December 2022							
	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	22,483,585	17,622	–	22,501,207	(27,639)	(31)	–	(27,670)
– Forfeiting	192,923	–	–	192,923	–	–	–	–
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)
Off-balance sheet credit commitments	67,960,640	97,646	21,000	68,079,286	(249,614)	(3,028)	–	(252,642)

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

Financial assets measured at amortised cost	31 December 2021							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central banks	53,241,394	–	–	53,241,394	–	–	–	–
Deposits with banks and other financial institutions	2,128,396	–	–	2,128,396	(1,474)	–	–	(1,474)
Placements with banks and other financial institutions	5,113,556	–	–	5,113,556	(4,910)	–	–	(4,910)
Financial assets held under resale agreements	12,310,035	–	–	12,310,035	(21,110)	–	–	(21,110)
Loans and advances to customers								
– Corporate loans and advances	145,413,919	2,087,461	2,959,656	150,461,036	(2,886,893)	(509,657)	(2,397,947)	(5,794,497)
– Personal loans and advances	76,070,083	457,479	406,213	76,933,775	(272,405)	(94,210)	(265,225)	(631,840)
Financial investments	60,537,453	1,557,821	574,700	62,669,974	(298,990)	(516,032)	(432,800)	(1,247,822)
Long-term receivables	11,691,987	247,189	58,069	11,997,245	(227,836)	(36,120)	(45,036)	(308,992)
Total	366,506,823	4,349,950	3,998,638	374,855,411	(3,713,618)	(1,156,019)	(3,141,008)	(8,010,645)

Financial assets measured at FVOCI	31 December 2021							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers								
– Discounted bills	17,640,224	–	–	17,640,224	(13,269)	–	–	(13,269)
Financial investments	68,822,269	3,316,960	450,916	72,590,145	(60,404)	(121,265)	(300,555)	(482,224)
Total	86,462,493	3,316,960	450,916	90,230,369	(73,673)	(121,265)	(300,555)	(495,493)
Off-balance sheet credit commitments	46,226,356	184,119	50	46,410,525	(129,789)	(7,652)	–	(137,441)

Note:

- (i) As simplified approach of impairment allowance is applied to other financial assets measured at amortised cost, three-stage model is not applicable.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(2) Market risk

Market risk is the risk of loss, in respect of the Group's on- and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates and other prices.

The Group has constructed a market risk management system that formulates procedures to identify, measure, supervise and control market risks. This system aims to limit market risk to an acceptable level through examining and approving new products and quota management.

The Group employs sensitivity analysis, interest repricing gap analysis and foreign currency gap analysis to measure and monitor market risks. The Group classifies the transactions as banking book and trading book transactions, and applies different approaches based on the nature and characteristics of these books to monitor the risks.

Interest rate risk and currency risk are major market risks that confront the Group.

(a) Interest rate risk

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 ratio of floating and fixed rate accounts, the loan repricing cycle, as well as optimises the term structure of its deposits according to the gap status.

The Group implements various methods, such as sensitivity analysis and scenario simulation to measure and monitor interest risk exposure; risk exposure limits, such as interest rate sensitivity and risk exposure are set regularly, and the relevant implementation of these limits is also supervised, managed and reported on a regular basis.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

The following tables indicate the assets and liabilities analysis as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	31 December 2022					
	Total	Non-interest bearing	Less than three months	Between three months	Between one year	More than five years
Assets						
Cash and deposits with central banks	27,825,306	394,369	27,430,937	–	–	–
Deposits with banks and other financial institutions	2,301,037	13,130	2,088,048	199,859	–	–
Placements with banks and other financial institutions	8,432,022	208,644	4,733,686	3,489,692	–	–
Loans and advances to customers (Note (i))	262,518,662	563,118	68,781,574	152,363,980	35,395,663	5,414,327
Financial investments (Note (ii))	202,141,128	43,709,191	7,991,469	11,534,615	69,140,563	69,765,290
Long-term receivables	15,280,949	216,532	6,469,227	5,168,662	3,426,528	–
Others	11,114,888	11,114,888	–	–	–	–
Total assets	529,613,992	56,219,872	117,494,941	172,756,808	107,962,754	75,179,617
Liabilities						
Borrowings from central banks	13,256,605	57,473	3,477,252	9,721,880	–	–
Deposits from banks and other financial institutions	6,439,660	39,343	2,898,857	3,501,460	–	–
Placements from banks and other financial institutions	17,808,095	184,054	5,216,610	12,307,431	100,000	–
Financial assets sold under repurchase agreements	25,634,354	1,823	25,632,531	–	–	–
Deposits from customers	348,043,307	7,085,444	167,691,199	67,206,597	106,042,651	17,416
Debt securities issued	74,866,951	253,084	21,435,717	43,184,576	9,993,574	–
Others	6,971,725	4,666,033	1,853,926	64,869	293,537	93,360
Total liabilities	493,020,697	12,287,254	228,206,092	135,986,813	116,429,762	110,776
Asset-liability gap	36,593,295	43,932,618	(110,711,151)	36,769,995	(8,467,008)	75,068,841

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

	31 December 2021					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central banks	53,241,394	658,301	52,583,093	–	–	–
Deposits with banks and other financial institutions	2,126,922	13,627	1,292,963	820,332	–	–
Placements with banks and other financial institutions	5,108,646	1,229	4,709,329	398,088	–	–
Financial assets held under resale agreements	12,288,925	6,680	12,282,245	–	–	–
Loans and advances to customers (Note (i))	238,608,698	722,057	47,395,444	160,137,145	27,784,004	2,570,048
Financial investments (Note (ii))	189,982,801	54,910,795	10,330,651	17,719,376	47,784,490	59,237,489
Long-term receivables	11,688,253	123,235	3,259,607	1,941,766	6,363,645	–
Others	9,203,971	9,203,971	–	–	–	–
Total assets	522,249,610	65,639,895	131,853,332	181,016,707	81,932,139	61,807,537
Liabilities						
Borrowings from central banks	25,494,116	117,877	4,705,475	20,670,764	–	–
Deposits from banks and other financial institutions	6,341,814	10,074	4,947,740	1,384,000	–	–
Placements from banks and other financial institutions	16,904,500	104,283	6,756,684	10,043,533	–	–
Financial assets sold under repurchase agreements	25,305,596	1,365	25,304,231	–	–	–
Deposits from customers	317,965,807	4,645,562	188,067,563	42,120,930	83,037,959	93,793
Debt securities issued	92,218,300	521,108	18,644,037	58,064,515	3,998,127	10,990,513
Others	4,691,749	4,185,854	50,612	83,860	290,449	80,974
Total liabilities	488,921,882	9,586,123	248,476,342	132,367,602	87,326,535	11,165,280
Asset-liability gap	33,327,728	56,053,772	(116,623,010)	48,649,105	(5,394,396)	50,642,257

Notes:

- (i) As at 31 December 2022 and 31 December 2021, 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 RMB1,237 million and RMB805 million, respectively.
- (ii) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI, and financial investments measured at amortised cost.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income and equity. The following table sets forth the effect on the Group's net interest income and equity from possible and reasonable interest rate fluctuations with all other variables held constant. The effect on net interest income refers to the effect of certain interest rate changes on the net interest income generated by financial assets and liabilities that are held at the end of the reporting period and whose interest rate are expected to be repriced within one year. The effect on equity refers to the effect of certain interest rate changes on the fair value change generated by debt investments measured at FVOCI that are held at the end of the reporting period.

	31 December 2022 (Decrease)/Increase	31 December 2021 (Decrease)/Increase
Changes in annualised net interest income		
Interest rates increase by 100 bps	(831,337)	(801,362)
Interest rates decrease by 100 bps	831,337	801,362
	31 December 2022 (Decrease)/Increase	31 December 2021 (Decrease)/Increase
Changes in annualised equity		
Interest rates increase by 100 bps	(2,782,794)	(1,699,289)
Interest rates decrease by 100 bps	3,051,735	1,861,377

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 reprice or mature within three months and after three months but within one year reprice or mature in the beginning of the respective periods;
- (iii) Interest rates on deposits with central banks and on demand deposits deposited and absorbed remain unchanged;
- (iv) There is a parallel shift in the yield curve and in interest rates;
- (v) There are no other changes to the portfolio and all positions will be retained and rolled over upon maturity.
- (vi) other variables (including exchange rates) remain unchanged; and
- (vii) no consideration of impact on customers' behavior, market price and off-balance sheet business resulting from interest rate changes.

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(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 2022			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central banks	27,689,844	131,884	3,578	27,825,306
Deposits with banks and other financial institutions	1,465,218	757,794	78,025	2,301,037
Placements with banks and other financial institutions	8,432,022	–	–	8,432,022
Loans and advances to customers	260,885,963	1,629,357	3,342	262,518,662
Financial investments (Note (i))	194,601,933	7,539,195	–	202,141,128
Long-term receivables	15,280,949	–	–	15,280,949
Others	10,676,780	435,312	2,796	11,114,888
Total assets	519,032,709	10,493,542	87,741	529,613,992
Liabilities				
Borrowings from central banks	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
Off-balance sheet credit commitments	65,256,071	2,406,503	416,712	68,079,286

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

	31 December 2021			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central banks	52,741,302	495,804	4,288	53,241,394
Deposits with banks and other financial institutions	1,325,898	748,980	52,044	2,126,922
Placements with banks and other financial institutions	997,875	4,110,771	–	5,108,646
Financial assets held under resale agreements	12,288,925	–	–	12,288,925
Loans and advances to customers	233,929,169	4,674,624	4,905	238,608,698
Financial investments (Note (i))	181,494,714	8,466,242	21,845	189,982,801
Long-term receivables	11,688,253	–	–	11,688,253
Others	9,202,432	1,539	–	9,203,971
Total assets	503,668,568	18,497,960	83,082	522,249,610
Liabilities				
Borrowings from central banks	25,494,116	–	–	25,494,116
Deposits from banks and other financial institutions	6,309,931	31,883	–	6,341,814
Placements from banks and other financial institutions	12,910,214	3,972,626	21,660	16,904,500
Financial assets sold under repurchase agreements	25,305,596	–	–	25,305,596
Deposits from customers	311,367,844	6,547,363	50,600	317,965,807
Debt securities issued	92,218,300	–	–	92,218,300
Others	4,652,134	39,615	–	4,691,749
Total liabilities	478,258,135	10,591,487	72,260	488,921,882
Net position	25,410,433	7,906,473	10,822	33,327,728
Off-balance sheet credit commitments	45,084,332	1,129,301	196,892	46,410,525

Note:

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

The Group uses sensitivity analysis to measure the potential effect of changes in foreign currency on the Group's net profit. The following table sets forth the results of the Group's foreign exchange sensitivity analysis at the end of the reporting period.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

Changes in annualised net profit and equity	31 December 2022 Increase/(Decrease)	31 December 2021 Increase/(Decrease)
Foreign exchange rate increase by 100 bps	(10)	9,313
Foreign exchange rate decrease by 100 bps	10	(9,313)

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(a) Maturity analysis

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	31 December 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 central banks	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 central banks	-	-	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 to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

	31 December 2021							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with central banks	18,573,917	34,667,477	-	-	-	-	-	53,241,394
Deposits with banks and other financial institutions	-	1,294,015	-	-	832,907	-	-	2,126,922
Placements with banks and other financial institutions	-	-	4,309,743	400,410	398,493	-	-	5,108,646
Financial assets held under resale agreements	-	-	12,288,925	-	-	-	-	12,288,925
Loans and advances to customers	768,511	193,010	16,095,815	14,831,687	68,874,816	74,696,010	63,148,849	238,608,698
Financial investments (Note (i))	203,972	718	31,632,103	5,952,505	22,608,383	64,364,533	65,220,587	189,982,801
Long-term receivables	13,032	-	514,843	1,151,131	4,057,157	5,908,065	44,025	11,688,253
Others	7,237,589	36	16,344	5,794	32,313	379,192	1,532,703	9,203,971
Total assets	26,797,021	36,155,256	64,857,773	22,341,527	96,804,069	145,347,800	129,946,164	522,249,610
Liabilities								
Borrowings from central banks	-	-	545,601	4,161,544	20,786,971	-	-	25,494,116
Deposits from banks and other financial institutions	-	4,951,605	-	-	1,390,209	-	-	6,341,814
Placements from banks and other financial institutions	-	-	3,202,124	3,614,623	10,087,753	-	-	16,904,500
Financial assets sold under repurchase agreements	-	-	25,305,596	-	-	-	-	25,305,596
Deposits from customers	-	148,703,400	20,686,126	19,586,867	43,230,122	85,664,710	94,582	317,965,807
Debt securities issued	-	-	9,015,956	9,776,947	58,436,757	3,998,127	10,990,513	92,218,300
Others	153,052	535,866	1,021,520	105,808	497,062	1,276,633	1,101,808	4,691,749
Total liabilities	153,052	154,190,871	59,776,923	37,245,789	134,428,874	90,939,470	12,186,903	488,921,882
Net position	26,643,969	(118,035,615)	5,080,850	(14,904,262)	(37,624,805)	54,408,330	117,759,261	33,327,728

Notes:

- (i) Financial investments include financial assets measured at FVTPL, financial investment measured at FVOCI, and financial investment measured at amortised cost.
- (ii) For cash and deposits with central banks, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers, financial investments and long-term receivables, the “indefinite” period amount represents the balance being credit-impaired or not credit-impaired but overdue for more than one month, and the balance not credit-impaired but overdue within one month is included in “repayable on demand”.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(b) Analysis on contractual undiscounted cash flows of non-derivative financial liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities at the end of the reporting period:

	31 December 2022								
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central banks	-	-	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

	31 December 2021								
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central banks	-	-	546,150	4,232,874	20,793,145	-	-	25,572,169	25,494,116
Deposits from banks and other financial institutions	-	4,951,605	-	-	1,426,866	-	-	6,378,471	6,341,814
Placements from banks and other financial institutions	-	-	3,205,511	3,670,105	10,241,802	-	-	17,117,418	16,904,500
Financial assets sold under repurchase agreements	-	-	25,312,275	-	-	-	-	25,312,275	25,305,596
Deposits from customers	-	148,703,400	20,739,555	19,671,274	43,816,519	93,372,743	112,181	326,415,672	317,965,807
Debt securities issued	-	-	9,030,000	9,872,000	59,779,400	6,427,200	12,644,000	97,752,600	92,218,300
Lease liabilities	-	11,594	27,918	11,330	88,734	322,203	104,222	566,001	505,895
Other financial liabilities	14,447	500,377	168,264	2,760	65,628	164,605	922,695	1,838,776	1,838,776
Total	14,447	154,166,976	59,029,673	37,460,343	136,212,094	100,286,751	13,783,098	500,953,382	486,574,804

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(c) Analysis on contractual undiscounted cash flows of derivatives

The following tables provide an analysis of the contractual undiscounted cash flow of derivative financial instruments at the end of the reporting period:

The Group

	31 December 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
Derivative cash flows:								
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)

	31 December 2021							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow
Derivative cash flows:								
Derivative financial instruments settled on net basis	–	–	149	(939)	172	2,497	–	1,879
Derivative financial instruments settled on gross basis								
Including: Cash inflow	–	–	15,757	5,633	466,946	–	–	488,336
Cash outflow	–	–	(15,748)	(5,630)	(465,937)	–	–	(487,315)
Total	–	–	9	3	1,009	–	–	1,021

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(4) Operational risk

Operational risk refers to the risk arising from inadequate or failed internal control procedures, personnel and information technology systems, or external events. The primary operational risks the Group face include internal and external frauds, worksite safety failures, business interruptions and failure in the information technology system.

The board of directors of the Bank is ultimately responsible for the operational risk management, and the Bank's senior management leads the bank-wide operational risk management on a day-to-day basis. The Group has established "three lines of defenses" to manage operational risk on an end-to-end basis. The business lines and functions are the first line of defense against operational risks, taking direct responsibilities for operational risk management. The legal and compliance department is the second line of defense against operational risks, responsible for the establishment of operational risk management policies and procedures and the coordination, support, and supervision of operational risk management. The audit department is the third line of defense against operational risk, responsible for assessing the internal control system and compliance of operational risk.

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

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 2022	31 December 2021
Total core tier-one capital	30,003,939	25,220,636
– Share capital	5,820,355	4,509,690
– Qualifying portion of capital reserve	10,687,634	8,337,869
– Surplus reserve	2,388,248	2,103,883
– General reserve	6,618,047	5,576,461
– Retained earnings	3,822,519	3,507,129
– Other comprehensive income	83,726	746,499
– Qualifying portion of non-controlling interests	583,410	439,105
Core tier-one capital deductions	(834,333)	(309,651)
Net core tier-one capital	29,169,606	24,910,985
Other tier-one capital	6,473,571	7,912,511
– Additional tier-one capital instruments and related premium	6,395,783	7,853,964
– Valid portion of minority interests	77,788	58,547
Net tier-one capital	35,643,177	32,823,496
Tier two capital	9,569,041	14,251,730
– Qualifying portions of tier-two capital instruments issued	6,000,000	11,000,000
– Surplus provision for loan impairment	3,413,465	3,134,635
– Qualifying portion of non-controlling interests	155,576	117,095
Net capital base	45,212,218	47,075,226
Total risk weighted assets	333,440,925	297,412,693
Core tier-one capital adequacy ratio	8.75%	8.38%
Tier-one capital adequacy ratio	10.69%	11.04%
Capital adequacy ratio	13.56%	15.83%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE

(1) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group has established policies and internal controls with respect to the measurement of fair value, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

The Group adopts the following methods and assumptions when evaluating fair value:

(a) Debt securities investments

The fair value of debt securities that are traded in an active market is based on their quoted market prices in an active market at the end of the reporting period.

(b) Other financial investments and other non-derivative financial assets

Fair value is estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(c) Debt securities issued and other non-derivative financial liabilities

The fair value of debt securities issued is based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair value of other non-derivative financial liabilities is evaluated at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(d) Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards and swaps, etc. The most frequently applied valuation techniques include discounted cash flow model, etc. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

(2) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

The Group

	31 December 2022			
	Level 1	Level 2	Level 3 Note (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
– Equity investments	–	–	23,250	23,250
Loans and advances to customers measured at FVOCI	–	–	22,694,130	22,694,130
Total financial assets	–	135,443,955	31,297,014	166,740,969
Derivative financial liabilities	–	187,076	1,071	188,147
Total financial liabilities	–	187,076	1,071	188,147

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

	31 December 2021			Total
	Level 1	Level 2	Level 3 Note (i)	
Financial investments measured at FVTPL				
– Debt securities	–	984,580	–	984,580
– Asset management plans	–	–	13,488,145	13,488,145
– Trust fund plans	–	–	1,501,437	1,501,437
– Investment funds	–	39,973,092	–	39,973,092
Derivative financial assets	–	146,617	–	146,617
Financial investments measured at FVOCI				
– Debt securities	–	67,991,092	–	67,991,092
– Asset management plans	–	3,870,136	–	3,870,136
– Equity investments	–	–	23,250	23,250
– Other investments	–	–	728,917	728,917
Loans and advances to customers measured at FVOCI	–	–	17,640,224	17,640,224
Total financial assets	–	112,965,517	33,381,973	146,347,490
Derivative financial liabilities	–	142,242	2,447	144,689
Total financial liabilities	–	142,242	2,447	144,689

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

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

The Group

The following table shows the movement of level 3 financial instruments measured at fair value during the year of 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									
– Equity investments	23,250	–	–	–	–	–	–	–	23,250
– Other investments	728,917	–	–	2,695	(31,612)	–	–	(700,000)	–
Loans and advances to customers measured at FVOCI	17,640,224	–	–	266,049	(29,912)	71,488,373	–	(66,670,604)	22,694,130
Total financial assets	33,381,973	–	(2,453,369)	(307,863)	(61,524)	75,878,373	–	(75,140,576)	31,297,014
Derivative financial liabilities	2,447	–	–	(1,376)	–	–	–	–	1,071
Total financial liabilities	2,447	–	–	(1,376)	–	–	–	–	1,071

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

The following table shows the movement of level 3 financial instruments measured at fair value during the year of 2021:

	As at 1 January 2021	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 2021
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
Financial investments measured at FVTPL									
– Asset management plans	9,998,794	–	–	37,554	–	5,362,658	–	(1,910,861)	13,488,145
– Trust fund plans	2,004,789	–	–	22,330	–	–	–	(525,682)	1,501,437
– Investment funds	50,390	–	–	(390)	–	–	–	(50,000)	–
Derivative financial assets	995	–	–	(995)	–	–	–	–	–
Financial investments measured at FVOCI									
– Equity investments	23,250	–	–	–	–	–	–	–	23,250
– Other investments	730,534	–	–	40,312	71	–	–	(42,000)	728,917
Loans and advances to customers measured at FVOCI	7,215,159	–	–	376,236	25,546	48,156,016	–	(38,132,733)	17,640,224
Total financial assets	20,023,911	–	–	475,047	25,617	53,518,674	–	(40,661,276)	33,381,973
Derivative financial liabilities	1,726	–	–	721	–	–	–	–	2,447
Total financial liabilities	1,726	–	–	721	–	–	–	–	2,447

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

(3) Transfers between levels

Transfers between level 2 and level 3

At the end of the reporting period, 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 of the Group 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 measurement 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 of the Group are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

(6) Fair value of financial assets and liabilities not carried at fair value

- (i) Cash and deposits with central banks, borrowings from central banks, deposits and placements with/from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements

Given that these financial assets and financial liabilities mainly mature within one year or adopt floating interest rates, their carrying amounts approximate their fair value.

- (ii) Loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and long-term receivables

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

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

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

- (iv) Deposits from customers

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

- (v) Debt securities issued

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of debt securities financial instruments measured at amortised cost and debt securities issued:

	31 December 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	–

	31 December 2021				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial investments measured at amortised cost (including accrued interest)					
– Debt securities	50,243,999	50,258,045	–	50,159,263	98,782
Total	50,243,999	50,258,045	–	50,159,263	98,782
Financial liabilities					
Securities issued (including accrued interest)					
– Debt securities	27,506,812	27,981,076	–	27,981,076	–
– Certificates of interbank deposit	64,711,488	64,778,081	–	64,778,081	–
Total	92,218,300	92,759,157	–	92,759,157	–

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 COMMITMENTS AND CONTINGENCIES

(1) Credit commitments

The Group's credit commitments take the form of bank acceptances, credit card limits, letters of credit and financial guarantees, etc.

Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from its customers. The contractual amounts of credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

	31 December 2022	31 December 2021
Bank acceptances	36,283,077	22,764,516
Unused credit card commitments	18,441,375	12,977,027
Usance letters of credit	8,253,753	8,642,765
Financing letters of guarantees issued	3,145,598	1,071,373
Irrevocable loan commitments	983,936	172,170
Non-financing letters of guarantees issued	754,600	553,838
Sight letters of credit	216,947	228,836
Total	68,079,286	46,410,525

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

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

For details of ECL of credit commitments, please refer to Note 36(3).

(2) Credit risk-weighted amount

	31 December 2022	31 December 2021
Credit risk-weighted amount of contingent liabilities and commitments	18,680,164	12,256,845

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 2022	31 December 2021
Contracted but not paid for	82,606	85,154

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 COMMITMENTS AND CONTINGENCIES (continued)

(4) Outstanding litigations and disputes

A number of outstanding litigation matters against the Group had arisen in the normal course of its operation as at 31 December 2022 and 31 December 2021. With the professional advice from counselors, the Group's management believes that the final result of such litigation 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 2022	31 December 2021
Bond redemption obligations	3,536,451	4,224,832

(6) Pledged assets

	31 December 2022	31 December 2021
Investment securities	26,190,712	41,968,938
Discounted bills	17,999,779	10,301,931
Total	44,190,491	52,270,869

Some of the Group's assets are pledged as collateral under repurchase agreements, borrowings from central banks, deposits from customers and securities lending.

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 2022 and 31 December 2021, the Group did not have these discounted bills under resale agreements. As at 31 December 2022 and 31 December 2021, the Group did not sell or repledge any pledged assets which it has an obligation to repurchase when they are due.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

47 INTERESTS IN STRUCTURED ENTITIES

(1) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. The Group does not consolidate these structured entities. Such structured entities include asset management plans, trust fund plans, asset-backed securities and investment funds. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 31 December 2022 and 31 December 2021 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 2022				
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
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
Investment funds	34,950,084	–	–	34,950,084	34,950,084
Total	43,653,995	2,652,634	3,998,792	50,305,421	50,305,421

	31 December 2021				
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Asset management plans	13,488,145	3,870,136	4,122,278	21,480,559	21,480,559
Trust fund plans	1,501,437	–	820,382	2,321,819	2,321,819
Asset-backed securities	127,413	2,006,996	922,475	3,056,884	3,056,884
Investment funds	39,973,092	–	–	39,973,092	39,973,092
Total	55,090,087	5,877,132	5,865,135	66,832,354	66,832,354

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

47 INTERESTS IN STRUCTURED ENTITIES (continued)

(2) Unconsolidated structured entities sponsored by the Group in which the Group holds an interest

The types of unconsolidated structured entities sponsored by the Group mainly include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services to these structured entities. As at 31 December 2022 and 31 December 2021, the carrying amounts of the management and other service fee receivables being recognised are not material in the statement of financial position.

As at 31 December 2022, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB200.815 billion (31 December 2021: RMB167.804 billion).

In addition, the unconsolidated structured entities sponsored by the Group also include asset-backed securities held and initiated by the Group. As at 31 December 2022, the book value of these asset-backed securities was nil (31 December 2021: RMB42 million).

(3) Structured entities sponsored and issued by the Group after 1 January but matured before 31 December at the end of the reporting period in which the Group no longer holds an interest

During the year ended 31 December 2022, the amount of fee and commission income recognised from the above mentioned structured entities by the Group was RMB36 million (2021: RMB127 million).

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2022 but matured before 31 December 2022 was RMB5.852 billion (2021: RMB46.698 billion).

(4) Consolidated structured entities

The consolidated structured entities of the Group are primarily certain 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 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets in the statement of financial position.

(1) Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may require or be required to pay additional cash collateral in certain circumstances. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

48 TRANSFERRED FINANCIAL ASSETS (continued)

(2) Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors, or carries out trust beneficial rights registration and transfer business in China Credit Assets Registry & Exchange Co., Ltd..

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

(3) Transfer of non-performing loans

In 2022 and 2021, the Group transferred loans and advances to customers to independent third parties with principal amount of RMB314 million and RMB1,068 million respectively, and with the transfer price (including overdue interest, penalty interest, etc.) of RMB183 million and RMB280 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 2022, the entrusted loans balance of the Group was RMB5.301 billion (31 December 2021: RMB3.594 billion).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2022	31 December 2021
Assets		
Cash and deposits with central banks	27,786,532	53,195,208
Deposits with banks and other financial institutions	1,207,554	1,291,829
Placements with banks and other financial institutions	9,735,919	5,108,646
Derivative financial assets	108,376	146,617
Financial assets held under resale agreements	–	12,288,925
Loans and advances to customers	262,518,662	238,608,698
Financial investments:		
– Financial investments measured at fair value through profit or loss	47,257,146	55,947,254
– Financial investments measured at fair value through other comprehensive income	96,678,701	72,613,395
– Financial investments measured at amortised cost	58,202,665	61,422,152
Investment in subsidiary	1,510,000	1,510,000
Property and equipment	3,237,570	3,155,267
Right-of-use assets	826,531	839,847
Deferred tax assets	3,360,737	2,423,473
Other assets	3,052,497	2,264,579
Total assets	515,482,890	510,815,890

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (continued)

	31 December 2022	31 December 2021
Liabilities		
Borrowings from central banks	13,256,605	25,494,116
Deposits from banks and other financial institutions	7,268,996	7,316,642
Placements from banks and other financial institutions	5,451,383	6,896,877
Derivative financial liabilities	188,147	144,689
Financial assets sold under repurchase agreements	25,634,354	25,305,596
Deposits from customers	348,043,307	317,965,807
Income tax payable	670,755	–
Debt securities issued	74,866,951	92,218,300
Lease liabilities	514,627	500,327
Other liabilities	4,631,685	2,959,152
Total liabilities	480,526,810	478,801,506
	31 December 2022	31 December 2021
Equity		
Share capital	5,820,355	4,509,690
Other equity instruments		
Including: preference shares	–	7,853,964
perpetual bonds	6,395,783	–
Capital reserve	10,687,634	8,337,869
Surplus reserve	2,388,248	2,103,883
General reserve	6,316,926	5,409,946
Other comprehensive income	83,726	746,499
Retained earnings	3,263,408	3,052,533
Total equity	34,956,080	32,014,384
Total liabilities and equity	515,482,890	510,815,890

Approved and authorised for issue by the board of directors on 31 March 2023.

Jing Zailun	Wu Xianming	Chen Shuang	Meng Dageng	(Company Stamp)
Legal Representative (Chairman)	President	Vice President in charge of finance function	Chief Financial Officer	

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

51 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022. The revised and new accounting standards and interpretations probably related to the Group, which are issued but not yet effective for the accounting period ended 31 December 2022, are set out below:

	Effective for accounting periods beginning on or after
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8, Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12, Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

52 SUBSEQUENT EVENTS

(1) The profit distribution plan

The profit appropriation of the Bank was proposed in accordance with the resolution of the Bank's board of directors meeting as disclosed in Note 40.

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 2022	31 December 2021
Qualified and high-quality current assets	90,470,924	99,172,073
Net cash outflows in next 30 days	73,656,093	55,237,499
Liquidity coverage ratio (RMB and foreign currency)	122.83%	179.54%

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 2022	31 December 2021
Leverage ratio	6.07%	5.87%

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 2022	30 September 2022
Available stable funding	304,721,619	299,881,081
Required stable funding	281,453,132	283,094,294
Net stable funding ratio	108.27%	105.93%

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

Unaudited supplementary financial information (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 CURRENCY CONCENTRATIONS

	31 December 2022			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	10,493,542	9,260	78,481	10,581,283
Spot liabilities	(10,516,264)	(2,378)	(72,358)	(10,591,000)
Forward purchases	42,793	–	–	42,793
Forward sales	19,409	–	–	19,409
Net long position	39,480	6,882	6,123	52,485
Structural position	(139,292)	–	–	(139,292)

	31 December 2021			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	18,497,960	14,725	68,357	18,581,042
Spot liabilities	(10,591,487)	(8,413)	(63,847)	(10,663,747)
Forward purchases	240,109	–	–	240,109
Forward sales	335,744	–	–	335,744
Net long position	8,482,326	6,312	4,510	8,493,148
Structural position	(127,514)	–	–	(127,514)

Unaudited supplementary financial information (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Group regards all claims on third parties outside Mainland China and claims dominated in foreign currency on third parties in Mainland China as international claims.

International claims include loans and advances to customers, deposits with central banks, 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 2022			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	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
	129,114	6,039,736	3,967,781	10,136,631

	31 December 2021			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	495,354	9,593,288	7,837,804	17,926,446
– of which attributed to Hong Kong	–	4,986,197	–	4,986,197
– North and South America	–	558,692	–	558,692
– Europe	–	16,214	–	16,214
	495,354	10,168,194	7,837,804	18,501,352

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	31 December 2022	31 December 2021
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	664,466	214,473
– between 6 months and 1 year (inclusive)	1,115,515	342,925
– over 1 year	813,375	1,207,970
Total	2,593,356	1,765,368
As a percentage of total gross loans and advances (excluding accrued interest)		
– between 3 and 6 months (inclusive)	0.25%	0.09%
– between 6 months and 1 year (inclusive)	0.41%	0.14%
– over 1 year	0.30%	0.49%
Total	0.96%	0.72%

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